

Entry 82 of the Union List i.e., List I in the Seventh Schedule to Article 246 of the Constitution of India has given the power to the CG to make laws on Income tax other than agricultural income. Entry 46 of state list give power to State Govt. to make law on tax on agriculture income.

Sources of Income Tax Law

- Income Tax Act, 1961: It is the main source of Income tax law. It's provide determination of Total Income, Tax Liability & Procedure of assessment etc. It applicable to whole of India w.e.f. 1st April, 1962.
- Income Tax Rules, 1962: IT Act empowered Central Board of Direct Tax (CBDT) to make rules. All Forms, procedure, depreciation rates, principles of Valuation of perquisites are provided in the Rules.
- Annual Finance Act: Every year, the FM presents a Finance Bill in the parliament, which contains various amendments proposed to be made in the DT & IDT. Finance Bill, 2025 presented by Nirmala Sitharaman on 1st Feb., 2025.

  As soon as the Bill passed by both the houses of the parliament and thereafter receives the assent of President, in becomes the Finance Act. Finance Bill, 2025 became Finance Act, 2025 on 29th March, 2025 after receive assent of president.
- Circulars/Notifications from CBDT: Circulars are issued by the CBDT to clarify the meaning & scope of certain provisions contained in the Act. Notifications are issued by Central Govt./CBDT to give effect to the provision of The Act.

  Circulars are binding to Assessing officer but not on Assessee and Courts. However Assessee can take advantage of Circulars which are beneficial to them.
- Supreme Court & High Court Decisions: Various issues which are arise out of the provisions are decided by HC/SC. The SC is the Apex Court and the law laid down by the SC is the law of the land. The decision of HC will apply in the respective state in which such HC have jurisdiction.

Sec. 4: Charging Section of Income Tax

Income Tax is charged for every Assessment Year. It is charge on every person as define u/s 2(31). It is charge on the total income earned by the person during Previous Year. The tax is levied at the rates prescribed by Finance Act.

Sec. 2(9): Assessment Year

A.Y. means the period of 12 months starting from 1st April every year. Income earned in Previous year (PY) is taxed in AY. The A.Y. 26-27 is a period of 12 months from the 1st April 26 till 31st March 27.

Sec. 3: Previous Year

P.Y. means the financial year immediately preceding the AY. For A.Y. 26-27, the PY shall be period from 1st April 25 to 31st March 26 & the Income earned in PY 25-26 is assessed in the AY 26-27.

Provided that, in the case of a business or profession newly set up, or a source of income newly coming into existence, in the FY, the PY shall be the period starting from the date of setting up of the business or profession or, the date on which the source of income newly comes into existence and ending with 31st March of FY.

Sec. 2(31): Person

Person includes—

- ✓ Individual: Natural Person like Man, Woman, Minor, person of Unsound mind. E.g., Mr. BB
- ✓ Hindu Undivided Family (HUF): Consists of all males lineally descended from a common ancestor and includes their wives and daughters. E.g., Ram's HUF
- ✓ Company: Any body corporate incorporated in India or outside India. E.g., BB Virtuals Pvt. Ltd.
- ✓ Firm (Includes LLP): E.g., Gupme Foods LLP
- ✓ Association of Person or Body of Individual (AOP/BOI): E.g., Joint Ventures, Unregistered Trust
- ✓ Local Authority: E.g., Municipality, Gram Panchayat
- ✓ Artificial juridical person: E.g., Deities, Bar Council, Universities

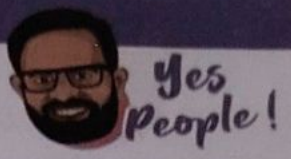
Sec. 2(7): Assessee

It means any person who is liable to pay any tax or any other sum under IT Act, 1961. It includes person in respect of which any proceeding initiated, deemed assessee or assessee in default.

Certain cases where Income assessed to Tax in Previous Year itself

- ➢ Sec 172 - Shipping Business of NR: Where a ship of NR, carries passengers, livestock, mail or goods shipped at a port in India, the ship is allowed to leave the port only when the tax has been paid.
- ➢ Sec 174 - Person leaving India: Where it appears to the AO that any individual may leave India and he has no intention of returning, the income of such individual for the period upto the probable date of his departure from India is chargeable to tax in current year only.
- ➢ Sec 174A - AOP/ BOI/ AJP formed for a particular event or purpose: AO apprehends that the AOP/ BOI is likely to be dissolved in the same year, he can make assessment of the income up to the date of dissolution as income of the current year.
- ➢ Sec 175 - Persons likely to transfer property to avoid tax: If it appears to the AO that a person is likely to charge, sell, transfer, dispose of his assets to avoid payment of any liability, the total income of such person charge to tax in current year itself.
- ➢ Sec 176 - Discontinued business: Where any business or profession is discontinued, the income of the period upto the date of such discontinuance may, at the discretion of the AO, be charged to tax in current year.

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Tax Rates for Assessment Year 2026-27 (General Tax Rates as per FA-25)

- In case of Individual, HUF, AOP, BOI, Artificial Juridical Person

For Individual, HUF, AOP, BOI, AJP (Resident or Non-resident)	Rates
Total Income (NTI) upto ₹ 2,50,000 (Basic Exemption limit)	Nil
above ₹ 2,50,000 upto ₹ 5,00,000	5%
above ₹ 5,00,000 upto ₹ 10,00,000	20%
above ₹ 10,00,000	30%

- For Senior Citizen (Resident Individual age 60 years or more in PY but less than 80 years)

Total Income (NTI) upto ₹ 3,00,000 (Basic Exemption limit)	Nil
above ₹ 3,00,000 upto ₹ 5,00,000	5%
above ₹ 5,00,000 upto ₹ 10,00,000	20%
above ₹ 10,00,000	30%

- For Super Senior Citizen (Resident Individual age 80 years or more in PY)

Total Income (NTI) upto ₹ 5,00,000 (Basic Exemption limit)	Nil
above ₹ 5,00,000 upto ₹ 10,00,000	20%
above ₹ 10,00,000	30%

- Circular No 28/2016 dt 27.07.2016: Any Resident Individual whose 60th/80th birthday falls on 1st April,2026 shall be treated as having completed the age of 60/80 years on 31st March,2026 i.e. PY 2025-26 (AY 26-27) and hence would be eligible for the higher basic exemption limit of ₹ 3,00,000 & ₹ 5,00,000.

- Surcharge for Assessee being Individual, HUF, AOP, BOI and AJP:

S.No.	Conditions	Surcharge %
1.	Total Income upto ₹ 50 lakhs	No Surcharge
2.	Total Income more than ₹ 50 lakhs upto ₹ 1 crore	10% on tax
3.	Total Income more than ₹ 1 crore upto ₹ 2 crores	15% on tax
4.	Total Income more than 2 crores and it includes Dividend, Capital gain u/s 111A, 112A & 112 (Special income)	15% on tax on special income
➢	Remaining Total Income (Total Income excluding Special Income) is upto ₹ 2 crores	15% on tax on remaining income
➢	Remaining Total Income (Total Income excluding Special Income) more than ₹ 2 crores upto ₹ 5 crores	25% on tax on remaining income
➢	Remaining Total Income (Total Income excluding Special Income) more than ₹ 5 crores.	37% on tax on remaining income

Examples

"₹ in Lakhs"

Sr. No.	Total Income excluding special Income	Special Income (CG & Dividend)	Total Income	Surcharge applicable on Tax Calculated on	
				Special Income	Other Income
(i)	20	25	45	NIL	NIL
(ii)	45	50	95	10%	10%
(iii)	45	70	115	15%	15%
(iv)	45	300	345	15%	15%
(v)	60	700	760	15%	15%
(vi)	150	250	400	15%	15%
(vii)	150	500	650	15%	15%
(viii)	300	100	400	15%	25%
(ix)	300	250	550	15%	25%
(x)	600	100	700	15%	37%

◆ In case of Company

A. Domestic Company — Tax Rate

➢ Total Turnover or Gross Receipt of P.Y. 2023-24 upto ₹ 400 Crore — 25%

➢ Otherwise — 30%

B. Foreign Company — 35%

Surcharge:	Domestic Company	Foreign Compan
Total Income > ₹ 1 crore but upto ₹ 10 crores	7%	2%
Total Income > ₹ 10 crores	12%	5%

◆ In case of Firm, LLP, Local Authority

Tax Rate: 30%

Surcharge @ 12% if Total Income more than ₹ 1 crore.

◆ In case of Co. operative society — Tax Rate

Total Income upto ₹ 10,000	10%
Total Income > ₹ 10,000 but upto ₹ 20,000	20%
Total Income > ₹ 20,000	30%

Surcharge: Same a domestic company (7% & 12%)

◆ In all the above cases Health & Education cess applicable @4% on tax (including SC if any).



Sec 288A/288B: Amount of Total Income and Tax rounded off to the nearest ₹ 10.

Example: 1

Mr. Jay is a resident, aged 32 years. His income details for PY 2025-26 are as follows:

(i) Capital gains u/s 112A ₹ 1,00,00,000

(ii) Capital gains u/s 112 ₹ 60,00,000

(ii) Capital gains u/s 111A ₹ 2,00,00,000

(iii) Other income ₹ 1,00,00,000

Calculate his tax liability for AY 2026-27. He shifted out of default tax regime u/s 115BAC(1A).

Solution:

Particular	Tax Rate	Income	Tax
LTCG 112A (in excess of ₹ 1,25,000)	12.5%	1,00,00,000	12,34,375
LTCG 112	12.5%	60,00,000	7,50,000
STCG 111A	20%	2,00,00,000	40,00,000
Balance NTI	Slab Rate	1,00,00,000	28,12,500
	Total	4,60,00,000	87,96,875
Add: Surcharge on LTCG & STCG 111A @15%			8,97,656
Add: Surcharge on Balance Tax @15%			4,21,875
			1,01,16,406
Add: Health & Edu. Cess @4%			4,04,656
Net Tax Payable			1,05,21,062

Example: 2

Mr. BB is a resident, aged 34 years. His income details for PY 2025-26 are as follows:

(i) Capital gains u/s 112A ₹ 2,00,000

(ii) Capital gains u/s 112 ₹ 1,00,000

(iii) Capital gains u/s 111A ₹ 3,00,000

(iii) Dividend ₹ 13,00,000

(iv) Other income - ₹ 3,34,00,000

Calculate his tax liability for AY 2026-27. He shifted out of default tax regime u/s 115BAC(1A).

Solution:

Particular	Tax Rate	Income	Tax
LTCG 112A (in excess of ₹ 1,25,000)	12.5%	2,00,000	9,375
LTCG 112	12.5%	1,00,000	12,500
STCG 111A	20%	3,00,000	60,000
Balance NTI	Slab Rate	3,47,00,000	1,02,22,500
		3,53,00,000	1,03,04,375

Add: Surcharge on LTCG & STCG 111A @15%		12,281
Add: Surcharge on Tax on Dividend @15% #		57,446
Add: Surcharge on Balance Tax@25% (9839524 x 25%)		24,59,881
		1,28,33,983
Add: Health & Edu. Cess @4%		5,13,359
Net Tax Payable		1,33,47,342

Tax on dividend = 1,02,22,500 / 3,47,00,000 x 13,00,000 = 3,82,976

Test Yourself

From following information calculate net tax liability & assume assessee shifted out of default tax regime u/s 115BAC(1A).

Nature of Income	Mr. SK (64 years NR)	Mr. Dev (28 years)	Mr. AK (52 years)
Capital gains u/s 112A	1,50,000	-	8,00,00,000
Capital gains u/s 112	1,70,000	1,90,00,000	2,00,000
Capital gains u/s 111A	4,10,000	7,00,00,000	1,00,000
Dividend	-	-	49,00,000
Other Income	99,00,000	60,00,000	6,59,00,000
Total Income	1,06,30,000	9,50,00,000	15,11,00,000
Final Answer	34,55,095	2,15,13,050	4,16,57,366



◆ Marginal Relief in Surcharge: If there is little bit increase in income over 50 Lakhs/1 Crore/2 Crore/5 Crore (in case of Ind/HUF/AOP/ BOI/AJP) or 1 Crore (in case of Company/Firm/local Authority/Co. op. society) or 10 Crore (in case of Company/ Co. op Society), surcharge is applicable on entire amount of tax and as a result increase in tax is more than the increase in income. In order to remove this defect, assessee shall be allowed relief to the extent increase in tax is more than the increase in income.

Example-1 Total income of Shree Ltd. (Indian Company) ₹ 1,01,00,000. T/o of PY 23-24 is ₹ 450 crores. Assessee not opted sec. 115BAA. Calculate tax liability.

Solution

	₹	
Tax on Total Income (1,01,00,000 x 30%)	30,30,000	
Add: Surcharge @7%	2,12,100	
	32,42,100	Marginal Relief ₹ 1,42,100
Above amount is restricted to Tax on 1 crore + (NTI - 1 crore) (30,00,000 + 1,00,000)	31,00,000	
	31,00,000	
Add: HEC @ 4%	1,24,000	
Net Tax Liability	32,24,000	

Example-2 Total income of Tree Ltd. (Indian Company) ₹ 10,02,30,000. T/o of PY 23-24 is ₹ 350 crores. Assessee not opted sec. 115BAA. Calculate tax liability.

Solution

	₹	
Tax on Total Income (10,02,30,000 x 25%)	2,50,57,500	
Add: Surcharge @12%	30,06,900	
	2,80,64,400	Marginal Relief ₹ 10,84,400
Above amount is restricted to Tax on 10 crore + (NTI - 10 crore) (2,67,50,000 + 2,30,000)	2,69,80,000	
	2,69,80,000	
Add: HEC @ 4%	10,79,200	
Net Tax Liability	2,80,59,200	

Example-3 Total income of Mr. Sam (62 years) NR is ₹ 1,01,00,000. Assessee shifted out from default tax regime u/s 115BAC. Calculate tax liability.

Solution

Tax on Total Income	₹
Upto 2,50,000	Nil
> 2,50,000 upto 5,00,000	12,500
> 5,00,000 upto 10,00,000	1,00,000
>10,00,000 upto 1,01,00,000	27,30,000

	28,42,500
Add: Surcharge @ 15%	4,26,375
	32,68,875
Above amount is restricted to Tax on 1 crore + (NTI - 1 crore) (30,93,750 + 1,00,000)	31,93,750
	31,93,750
Add: HEC @ 4%	1,27,750
Net Tax Payable	33,21,500

Relief ₹ 75,125

Test Yourself

From following information calculate net tax liability & assume assessee shifted out from 115BA

	Mr. Devam (49 years)	Mr. Krishiv (28 years)
Total Income	5,07,20,000	2,04,40,000
Final Answer	2,00,05,050	74,09,350

Sec. 87A: Rebate from Tax to Certain Individuals

For Resident Individual having Total Income upto ₹ 5,00,000.

a.) 100% of tax payable, or
b.) ₹ 12,500
Whichever is Lower

Notes:

1. This rebate shall be reduced before adding health & education cess.
2. Rebate u/s 87A available against all types of Income except LTCG u/s 112A.
3. Marginal relief concept not applicable on rebate except when assessee opted 115BAC.
4. Rebate in case of 115BAC discussed with concept of 115BAC in later part of this topic.

Example: Calculate tax liability of Ms. Sneha resident Individual (Age 24 years).

		Case - 1	Case - 2
Total Income		4,40,000	5,07,000
Tax Liability		9,500	13,900
Less: Rebate 87A			
a) Tax Amount	9,500		Not Available
b) 12,500	12,500	9,500	
Whichever is lower			
		Nil	13,900
Add: HEC @ 4%		Nil	556
Net Tax Liability		Nil	14,456

Rahul5209



Alternate Taxation Regime

Sec. 115BAC: Tax on Income of Ind, HUF, AOP, BOI, AJP [Amended w.e.f. AY 26-27]

Assessee: Individual, HUF, AOP/BOI (other than Co.op. society), AJP

Tax rate:

Total income	Tax rate
Upto ₹ 4,00,000	Nil
₹ 4,00,001 to ₹ 8,00,000	5%
₹ 8,00,001 to ₹ 12,00,000	10%
₹ 12,00,001 to ₹ 16,00,000	15%
₹ 16,00,001 to ₹ 20,00,000	20%
₹ 20,00,001 to ₹ 24,00,000	25%
Above ₹ 24,00,000	30%

Special Income (u/s 111A, 112, 112A etc.) shall be taxable @ Special rates.

Surcharge & cess:

- Surcharge will be @ 10%/15%/25% depending on Total Income of assessee. In this case 37% surcharge not applicable even Total Income > ₹ 5 crores.
- Health & Education cess shall be @ 4% always.

AMT:

- Assessee paid tax as per sec. 115BAC is not required to pay AMT.
- B/F AMT credit cannot be set off against income u/s 115BAC. Therefore, if assessee has b/f AMT credit, it should first exhaust the AMT credit and thereafter opt for sec 115BAC.

Conditions:

1. Assessee does not claim following deductions/exemptions:

HP	➢ Interest u/s 24(b) for Self-occupied property
	➢ Set-off of HP loss (Let out/Deemed to be let-out property) against other head (HP loss shall not be allowed to be carried forward)
Salary	➢ Entertainment allowance and Professional tax u/s 16(ii)& (iii)
	➢ Leave travel concession u/s 10(5)
	➢ HRA u/s 10(13A)
	➢ Allowance u/s 10(14) (except: DTDC) D. Travel allowance to a Divyang employee for commuting between the place of residence and place of duty. T. Travelling or tour allowance: to meet the cost of travel on tour or on transfer. D. Daily allowance: to meet the ordinary daily charges incurred by an employee due to absence from his normal place of duty. C. Conveyance allowance: to meet the expenditure on conveyance in performance of duties of an office.
PGBP	Sec. 10AA, 32(1)(iia), 33AB, 33ABA, 35(1)(ii),(iia),(iii),35(2AA), 35AD, 35CCC.
IFOS	Allowance for income of minor u/s 10(32)

		Allowance to MP/MLA u/s 10(17)
	Deduction	Deduction under Chapter VI-A Except: deduction u/s 80JJAA, 80CCD(2), 80CCH(2), 80LA.

2. Assessee cannot set-off any b/f loss or unabsorbed depreciation attributable to deduction referred above.
3. HP loss cannot be set off against other head.
4. No deduction or exemption for allowance or perquisite provided under any other law for the time being in force.

Option not to opt 115BAC [115BAC(6)]

Section 115BAC is default tax regime. However assessee can avail the benefit of regular tax regime by exercising the option.

- Assessee does not have PGBP: Option of regular tax regime must be exercise alongwith the return u/s 139(1) for every PY.
- Assessee having PGBP: Option of regular tax regime must be exercise alongwith the return u/s 139(1). Such option once exercised shall apply for subsequent AY also. However the option once exercise for regular tax regime can be withdraw only once for PY & there after the person shall never be eligible for the benefit of regular tax regime till the time having any income under PGBP.

Rebate u/s 87A As per default tax regime u/s 115BAC

For Resident Individual having Total Income upto ₹ 12,00,000.

a.) 100% of tax payable, or

b.) ₹ 60,000

Whichever is Lower

Note: Rebate u/s 87A available only against tax calculated as per section 115BAC. This rebate not available against tax calculated as per special rates.

Marginal Relief: If Total Income more than ₹ 12,00,000 but does not exceed ₹ 12,70,585, tax on such income cannot exceed the amount by which the Total Income exceeds ₹ 12,00,000. However marginal Relief not available in case of regular tax regime.

Example: Mr. BB (age 35 years) is a Resident Individual. His total income for AY 26-27 is ₹ 12,00,000 or ₹ 12,30,000 or ₹ 12,60,000 or ₹ 12,90,000. Assume assessee don't have any special rate of income. Assessee not opted regular tax regime. Calculate tax liability.

Total Income	12,00,000	12,30,000	12,60,000	12,90,000
Tax as per 115BAC	60,000	64,500	69,000	73,500
Less: Rebate u/s 87A a.) 100% of tax payable, or b.) ₹ 60,000	60,000	Nil	Nil	Nil
	Nil	64,500	69,000	73,500
Restricted to Tax on 12 lakhs + (NTI - 12 lakhs)	Nil	30,000	60,000	90,000



	Nil	30,000	60,000	73,500
Add: Health & Edu. Cess @ 4%	Nil	1,200	2,400	2,940
Net Tax Liability	Nil	31,200	62,400	76,440
Marginal Relief	-	34,500	9,000	-

Example: Mr. Ravi (age 32 years) and Kavi (age 36 years) are resident individuals, from following information calculate rebate u/s 87A and tax liability for AY 2026-27.

Particular	Ravi (opt out from 115BAC)	Kavi (opted 115BAC)
STCG 111A	80,000	2,40,000
LTCG 112A	1,30,000	4,50,000
Salary and HP Income (Computed)	2,80,000	5,10,000
Total Income	4,90,000	12,00,000
Computation of Tax Liability		
Tax on STCG 111A	16,000	48,000
Tax on LTCG 112A	625	40,625
Tax on Balance Income	1,500	5,500
Total	18,125	94,125
Less: Rebate u/s 87A	18,125	94,125
Ravi: 17,500 or 12,500, whichever is lower	(12,500)	
Kavi: 5,500 or 60,000, whichever is lower		(5,500)
	5,625	88,625
Add: HEC @ 4%	225	3,545
Net Tax Liability	5,850	92,170

Some other Special Tax Rates

Sec. 115BB: Tax on winnings from lotteries, crossword puzzles, races, card games etc

Tax Rate: 30%

Sec. 115BBE: Deemed Income u/s 68 to 69D

Tax Rate: 60% (surcharge @ 25% and HEC @ 4%) effective rate 78%

Note: No set off of any loss shall be allowable against deemed income.

Sec. 115BBJ: Income from Online Games

Tax Rate: 30% on winning from online games.

"Online Game" means a game that is offered on the internet and is accessible by a user through a computer resource including any telecommunication device.

Notes for all above sections:

- Deduction u/s 28 to 44C or sec 57 not allowed against above income, means gross income taxable.
- Deduction u/c VI-A not available.

- Basic Exemption Benefit NOT Available against above income (Except 112 (LTCG), 112A & 111A in case of resident Individual & HUF)

Deemed Income [Sec 68 to 69D]

Sec 68: Cash Credit

Where any sum is found credited in the books of the assessee and assessee offers no explanation about the nature and source or the explanation offered is not satisfactory in the opinion of the AO, the sum so credited may be treated as income of the assessee of that PY.

However, where the sum so credited consists of loan or borrowing or any such amount, by whatever name called, any explanation offered by the assessee shall not be deemed to be satisfactory, if, the person in whose name such credit is recorded also offers no explanation about the nature and source or explanation not satisfactory.

Further, any explanation offered by a closely held company in respect of any sum credited as share application money, share capital, share premium or any such amount, in the a/c's of such company shall be deemed to be not satisfactory, if, the resident person, in whose name such credit is recorded in the books of such company also not explains about the nature and the source of such sum or explanation not satisfactory.

Sec 69: Unexplained Investments

Where in the PY, the assessee has made investments which are not recorded in the BOA and the assessee offers no explanation about the nature and the source of investments or explanation not satisfactory in the opinion of the AO, the value of the investments are taxed as deemed income of the assessee of that PY.

Sec 69A: Unexplained Money, Assets etc.

Where in any PY, the assessee is found to be the owner of any money, bullion, jewellery or other valuable article and the same is not recorded in the BOA and the assessee offers no explanation about the nature and source of acquisition of such money, bullion etc. or the explanation not satisfactory in the opinion of the AO, the money and the value of bullion etc. may be deemed income of the assessee of that PY.

Sec 69B: Amount of investments etc., not fully disclosed in the books of account

Where in any PY, the assessee has made investments or is found to be the owner of any bullion, jewellery or other valuable article and the AO finds that the amount spent on making such investments or in acquiring such articles exceeds the amount recorded in the BOA by the assessee and he offers no explanation for the difference or the explanation is unsatisfactory in the opinion of the AO, such excess may be deemed income of the assessee of that PY.



Sec 69C: Unexplained Expenditure

Where in any PY, an assessee has incurred any expenditure and he offers no explanation about the source of such expenditure or the explanation is unsatisfactory in the opinion of the AO, AO can treat such unexplained expenditure as the income for such PY. Such unexplained expenditure which is deemed to be the income of the assessee shall not be allowed as deduction under any head of income.

Sec 69D: Amount borrowed or repaid on hundi

Where any amount is borrowed on a hundi or any amount due thereon is repaid other than through an account payee cheque drawn on a bank, the amount so borrowed or repaid shall be deemed to be the income of the person borrowing or repaying for the PY in which the amount was borrowed or repaid, as the case may be.

However, where any amount borrowed on a hundi has been deemed to be the income of any person, he will not be again liable to be assessed in respect of such amount on repayment of such amount.

The amount repaid shall include interest paid on the amount borrowed.

Note: Income mentioned u/s 68 to 69D taxable @60% (+25% Surcharge +4% HEC i.e.78%)

Agriculture Income

- Sec 10(1) Agriculture Income – It is exempt from Tax if its from agriculture land in India.

As per section 2(1A), Agriculture income means –

(a) Rent from agriculture land (used for agriculture purpose).
(b) Income from sale of agriculture produce. (Note 1)
(c) Rent from house located in Rural Area (use as dwelling house, store house).
(d) Income from nursery.

Note 1: Rule 7- Sale of agriculture produce

Sale in Raw Form → Total Agriculture Income

FMV of Agri. Produce further Process	xx
Less: Cost of Agri. Produce	xx
Agriculture Income	xx

Sale after optional Process → Agriculture Income

Sale of Final Products	xx
Less: FMV of Agri. Produced used	xx
Less: Further process cost	xx
PGBP	xx

PGBP

➢ Special Rules for Tea, Coffee & Rubber

Rules	Activity	Agri. Income	PGBP
8	Growing and Manufacturing of Tea	60%	40%
7B	Growing & Manufacturing of Coffee		
	(a) Grown & cured	75%	25%
	(b) Grown, Cured, Roasted & Grounded	60%	40%
7A	Growing & Manufacturing of Rubber	65%	35%

Remember:- Higher% represents income from Agriculture

➢ Partial Integration in case of Agricultural Income

Agriculture income is exempt from tax but for computation of tax it shall be considered if following conditions are satisfied

(i) Assessee is Individual, HUF, AOP, BOI, AJP.

(ii) Agriculture income more than ₹ 5,000.

(iii) Non-agriculture income more than Basic exemption.

Computation of Tax Liability		₹
Non-Agriculture Income (Total Income)	[A]	xx
Agriculture Income	[B]	xx
Total	[C]	xx
Tax Payable on "C"	[D]	xx
Aggregation of "B" and Basic Exemption	[E]	xx
Tax payable on "E"	[F]	xx
Net Tax payable "D-F"	[G]	xx



Sec. 6: Residential Status

Total income of an assessee cannot be determined without knowing his residential status. Scope of Total income is based on Residential status. If any person become Resident then his whole world income is taxable in India but if person become Non-Resident, then only Indian Income is taxable for that person. Residential status shall be determined for every person for each previous year independently.

- Residential Status of Individual

Basic Conditions as per Section 6(1)	No. of days stay in India	Satisfied or Not satisfied
1. Stay in India for 182 days or more in P.Y. (Current PY) OR 2. Stay in India for 60 days or more in P.Y. and 365 days or more in Last 4 P.Y.'s		
Additional Conditions Section 6(6)		
1. Resident for 2 P.Y. or more in Last 10 P.Y.'s AND 2. Stay in India for 730 days or more in Last 7 P.Y.'s		

If any individual satisfies any One Basic condition (at least one) then he is treated as Resident in India otherwise Non-Resident in India. If any individual become Resident in India, then we have to check that such person in Resident and ordinarily resident (ROR) in India or Resident but Not ordinarily (R but NOR) Resident in India. If the such assesse satisfy both the additional conditions then he is treated as R and OR otherwise R but NOR.

Notes:

1. The day on which he enters India, as well as the day on which he leaves India, shall be taken into account as the stay of Individual in India.
2. In the following cases only Basic condition no. 1 is applicable for Determination of residential status (2nd Basic condition should be Ignored).
   a. Indian Citizen, Leave India during the P.Y. for an employment outside India.
   b. Indian Citizen being a crew member of Indian Ship, leave India during the P.Y.
   c. Indian Citizen or Person of Indian origin engaged outside India in any employment or a Business or Profession, and Visiting India during P.Y.& his total income (excluding income from foreign source) is upto ₹ 15 Lakhs in P.Y

Note : Person of Indian Origin means, he or either of his parents or either of his grandparents were born in undivided India.

➢ In case of Indian citizen or person of Indian origin having total income (other than foreign source income) of more than ₹ 15 lakhs then 2nd basic condition applicable and instead of 60 days in PY, 120 days are considered, if stay in India 120 days or more but less than 182 days in current PY & stay in India for 365 days or more in last 4 PY's then he will be treated as resident but not ordinary resident. (In this case no need to check additional conditions)
Note: Income from foreign sources (FSI) means income which accrues or arises outside India except income derived from a business controlled in or a profession set up in India.

➢ Summary - How many days an Indian Citizen or a Person of Indian origin visits in India during PY

Less than 120 days	120 days or more but upto 181 days	182 days or more irrespective of Total Income
NR in India	If he satisfied both the conditions then R but NOR otherwise NR (i) Stay in India for 365 days or more in last 4 PY, and (ii) His Total Income (other than foreign income) more than ₹ 15 Lakhs.	If he satisfied both the conditions then R&OR otherwise R but NOR (i) Resident in India for 2 PY or more in last 10 PY's, and (ii) Stay in India for 730 days 1or more in last 7 PY's

➢ In case of Indian citizen, crew member of a foreign bound ship (originated from India and destination outside India or vice versa) leaving India, followings days shall be treated as stay outside India; - "From the date entered into the continuous discharge certificate (CDC) is respect of joining the ship & ending on the date entered into CDC in respect of signing of the ship."

Sec. 6(1A): Deemed Resident

In case of Indian citizen, having total income (other than foreign source income), exceeding ₹ 15 lakhs during the PY shall be deemed to be resident in India in that PY, if he is not liable to tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature & he is always treated as R but NOR.

- ⊗ However, this provision will not apply in case individual resident in PY as per section 6(1).
- ✓ Liable to tax means that there is an income-tax liability on such person under foreign country tax law. It also includes a person who has subsequently been exempted from such liability under the law of that country.

Sec. 6(2): Residential Status of Hindu Undivided Family (HUF)

If Control and Management of its affairs is

- Wholly or Partly in India → Resident
- Wholly Outside India → Non-Resident

Note: If Karta of HUF is satisfying both the additional Conditions as per sec 6(6) the HUF is treated as R and OR otherwise R but NOR.

Sec. 6(2): Residential Status of FIRM/AOP/BOI/Local Authority/AJP

If Control and Management of its affairs is

- Wholly or Partly in India → Resident
- Wholly Outside India → Non-Resident

Sec. 6(3): Residential Status of Company

- Indian Company → Always Resident
- Other Company (Foreign Company) → If its "place of effective management" [POEM] in India in that year then resident otherwise NR

➢ POEM means a "place where key management & commercial decisions that are necessary for the conduct of the business of an entity as a whole are in substance made".

Sec. 5: Scope of Total Income

Total Income

- Indian Income
  Income Received or deemed to be received in India
  OR
  Income accruing or arising or deemed to be accrue or arise in India
- Foreign Income
  Income other than Indian Income

➢ Taxability of Income for Individual & HUF

S.No.	Income	R & OR	R but NOR	NR
1.	Indian Income	Taxable	Taxable	Taxable
2.	Foreign Income - Income from Business or Profession Controlled / setup from India	Taxable	Taxable	Not Taxable
	- Other foreign Income	Taxable	Not Taxable	Not Taxable

➢ Taxability of Income for Other Assessee

S.No.	Income	Resident	NR
1.	Indian Income	Taxable	Taxable
2.	Foreign Income	Taxable	Not Taxable

Notes:

1. Income received means, received for the first time. After receiving income outside India, subsequently if it is remitted into India, it cannot be treated as Receipt of Income.
2. Income may be in Cash or in Kind.
3. Any income already taxed on accrual basis, consequently remitted to India, is not chargeable to tax at the time of remittance irrespective of the residential status.
4. Income accrual in India means, income generated in India or source of Income situated in India.

Sec. 7: Income deemed to be received in India

(i) Contribution in excess of 12% of salary to Recognised provident fund or interest credited in excess of 9.5% p.a (Annual accretion to the credit of RPF).
(ii) Contribution by employer under a pension scheme referred u/s 80CCD (NPS).
(iii) Amount transferred from URPF to RPF (being the employer's contribution and interest thereon).

Sec. 9: Income deemed to accrue or arise in India

➢ Sec 9(1)(i): Through or from any Business Connection in India or any property in India or any asset or source of income in India or transfer of a capital asset situated in India

⊗ Following shall not be treated as Business Connection in India

A. Purchase of goods in India for export.
B. Collection of news and views in India for transmission out of India.
C. Shooting of cinematograph films in India if such NR is Individual, who is not a citizen of India or a firm which does not have any partner who is a citizen of India or who is resident in India or a company which does not have any shareholder who is a citizen of India or who is resident in India.
D. In case of a foreign co. engaged in the business of mining of diamonds, from the activities which are confined to display of uncut and unassorted diamonds in any special zone notified by the CG.

☞ Income from property, Asset or source of Income is situated in India, then it is treated as deemed to be accrued or arise in India.

☞ Income through transfer of Capital asset situated in India whether registration of documents of transfer in India or outside India or consideration received in India or outside India.



➢ Sec 9(1)(ii): Salary Income for service rendered in India, whether such Income before or after service rendered like Gratuity, Pension, Profit in lieu of Salary.

➢ Sec 9(1)(iii): Salary received by Indian Citizen from Govt. for service rendered outside India.
- ✓ As per section 10(7) perquisite & allowances are Exempt.

➢ Sec 9(1)(iv): Dividend paid by Indian Company Outside India

➢ Section 9(1)(viii) : Deemed accrual of gift made to a person outside India
Gift of any money made by resident to;-
- NR or foreign company on or after 5th July 2019 or
- R but NOR on or after 1st April 2023,

shall be deemed to be accrued or arise in India.

➢ Sec 9(1)(v): If interest is payable by: -

a. Government, or

b. Resident person [Exception: where money borrowed and used, for the purposes of a business or profession carried on by him outside India or for the purposes of earning any income from any source outside India], or

c. NR when money borrowed used for the purpose of business or profession carried in India by him,
- then such interest is treated as deemed to be accrued or arise in India.

E.g.: If a NR 'Lobo' borrows money from a NR 'Hobo' and invests the same in shares of an Indian company, interest payable by 'Lobo' to 'Hobo' will not be deemed to accrue or arise in India.

➢ Sec 9(1)(vi): If royalty payable by: -

a. Government, or

b. Resident person [Exception : Where it is payable for the transfer of any right or the use of any property or information or for the utilization of services for the purposes of a business or profession carried on by such person outside India or for the purposes of earning any income from any source outside India]

c. NR in respect of transfer of any right, use of any property or information or utilization of service for purpose of business or profession carried in India or earning any Income from any source in India
- then such Royalty is treated as deemed to be accrued or arise in India.

Notes:

1. Lumpsum Royalty by resident to NR for supply of computer software along with computer hardware under the scheme of CG shall not be treated as deemed to be accrued or arise in India.
2. If transfer of property is already taxable "Capital gain" then it is not covered under "Royalty".
3. "Royalty" means consideration (including any lump sum consideration) for —
   (i) Transfer of all or any rights (including the granting of a licence) in respect of a patent, invention, model, design, secret formula or process or trade mark or similar property;
   (ii) Imparting of any information concerning the working of, or the use of, a patent, invention, model, design, secret formula or process or trade mark or similar property;
   (iii) Use of any patent, invention, model, design, secret formula or process or trade mark or similar property;
   (iv) Imparting of any information concerning technical, industrial, commercial or scientific knowledge, experience or skill;
   (v) Use or right to use any industrial, commercial or scientific equipment;
   (vi) Transfer of all or any rights (including the granting of a licence) in respect of any copyright, literary, artistic or scientific work including films or video tapes for use in connection with television or tapes for use in connection with radio broadcasting;
   (vii) Rendering of any services in connection with the activities referred in above clauses.
4. Consideration for use or right to use of computer software is covered under Royalty.

➢ Sec 9(1)(vii): If fees for technical service (FTS) payable by: -

a. Government, or
b. Resident person [Exception : Where the fees is payable in respect of technical services utilised in a business or profession carried on by such person outside India or for the purpose of earning any income from any source outside India.]
c. NR in respect of Technical service utilised in business or profession carried on by such person in India or such service utilise for earning any income from any source in Indian,
   - then such FTS is treated as deemed to be accrued or arise in India.

FTS means: any consideration (including any lumpsum consideration) for the rendering of any managerial, technical or consultancy services (including providing the services of technical or other personnel). However, it does not include consideration for any construction, assembly, mining or like project undertaken by the recipient or consideration which would be income of the recipient chargeable under the head 'Salaries'.

Rahul5209



Sec. 15: Charging Section

Income is taxable under the head salary if there is Employee - Employer relationship (master - servant relation).

- Salary is taxable even in case of part time job like employee work with 2 employers simultaneously.
- Salary is taxable on the basis of due or received whichever is earlier.
- Salary received by partner from partnership firm shall be taxable under the head PGBP.
- Salary received by MP, MLA, MLC shall be taxable under the head IFOS.
- Contract "of" service - Taxable under Salary.
- Contract "for" service - Taxable under PGBP.
- Salary forgone is always taxable since it is merely application of income. Salary surrendered to central Govt., shall not to be treated as salary.
- Any amount received before joining employment or after cessation of employment with that person is treated as "Profit in lieu" of salary & it is taxable under salary.

➢ In this topic we have to find out salary income of employee as per default tax regime u/s 115BAC & as per Normal Provision of Income tax. So let's begin this Topic and we will complete this topic with the help of 17 working notes

Name of Assessee:-		PY 25-26 AY 26-27
Computation of Taxable Salary		
Particulars	Note	Amount (`)
Basic Salary	Note-1	xxx
Dearness Allowance (D.A.)	Note-2	xxx
Commission	Note-3	xxx
Bonus	Note-4	xxx
Advance Salary / Arrears salary	Note-5	xxx
Gratuity	Note-6	xxx
Pension	Note-7	xxx
Leave salary	Note-8	xxx
Allowances	Note-9	xxx
Provident Fund	Note-10	xxx
Super Annuation fund	Note-11	xxx
Voluntary Retirement Compensation	Note-12	xxx
Retrenchment Compensation	Note-13	xxx
Perquisite	Note-14	xxx
Gross Salary		xxx
Less: Deduction u/s 16		
1. Professional Tax [Sec 16(iii)]	Note-15	(xxx)
2. Entertainment Allowance [Sec 16(ii)]	Note-16	(xxx)
3. Standard deduction [Sec 16(ai)]	Note-17	(xxx)
Net Taxable Salary		xxx

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➢ Note:1 Basic Salary -
It means fixed regular payment (base salary) of Employee. It is fully taxable.

➢ Note:2 Dearness Allowance (D.A.)
DA is fully taxable whether it is 'in terms' or not in terms'.
DA in terms means DA which is forming part of retirement benefit calculation (provided in terms of employment for retirement benefits). In all the formulas, DA is considered only if it is 'in terms'. If nothing is given about DA then assume it is 'not in terms.'

➢ Note:3 Commission
Commission is fully taxable whether it is Turnover commission or any other commission.

➢ Note:4 Bonus
It is fully taxable.

➢ Note 5 Advance & Arrears Salary
- ☞ Advance Salary: Advance salary is taxable on receipt basis. If advance against salary is given or only advance is given then it should be ignored because it is treated as loan.
- ☞ Arrears Salary: It means salary under dispute or increase of salary retrospectively. It is taxable in the year in which it is received or dispute resolved whichever is earlier.

➢ Note 6 Gratuity
Gratuity is a voluntary payment made by an employer in appreciation of services rendered by the employee.
- ☞ Gratuity received during the employment - fully taxable for all employees (Government as well as non-government employees).
- ☞ Gratuity received at the time of retirement- It is Exempt u/s 10(10) as follows

Govt. Employee → Fully Exempt

Other Employee

POGA Employee (EE covered under Payment of Gratuity Act, 1972	Non - POGA Employee
Exempt Amount: Lower of (i) 15/26 x salary p.m.* x No. of years of completion of service [rounding off allowed] (ii) Actual amount received (iii) Maximum ` 20 lakhs	Exempt Amount: Lower of (i) 1/2 x Avg. salary p.m.* x No. of years of completion of service [rounding NOT allowed] (ii) Actual amount received (iii) Maximum ` 20 lakhs

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POGA	Non POGA
*Salary P.M. Latest Basic salary p.m xx (+) Latest D.A (both) xx Salary P.M. xx	*Avg. Salary P.M. (Don't include month of retirement) Avg. Basic salary of last 10 months xx (+) Avg. DA(T) of last 10 months xx (+) Avg. T/O comm. of last 10 months xx Avg. Salary P.M. xx
In case of POGA employee if fraction is more than 6 months, it should be rounded off. e.g. 30 years 4 months = 30 years 30 years 6 months = 30 years 30 years 9 months = 31 years	In case of Non-POGA employee fraction should be ignored. eg: 30 years 3 months = 30 years 30 years 11 months = 30 years

Notes:

1. If gratuity is received from more than one employer in the same previous year, the maximum exemption allowed is ₹ 20,00,000.
2. If gratuity was received in an earlier previous year and another gratuity is received in the current year from a different employer, the ₹ 20,00,000 limit will be reduced by the amount of exemption already claimed.

➢ Note 7 Pension

- Uncommuted pension (monthly pension) - Taxable for All employees
- Commuted pension (lumpsum pension) – It is exempt u/s 10(10A) as follows

Govt. Employee → Fully Exempt

Other Employee

- Gratuity also received: Exempt Amt. = Total Pension* x 1/3
- Gratuity also received: Exempt Amt. = Total Pension* x 1/2

*Total Pension = Full value of pension.

➢ Note 8 Leave Salary: It means encashment of un-utilised leave.

- Received during the employment - fully taxable for all employees.
- Received at the time of retirement- It is Exempt u/s 10(10AA) as follows

Govt. Employee → Fully Exempt

Other Employee → Exempt Amount

(i) Leave credit x Avg. salary p.m.
(ii) 10 months x Avg. salary p.m.
(iii) Actual amount received
(iv) Maximum ₹ 25,00,000

whichever is lower

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Avg. Salary P.M. (Avg of last 10 months upto date of Retirement)	
Avg. Basic salary of last 10 months	xx
Avg. DA (in terms) of last 10 months	xx
Avg. Turnover Commission of last 10 months	xx
Avg. Salary P.M.	xx
Leave Credit (months) = Leave allowed - Leave taken ↓ [Max. 30 days for every completed year]	

➢ Note 9 Allowances

S.No.	Allowance	Exempt u/s 10(14)
1.	Commutation / Transport allowance (Office to Home & Home to Office)	Max ₹ 3200 p.m (in case of blind/deaf & dumb or handicapped)
2.	Children Education Allowance	Max ₹ 100 p.m. per child (Max 2 child.)
3.	Children Hostel Allowance	Max ₹ 300 p.m. per child (Max 2 child.)
4.	Underground Allowance (Mines)	Max ₹ 800 p.m.
5.	Tribal area Allowance	Max ₹ 200 p.m.
6.	Allowance to employees of Transport undertaking	70% of such allowance upto a max. of ₹ 10,000 p.m.
7.	Traveling or Tour allowance	Exempt amount = Amount spent
8.	Conveyance allowance	
9.	Uniform allowance	
10.	Daily allowance	
11.	Helper allowance (for office Purpose)	
12.	Research / Academy allowance	
13.	House Rent Allowance (HRA)	Exempt u/s 10(13A) - Lower of (i) 40% / 50%* of salary [BS+DA(T)+T/O Comm.] (ii) Actual Amount received (iii) Rent paid - 10% of salary [BS+DA(T)+ T/O Comm.] *50% if metro cities (Mumbai/Delhi/Chennai/ Kolkata), 40% for other cities.
Notes	1. All other allownaces are fully taxable. 2. If assessee opted 115BAC default tax regime then above exemptions are not availble except DTDC (1,7,8,10 allownace exemptions above) 3. Entertainment allowance is also taxable but Govt. EE can claim deduction u/s 16.	



Note 10 Provident Fund

Statutory Provident Fund (SPF) - PF for Govt. or semi-Govt. employees

A. During the Employment

EE's Contribution	ER's Contribution	Int. on EE Cont.	Int on ER Cont.
Ignore (deduction u/s 80C allowed)	Exempt	Exempt	Exempt

B. At the time of retirement lumpsum amount received by Employee - Fully Exempt u/s 10(11)

Recognised Provident Fund (RPF) - PF which is recognised by Commissioner of IT

A. During the Employment

EE's Contribution	ER's Contribution	Int. on EE Cont.	Int on ER Cont.
Ignore (deduction u/s 80C allowed)	Exempt upto 12% of salary [Basic + DT(T)+ T/o Comm)	Exempt upto 9.5% p.a.	Exempt upto 9.5% p.a.

B. At the time of retirement lumpsum amount received by Employee - Fully Exempt u/s 10(12)

Notes:

1. Lumpsum amount received from RPF is exempt if employee has rendered service of 5 years or more, If employee rendered service less than 5 years then exemption allowed in respect of employer's contribution and interest shall be withdrawn. However in the following 3 cases exemption shall not be withdrawn even though service is less than 5 years:
   (i) Employee retired due to ill health.
   (ii) Employee retired due to shut down of employer's business.
   (iii) Employee has retired with the instruction that his balance in RPF should be transferred to new employer, or to NPS A/C referred u/s 80CCD.
2. Interest on EE's Contribution towards SPF/RPF : Exemption u/s 10(11) or 10(12) not available for interest accrued during the PY to the extent it relates to the contribution made by that employee exceeding ₹ 2,50,000 in any PY in that fund, on or after 01/04/21. If in that fund employer not made any contribution, then, a higher limit of ₹ 5,00,000 would be applicable. It may be noted that interest accrued on contribution to such funds upto 31/03/21 would be exempt without any limit, even if the accrual of income is after that date.

Unrecognised Provident Fund (URPF) - PF which is recognised by Commissioner of IT

A. During the Employment

EE's Contribution	ER's Contribution	Int. on EE Cont.	Int on ER Cont.
Ignore	Exempt	Exempt	Exempt

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B. At the time of retirement lumpsum amount received by Employee - Taxable

EE's Contribution	ER's Contribution	Int. on EE Cont.	Int on ER Cont.
Ignore	Taxable under Salary	Taxable under IFOS	Taxable under Salary

➢ Note 11 Superannuation Fund

☞ Approved Superannuation Fund (ASF)

A. During the Employment

EE's Contribution	ER's Contribution	Int. on EE Cont.	Int on ER Cont.
Ignore (deduction u/s 80C allowed)	Exempt upto ₹ 7,50,000 p.a. [as per sec 17(2)(vii)]	Exempt	Exempt

B. At the time of retirement lumpsum amount received by Employee - Fully Exempt u/s 10(13)

☞ Unapproved Superannuation Fund (UASF) - treatment same as URPF.

➢ Note 12 Voluntary Retirement Scheme Compensation [VRS]

Exempt u/s 10(10C) - Lower of;

(i) Salary p.m. x 3 months x No. of years of completion of service (Fraction IGNORED)

(ii) Salary p.m. x No. of remaining months of service

(iii) Actual amount received

(iv) Maximum ₹ 5,00,000

Salary p.m. = Basic + DA(T) + T/O Commission

➢ Note 13 Retrenchment Compensation

Exempt u/s 10(10B) - Lower of;

(i) * Compensation as per Industrial Disputes Act.

(ii) Maximum ₹ 5,00,000

* 15/26 X Avg salary of last 3 months (Basic + DA(T) +T/O Commission) X No. of years of completion of service (if fraction is more than 6 months, then round off)

Rahul5209



➢ Note 14 Perquisite : It means extra benefit offered by employer to employee. It may be monetary or non- monetary.

Difference between allowance & perquisites.

- Allowance - It means monthly fixed amount received by employee from employer whether actual expenditure is incurred or not. It is part of salary, e.g. HRA, Medical Allowance etc.
- Perquisites - It means benefits or facility provided by employer. It is received when actual expenditure is incurred e.g. Medical facility, car facility etc.

1. Leave Travel Concession (LTC) : Travel benefit is provided for travel anywhere in India

Travel by	Exempt Amount u/s 10(5)
Air	(i) Actual Expenses xx (ii) Economy Class Fare xx Whichever is Lower
Any other Mode	Railway facility Available (i) Actual Expenses xx (ii) 1st Class Railway AC Fare xx Whichever is Lower
	Railway facility Not Available ☞ Recognised transport facility Available (i) Actual Expenses xx (ii) Deluxe Class Bus Fare xx Whichever is Lower ☞ Recognised transport facility Not Available (i) Actual Expenses xx (ii) 1st Class Railway AC Fare of similar distance xx Whichever is Lower

Notes

1. LTC exemption is available for the travel of employee, his spouse, children* & dependent relative - (Mother, Father, Brother, Sister)

* Exemption of LTC is available only for 2 children born on or after 1/10/1998.

- 1st time = 1 child, 2nd time = Twins

  Total 3 children = Exemption Allowed to all 3 children.
- 1st time = Twins, 2nd time = 1 child

  Total 3 children = Exemption allowed to only 2 children.

2. LTC exemption is available for 2 years during the block of 4 Calendar years (current block is 2022-25)

Rahul5200

2. Medical Facility

A. Treatment in India

Treatment in Govt. Hospital Treatment in Employer's Own Hospital Treatment in Govt. Recognised Hospital	Fully Exempt
Otherwise (like treatment in Pvt Hospital, clinic etc.)	Fully Taxable

B. Treatment outside India

Benefit of treatment and Benefit of stay	Exempt upto limit prescribed by RBI
Benefit of Travel	It is fully exempt if GTI is upto ₹ 8,00,000 otherwise it is Fully Taxable

Notes:

(i) Medical insurance premium paid by ER for EE is fully exempt.

(ii) Exemption for treatment is allowed for employee, spouse , children & dependent relative (Mother, Father, Brother, Sister).

(iii) Exemption of stay & travel is allowed only for one patient & one attendant.

(iv) Exemption allowed in respect of any illness relating to COVID-19 subject to such conditions as the CG may notify.

Employee shall submit the following documents to the employer, -

- COVID-19 positive report of the employee or family member;
- all necessary documents of medical treatment of the employee or his family member for COVID-19 or illness related to COVID-19 suffered within 6 months from the date of being determined as COVID-19 positive; and
- a certification in respect of all expenditure incurred on the treatment.

3. "Loan " given by Employer to Employee or any family member of EE at concessional rate of interest or without rate of interest

Taxable amount =

Loan Amt o/s at end of month x (SBI Interest rate on 1st April of PY - Actual Interest rate)

Notes:

(i) Loan amount is upto ₹ 20,000 then interest benefit is not taxable.

(ii) If loan is taken for treatment of specified disease, then interest benefit is not taxable even loan amt is more than ₹ 20,000.

4. Gift from ER to EE

- Gift in Cash/Money = Taxable
- Gift in Kind = if FMV of Gift is less than ₹ 5000 p.a. then it is fully exempt otherwise fully taxable



5. ESOP: Employee stock option plan or Sweat Equity shares to EE
It means Company offers shares to employee at concessional rates.
Taxable amount: - FMV of shares - Issue price
FMV should be taken on the date on which option is exercised by employee.
Calculation of FMV
(i) Case where share is listed on a recognized stock exchange (RSE), FMV shall be average of opening price and closing price of share on that date.
If share is listed on more than one RSE, FMV shall be the avg. of opening price and closing price on RSE which records highest volume of trading in the share.
If on the date of exercising the option, there is no trading in the share on any RSE, FMV shall be— closing price on last trading session.
(ii) Case where share is not listed, the FMV shall be determined by a merchant banker.

6. Use of Movable Assets

Computer & Laptop	Fully Exempt
Any other Asset (Tv, AC, Bike etc.)	Taxable Amount
☞ Owned by Employer →	10% of cost of Asset
☞ Hired by Employer →	Hire charges paid by Employer

7. Transfer of Movable Assets
Taxable Amt = WDV of Asset - Consideration paid by EE

For WDV calculation depreciation shall be calculated for every completed year from the date of acquisition of asset till transfer of asset as per following methods	
Computer, Laptop & Electronic items	Depn @ 50% on WDV method
Motor Cars	Depn @ 20% on WDV method
Any other Asset	Depn @ 10% on SLM method

8. Lunch Facility
It is exempt upto ₹ 50 per meal, if lunch is provided in office premises or through Paid voucher.
Notes: (i) Tea, coffee, or breakfast provided in office - Not taxable.
(ii) Lunch is provided in remote area is Not taxable

9. Employer contribution towards RPF, ASF & NPS [Sec 17(2)(vii)]
Employer contribution towards Recognized Provided Fund (RPF), New Pension Scheme (NPS) referred u/s 80CCD, Approved Super annulation Fund (ASF) in excess of ₹ 7,50,000 is treated as perquisite in hands of EE and Taxable.

10. Annual Accretion of Interest on RPF, ASF & NPS in excess of ₹ 7.5 lakhs [Sec 17(2)(viia)]

Annual Accretion by way of Interest/dividend on contribution of more than ₹ 7,50,000 by ER also treated as perquisite in hands of EE and Taxable.

Calculation of Annual Accretion in PY:

$$TP = (PC/2)*R + (PC1 + TP1)*R$$

TP : Taxable perquisite u/s 17(2)(viia) for the current PY.

PC : Amount of ER's contribution in excess of ₹ 7.5 lakh to RPF, NPS and ASF during PY.

PC1 : Amount or aggregate of amounts of ER's contribution in excess of ₹ 7.5 lakh to RPF, NPS and ASF for the PY or years commencing on or after 01/04/20 other than the current PY.

TP1: Aggregate of taxable perquisite u/s 17(2)(viia) for the PY or years commencing on or after 01/04/20 other than the current PY.

R : I/ Favg

I : Amount of income accrued during the current PY in RPF, NPS and ASF.

Favg : (Amount of balance to the credit of RPF, NPS and ASF on 01/04/25 + Amount of balance to the credit of RPF, NPS and ASF on 31/03/26)/2

11. Rent Free Accommodation (House Facility)

1. Govt Employee : Taxable as per Licence fees decided by Govt.
2. Other Employee

- House Owned by Employer:

  Taxable amount = * 5% / 7.5% / 10% of Salary [BDBACM]

  * Population as per 2011 census upto 15 lakhs = 5%

    Population > 15 lakhs upto 40 lakhs = 7.5%

    Population > 40 lakhs = 10%

- House Hired by Employer

  Taxable amount = (i) 10% of salary [BDBACM]
  (ii) Hire Charges paid by Employer
  Whichever is Lower

12. Hotel Benefit

Taxable amount = (i) 24% of salary [BDBACM]
(ii) Hire Charges paid by Employer
Whichever is Lower

Notes:

1. If employee is provided with accommodation [on his transfer from one place to another], at the new place of posting while retaining the accommodation at the other place, the taxable amount shall be determined only for one accommodation which has the lower perquisite value, for a period

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upto 90 days and thereafter, the value of perquisite shall be charged for both such accommodations.

2. Where accommodation is provided to the same employee for more than one PY, the value of perquisite shall not exceed the amount so calculated for first PY, as multiplied by amount which is a ratio of the CII (cost inflation index) for PY for which the value is calculated and CII for the previous year in which the accommodation was initially provided to the employee.
"First PY" means P.Y. 2023-24 or PY in which the accommodation was provided to the employee, whichever is later.

3. Meaning of Salary - BDBACM

B - Basic salary
D- Dearness Allowance (T)
B- Bonus
A - Taxable Allowances
C - Commission (All)
M - Other monetary income excluding perks.

4. For computing BDBACM perks should not be considered.
5. BDBACM should be calculated on due basis , means salary of current period should be considered. Advance salary, arrears salary should be ignored.
6. For computing BDBACM, retirement benefit should not be considered i.e. gratuity, Pension, leave salary, VRS, Retrenchment compensation, lump sum amount from P.F. etc.
7. BDBACM should be considered for the time for which assessee had occupied such house.
8. Employer contribution towards PF & interest on PF should also be not considered.
9. If hotel facility is provided at the time of transfer of employee & if it is upto 15 days, then it is not taxable.
10. If furniture is also provided with house then perks (use of movable asset Perks 6) shall also be added in above taxable amounts.
11. In house facility & hotel facility if employer recover any rent from employee, then such rent should be deducted from above taxable amount.

13. Motor Car Facility

- Car is used for fully office purpose - Fully Exempt
  If Employer maintains record of each journey & Employer issue a certificate that car is used exclusively for office purpose.
- Car is used for fully personal purpose – Fully Taxable

Motor Car	Taxable Amount
☞ Owned by Employer	→ 10% of cost of Asset
☞ Hired by Employer	→ Hire charges paid by Employer
Add: Driver Salary (if Paid by ER)	
Add: Running & Maintenance Charges (if paid by ER)	

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➢ Car is used for partly office & partly personal purpose (POPP)

Car Own by	Running & Manit. Charges paid by	Taxable Amount	
Employee	Employee	No Benefit, nothing is taxable.	
	Employer	Running & Maint. charges paid by ER	xxx
		Less: 1800 p.m. / 2400 p.m. [upto 1600CC] [>1600CC]	xxx
		Taxable Amount	xxx
Employer	Employee	600 p.m. / 900 p.m. [upto 1600CC] [>1600CC]	xxx
	Employer	1800 p.m. / 2400 p.m. [upto 1600CC] [>1600CC]	xxx

Notes:

- If employer also provided driver, then ₹ 900 pm, should be added to above taxable amount.
- If more than one car is provided for POPP then one car is taxable according to above standard amount & other car shall be taxable on the assumption that it is fully used for personal purpose.
- 1600CC is also know as 1.6Ltr of engine.

14. Transport facility for Transport Employee (Free tickets)
(i) For airlines & railway employee - Airlines & Railway facility is fully exempt.
(ii) For other employees - It is fully taxable.

15. Education Facility
(i) For employee - Fully exempt
(ii) For children - It is exempt if value of education is upto ₹ 1000 p.m. per child & education is provided in employer's own institution or institution where employer have tie-ups, otherwise fully taxable.
(iii) For other relatives - Fully taxable.

16. Gas, Electricity & Water Supply - Fully Taxable

17. Free Servant - Fully Taxable

18. Any other Perquisite - Fully Taxable

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Note: perquisite No 13 to 17 are taxable only if employee is specified EE, if EE is non-specified then these perquisites are Exempt.

Specified Employee means

- Director employee;
- Employee having cash salary more than ₹ 4,00,000;
- employee having substantial Interest in the business of employer.

➢ Following perquisites are Fully Exempt

1. Telephone / mobile bill paid or re-imbursed by Employer.
2. Scholarship to employee's children.
3. Goods sold by employer to employee at reasonable price.
4. Tax on non-monetary perquisites paid by employer.
5. Personal Accidental Policy premium paid by employer.

➢ Note 15 Professional Tax

It means tax on employment. If it is paid by employer on behalf of employee, then first it should be taxable and there after deduction allowed u/s 16. If it is paid by employee then only deduction is allowed.

➢ Note 16 Entertainment Allowance

It is fully taxable for all employees but deduction is allowed to government employees u/s 16 as follows:

(i) 20% of Basic Salary
(ii) Actual amount received
(iii) Maximum ₹ 5000
Whichever is lower

➢ Note 17 Standard Deduction

If assessee opted 115BAC	Assesee optout from 115BAC
(i) Salary Income (ii) ₹ 75,000	(i) Salary Income (ii) ₹ 50,000

➢ Notes: Concept of Pay Scale

Eg:- MS. Priyal joined Railways as on 1/7/2021 on a pay scale of 10000 - 1000 - 13000 - 1500 - 16000 - 2000 - 20000 - 3000. Compute basic salary for A.Y. 2026-27

1/7/21 →	30/6/22	10,000
1/7/22 →	30/6/23	11,000

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1/7/23 ⟶ 30/6/24 — 12,000
1/7/24 ⟶ 30/6/25 — 13,000
1/7/25 ⟶ 30/6/26 — 14,500

Salary for PY 2025 - 26

1/4/25 ⟶ 31/3/26

= (13,000 x 3months) + (14,500 x 9months)

39,000 + 1,30,500

= 1,69,500

➢ Rebate u/s 89 for Arrears of salary

To calculate the relief, the following steps should be taken :

Step 1 : Firstly, calculate the tax due in the current year by including the arrears in your total income.

Step 2 : Now calculate the tax due in the current year by excluding the arrears from your total income.

Step 3 : Compute the difference of the two figures of Step 1 & 2 and let's call that difference as 'X'.

Step 4: Now Calculate your tax due in the year for which the arrears have been received by including the arrears in your total income.

Step 5 : Then Calculate your tax due in the year for which the arrears have been received by excluding the arrears from your total income.

Step 6 : After that compute the difference of the two figures of Step 4 & 5 and let's call the difference as 'Y'.

Step 7: Lastly subtract X (Step 3) from Y (Step 6) and you will get the relief amount.

Definition of Salary	
Entertainment Allowance	Only Basic Salary
Gratuity (POGA)	Basic + DA (Both)
Gratuity (Non POGA) Leave Salary HRA Contribution to RPF VRS Retrenchment Compensation	Basic + DA (T) + T/O Commission
House & Hotel Facility	BDBACM



Following Benefits not available when assessee opted section 115BAC

1. HRA exemption u/s 10(13A)
2. LTC exemption u/s 10(5)
3. Allowance exemptions u/s 10(14) except DTDC
4. Free meal exemption upto ₹ 50

Remuneration received by Individual (not being a citizen of India) is fully exempt in following cases		
10(6)(ii)	Remuneration received by Foreign Diplomats/ Consulate and their staff Conditions: (a) The remuneration received by our corresponding Govt. official's resident in such foreign countries should be exempt. (b) The above-mentioned officers should be the subjects of the respective countries and should not be engaged in any other business or profession or employment in India.	Individual (not being a citizen of India)
10(6)(vi)	Remuneration received as employee of a foreign enterprise for services rendered by him during his stay in India, if: a) Foreign enterprise is not engaged in any trade or business in India; b) His stay in India does not exceed period of 90 days in such PY; and c) Such remuneration is not liable to deducted from the income of employer chargeable under this Act	Individual - Salaried Employee (not being a citizen of India)
10(6)(viii)	Salary received by or due for services rendered in connection with his employment on a foreign ship if his total stay in India does not exceed 90 days in the PY.	Individual (NR who is not a citizen of India)

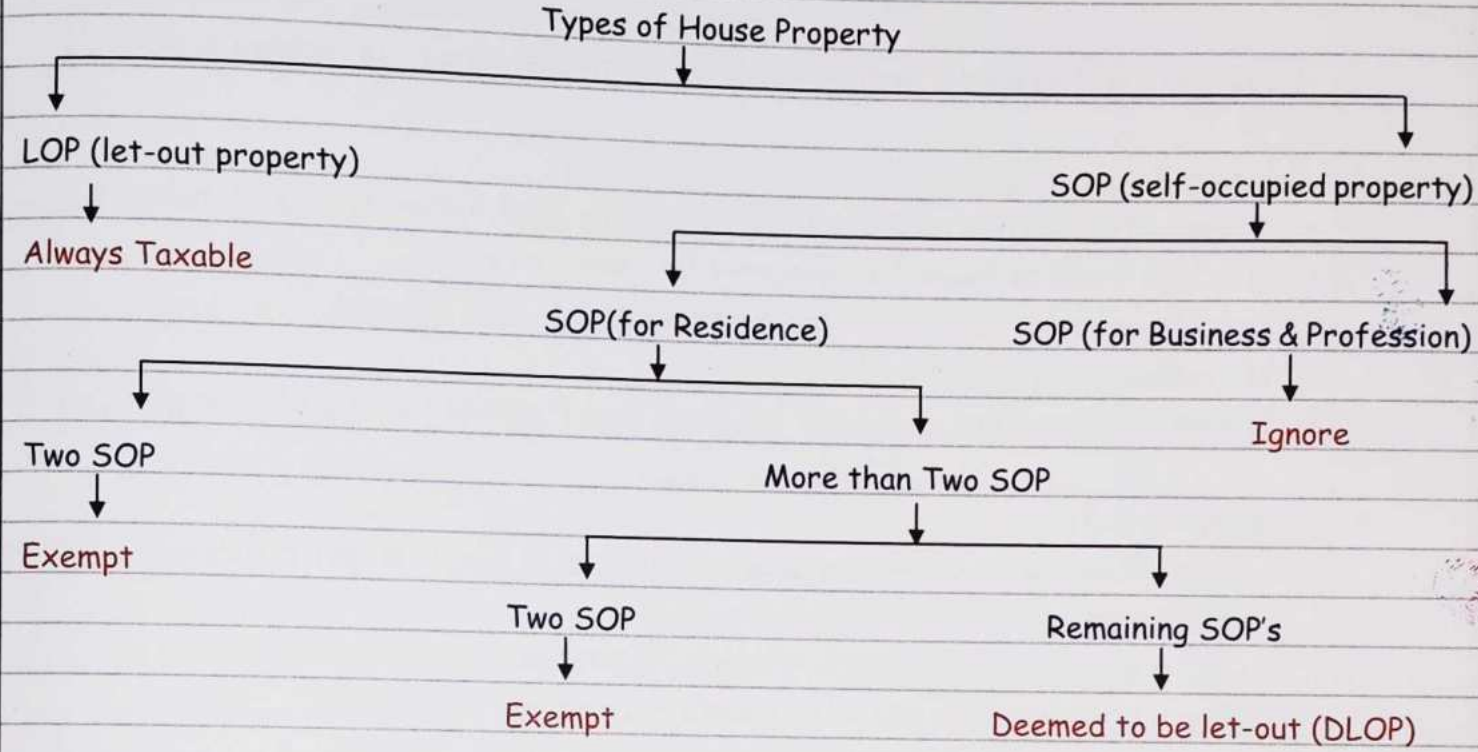


Sec. 22: Charging Section

Rental Income (Annual value) is taxable under the head income from house property if following two conditions are satisfied:

1. There should be House property **
2. Assessee should be owner of that house property.

** House property means building or land appurtenant thereto.



Computation of Income from House Property	SOP (Res.)	LOP	DLOP
↑ Municipal value	-	xx	xx
↑ Fair Rent	-	xx	xx
↓ Whichever is higher	-	xx	xx
↓ Standard Rent	-	xx	xx
↑ Expected Rent	-	xx	xx
↑ Actual Rent	-	xx	-
Gross Annual Value (GAV)	-	xx	xx
Less: Municipal taxes paid	-	(xx)	(xx)
Net Annual value (NAV)	-	xx	xx
Less: Deduction u/s 24			
(a) Standard deduction 30% of NAV	-	(xx)	(xx)
(b) Interest on Loan	-/(xx)	(xx)	(xx)
Income from House Property	-/(xx)	xx	xx

1. Municipal value: It means value of property as per municipality record.

2. Fair Rent: It means rent of similar property in same locality. It is also known as reasonable rent/reasonable letting value.

3. Standard Rent: It means rent as per rent control Act, It is the maximum amount of rent that can be legally recovered by Owner from tenant.

4. Actual Rent: Actual Rent = Rent received (+) Rent receivable (-) unrealised rent.

5. Municipal Taxes
   - It means tax which is recovered by Municipality, local Authority, gram panchayat.
   - It is also known as house Tax, property tax, local tax etc.
   - It is allowed on payment basis [paid - Allowed; o/s - Not allowed].
   - It is allowed only if it is paid by owner.
   - If municipal taxes are given on % age basis then it should be calculated on municipal value.

6. Interest on Loan
   - Interest on loan is allowed as deduction, if loan is taken for the purpose of house property i.e. purpose, construction, repair, renovation.
   - Loan may be taken from banks, financial institutions trusts, friends, family etc.
   - Interest is allowed on due basis [paid - Allowed; o/s - Allowed)
   - Interest on Interest (Penal interest) is not allowed as deduction.
   - Any fresh loan is taken for repayment of earlier loan & earlier loan was taken for the purpose of house property then interest of fresh loan shall be allowed as deduction.
   - Interest paid outside India shall not be allowed as deduction if TDS not deducted on such interest.
   - Pre-construction/Acquisition interest: It means interest paid before the year in which construction was completed. It is allowed in Five equal instalments from the year in which construction was completed.
   - Limit of Interest Deduction

LOP/DLOP ⟶	No Limit (Full Interest Allowed)
SOP (Residence) 2 SOP ✓ Special Case ⟶ loan is taken on or after 1.4.1999 + loan taken for purchase or construction of house property	Max ₹ 2,00,000

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If loan is taken for construction then construction should be completed within 5 years from the end of the year in which loan was taken ✓ General Case →	Max. 30,000

- Un-realised Rent and recovery of un-realised Rent

Actual Rent = Rent received + Receivable - unrealised rent

Unrealised rent: It means rent which is not recovered by owner from tenant. It is like Bad debts of rent, it is deductible while calculating actual rent if following four conditions of Rule 4 are satisfied.

1. Tenancy should be bonafide.
2. Tenant should have vacated that house property.
3. Such tenant should not occupy any other house property of same assessee.
4. Reasonable step should have been taken for recovery of unrealised rent.

Note : As per ITR FORM unrealised rent can be reduced from Gross Annual Value.

- Arrears of rent : It means rent under dispute.
- Sec 25A : Recovery of un-realised rent & arrears of rent

Recovery is taxable in the year in which it is recovered, under the head house property, whether the assessee is the owner of the property or not is that financial year. Any expenditure incurred for such recovery shall be Ignored

Taxable Amt = Recovery x 70% [30% std deduction]

- Other Expenses

Repair & Maintenance
Society charges
Parking charges
Insurance charges
Electricity & water charges
Lift charges, etc

} Not allowed because 30 % Standard deduction on NAV is allowed

➢ Concepts of Vacancy: Let-out property is vacant part of the year due to vacancy

ER ≤ AR + VR	ER > AR + VR
↓	↓
GAV	GAV

Example

1. Monthly Rent = ₹ 20,000 p.m.
Expected Rent = ₹ 1,92,000
Vacancy = 3 months.

ER		AR	+	VR
1,92,000	≤	1,80,000	+	60,000

↓
GAV

2. Monthly Rent = ₹ 3,000 p.m.
Expected Rent = ₹ 1,95,000
Vacancy = 2 months.

ER		AR	+	VR
1,95,000	>	30,000	+	6,000

↓
GAV

3. Monthly Rent = ₹ 25,000 p.m.
Expected Rent = ₹ 3,00,000
Vacancy = 3 months.

ER		AR	+	VR
3,00,000	=	2,25,000	+	75,000

↓
GAV

➢ Concept of Partly Let out property (Area wise)

If some area of House property is let out & remaining is self occupied then let out portion is treate as LOP & self-occupied portion is treated as SOP. In this case, Municipal value, fair rent, standar rent, municipal taxes, interest on loan should be divided between SOP & LOP on area basis.

Actual rent should never be divided because it is always for LOP.



➢ Concept of Partly Let out property (Time wise)

If property is let out for some period of time & self-occupied for remaining time then such property is treated as LOP only. If property is let out for even 1 day, then, also that property is treated as LOP.

➢ Assessee owns more than Two SOP

Two of such house properties (at the option of Assessee) treated as SOP & remaining be treated as DLOP.

➢ Concept of Joint ownership

Joint ownership (co-ownership) means property is owned by more than one owner, in this case, income from house property is calculated normally & thereafter it should be divided between co-owners in their ownership ratio.

Interest on Loan

- LOP/DLOP - No Limit
- SOP - Limit of ₹ 30,000/ ₹ 2,00,000 apply each owner

➢ Concept of composite Rent

Composite rent = Rent of House property + Rent of other assets & amenities

a) Agreement separable: Rent of HP taxable under IFHP & other asset Rent taxable under PGBP/IFOS.

b) Agreement Not separable: Total Rent taxable under PGBP/IFOS.

Note: If let out of property not feasible without other asset then total rent is taxable under the head income from Business / Profession or income from other sources whether agreement is separable or not. Eg. Hotel.

➢ Sec. 27: Deemed owner

1. If any individual transfers any house property to his / her spouse for without consideration or inadequate consideration then such individual is treated as Deemed owner of such property.
   Exception : Transfer in connection of live apart.
2. If any individual transfers any house property to a minor child (other than minor married daughter) for without consideration or inadequate consideration then such individual is treated as deemed owner.
3. In case of a co-operative society, shareholder is treated as deemed owner of such property.
4. Holder of an impartible estate.
5. In case of Immovable property if possession taken in part performance of contract then assessee treated as deemed owner.
6. If property acquired under long term lease (> 12 years) acquirer is deemed owner.

Some Important notes for HP Topic:

1. Where house property is held as stock in trade and not let-out during the P.Y. the NAV of such property shall be treated as NIL for the period of 2 years from the end of Financial Year in which construction was competed.

2. If Assessee pay tax under default taxation regime u/s 115BAC then Interest on loan u/s 24(b) in respect of SOP (30,000 /2,00,000) not allowed to assessee.

3. SOP means property which is occupied by assessee for self-occupation or could not occupied due to any reason.

4. SOP exemption is allowed only in case of Individual & HUF.

5. Municipal taxes paid to foreign municipality also allowed as deduction if foreign house income is taxable in India.

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Sec 28: Charging Section

Following income shall be taxable under the head PGBP.

1. Any profit or gain of any Business/Profession.
2. Profit on sale of import entitlement licence.
3. Cash compensatory support or duty drawback.
4. Any amount received under Key-Man insurance policy.
5. Any gift/benefit/perquisite arising due to business or profession, whether convertible into money or not or in cash or in kind or partly in cash & partly in kind.
6. Any interest, salary, bonus, commission received by partner from partnership firm [to the extent allowed u/s 40(b) to firm].
7. Non-compete Fees [not carrying out any activity in relation to any business or profession or not sharing any know-how, patent, copyright, trade-mark etc.].
8. Income derived by a trade, professional or similar association from specific service perform for its member.
9. FMV of inventory as on the date on which it is converted into Capital asset.
10. Any compensation in connection with the termination or modification of the terms and conditions, of any contract relating to his business. Accordingly, any compensation, whether revenue or capital, in connection with the termination/modification of the terms and conditions of any business contract shall be taxable under PGBP.

- Any income from letting out of a residential house or a part of the house by the owner shall not be taxable under "PGBP" and shall be taxable under "Income from house property"

  [Explanation added by FA 24 w.e.f. AY 25-26]

- Speculation Business: It means a transaction in which a contract for the purchase or sales of any commodity including stocks and shares, is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity or scrips.

- Transaction not deemed to be speculative transaction
  a) Hedging contract in respect of raw materials or merchandise or stocks and shares.
  b) Forward contract.
  c) Trading in derivatives through recognised stock exchange.
  d) Trading in Commodity derivatives through RSE on which CTT paid. However, the requirement of charge ability of CTT not applicable in respect of trading in agricultural commodity derivatives from A.Y. 19-20.

Notes: Speculative business shall be treated as separate and distinct business.

Sec 29: How to compute PGBP

PGBP are to be computed in accordance with the provisions contained in sections 30 to43D.

Sec 30: Rent, Rates, Taxes, Repairs & Insurance of Building

	Rent	Rates & Taxes	Insurance	Revenue Repair	Capital Repair
Owner	Not allowed	Allowed	Allowed	Allowed	Not allowed
Tenant	Allowed	Allowed	Allowed	Allowed	Not allowed

Sec 31: Insurance & Repair of Plant & Machinery and Furniture

	Rent	Insurance	Revenue Repair	Capital Repair
Owner	Not allowed	Allowed	Allowed	Not allowed
Tenant	Allowed [Sec 37]	Allowed	Allowed	Not allowed

Notes :

1. Expenses u/s 30 & 31 allowed only if asset used for business or profession.
2. Capital repair not allowed as deduction as it will be added to cost of asset. Capital repair incurred by tenant is treated as Deemed Building & depreciation is allowed to Tenant.

Sec 32: Depreciation

A. Conditions to claim depreciation

(i) Asset should be used for business/profession purposes (active or passive).

(ii) Assessee should be Owner of such asset (wholly or partly).

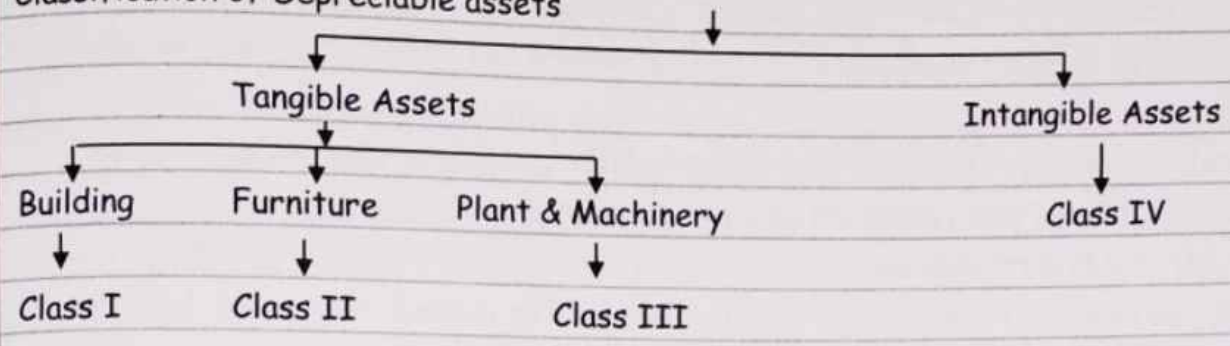
Notes:

1. Deprecation is allowed if assessee is beneficial owner.
2. In case of Lease, Depreciation is always claimed by lessor whether it is Financial lease or Operating lease [CBDT circular].
3. In case of Hire Purchase, assessee gets the ownership only after payment of last instalment but he can claim depreciation from beginning, assuming assessee is the owner from beginning.
4. Depreciation on asset partially owned by the assessee shall be allowed to him of his share in asset.
5. In case of stand by machinery and emergency spares, the depreciation shall be allowed even if they are ready for use & not put to use.

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Yes People!

B. Classification of Depreciable assets



C. Rates of Depreciation (WDV Method) (Block of Asset System)

S.No.	Assets	Rate
1.	Building (includes roads, bridges, wells and tubewells)	
	(i) Residential use (except hotels)	5%
	(ii) Other Use	10%
	(iii) Temporary or Wooden Structure	40%
2.	Furniture & Fittings (include electrical fittings like fans, wires, switches etc.)	10%
3.	Plant & Machinery	
	(i) Motor Vehicles	15%
	- Acquired & put to use between 23.08.19 to 31.03.20	30%
	(ii) Motor Vehicles (Lorries, buses, taxi) used in Hire Business	30%
	- Acquired & put to use between 23.08.19 to 31.03.20	45%
	(iii) Ships, Vessels, Speed Boats	20%
	(iv) Aeroplanes, Aeroengines	40%
	(v) Computer & Computer software	40%
	(vi) Books (include annual publication or used in libraries)	40%
	(vii) Pollution Control Equipment's	40%
	(viii) Windmills & its equipment installed before 01/04/14	15%
	- Windmills & its equipment installed on or after 01/04/14	40%
	(ix) Renewable Energy Devices (include E-Vehicles)	40%
	(x) Oil wells	15%
	(xi) Other P&M	15%
4.	Intangible Assets	25%

Notes:

1. Mandatory to claim depreciation for all assessee.
2. Mobile phone are not computers; hence Depreciation @ 40% is NOT eligible.

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3. Intangible assets include know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature but other than goodwill of business and profession.
4. Depreciation rate for computers accessories is 40% i.e. UPS, printer, scanners etc.
5. Depreciation allowed when asset actually put to use & not ready to use.
6. As per Sec. 43(3) plant includes ships, vehicles, books, scientific apparatus & surgical equipment used for business or profession but does not include Tea bushes, live- stock, building, furniture.

D. Method of Depreciation

Assessee

- Business of Generation OR Generation & Distribution of Power → Option to follow SLM or WDV Method
- Other Assessee → Always follow WDV method

E. System of Depreciation

- WDV Method → Block of Asset system shall apply
- SLM method → Individual asset system shall apply (Power Units)

- Block of asset means "Group of assets having Same Rate of dep within the Same Class of Asset"

Block Of Asset = Same Rate + Same Class

- Individual assets system: Depreciation calculated on Individual asset - Same as Accounts.

F. Calculation of depreciation (Block of asset/ WDV method)

Particulars	Amount ₹
Opening WDV of block	xx
Add: Actual cost of asset acquired during PY	
➢ Put to use 180 days or more (upto 3rd Oct)	xx
➢ Put to use less than 180 days (on or after 4th Oct)	xx
➢ Acquired but not put to use	xx
	xx
Less: Money Receivable [selling price of asset]	(x)

Less: WDV of assets transferred in Slump sale (compute WDV of asset assuming this is only asset in block)	(x)
** WDV of Block for the purpose of Depreciation	xx
Less: Depreciation Actually Allowed	(x)
Closing WDV of Block	xx

** WDV of Block of Assets

Asset acquired but not pot to use	Put to use less than 180 days	Balance
No Depreciation	Half rate Dep.	Full rate Dep.

Notes:

1. If asset acquired during current PY & not put to use then depreciation shall not be allowed for such asset but that asset should be added to Block of asset.
2. Actual sale price of asset shall be reduced and not the FMV of asset sold.
3. If assessee transferred Building then actual sale price shall be reduce and NOT SDV. However, if sec. 50 attract then SDV shall be considered for computation of capital gain.
4. Money payable means sale price or insurance compensation in respect of asset sold, discarded, demolished or destroyed during the PY and the amount of scrap value.

➢ Proviso to Sec. 32(1):

Depreciation is restricted to 50% if asset put to use for less than 180 days in the year of acquisition, restriction applies only in the year of acquisition.

Year of Acq.	Year of Put to use less than 180 days	Depn. Allowed	Rate
PY 25-26	PY 25-26	PY 25-26	Half Rate
PY 25-26	PY 26-27	PY 26-27	Full Rate

G. Sale of Asset / Capital Gain in case of depreciable assets [Block of asset]

Part- A: Where a Block of assets ceases to exist [All Asset Transfer]				
Sale Price of asset	5,20,000	7	9,30,000	7
Particular	₹	No.	₹	No.
Opening WDV of block	6,00,000	5	6,00,000	5
(+) Actual cost of Asset acquired	2,00,000	2	2,00,000	2
	8,00,000	7	8,00,000	7
(-) Sale value of assets	(5,20,000)	7	*(8,00,000)	7
Capital Loss	2,80,000	-	-	-
	Asset →	No	Asset →	No
	WDV →	Yes	WDV →	No
	Depn →	No	Depn →	No
	CG →	Yes	CG →	Yes
Computation of Capital Gain				
Full Value of Consideration	5,20,000		9,30,000	
Less:COA (Op Wdv + Actual Cost)	(8,00,000)		(8,00,000)	
	(2,80,000) ←	STCL	1,30,000 ←	STCG

* Block can be Nil but Never Negative.

Note: In case of Depreciable assets there is always STCG/STCL.

Part- B: Where some assets of Block of assets Transferred				
Sale Price of asset	9,10,000	4	6,20,000	4
Particular	₹	No.	₹	No.
Opening WDV of block	6,00,000	5	6,00,000	5
(+) Actual cost of Asset acquired	2,00,000	2	2,00,000	2
	8,00,000	7	8,00,000	7
(-) Sale value of assets	*(8,00,000)	4	(6,20,000)	4
Capital Loss	-	3	1,80,000	3
	Asset →	Yes	Asset →	Yes
	WDV →	No	WDV →	Yes
	Depn →	No	Depn →	Yes
	CG →	Yes	CG →	NO
Computation of Capital Gain			Normal	
Full Value of Consideration	9,10,000		Dep.	
Less: COA(Op Wdv + Actual Cost)	*(8,00,000)		Allowed	
	1,10,000 ←	STCG		

* Block can be Nil but Never Negative.

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H. Sec. 32(1)(iia) Additional Depreciation [Not available if assessee opted 115BAC]

(a) Eligible Assessee - engaged in the business of manufacture of any article or generation transmission or distribution of power.

(b) Additional depreciation @20% allowed on Plant & Machinery, excluding:

- Second hand P&M.
- Any p&m installed in office premises or residential accommodation.
- Ships, aircraft & transports vehicles.
- P&M on which 100% deduction allowed.

(c) Additional depreciation is allowed only in the First year in which it is put to use. If put to use for less than 180 days then 10% depn shall be allowed in current year and remaining 10% in next year.

(d) Printing or printing and publishing treated as Manufacturing Business eligible for Add. Dep. [CBDT]

(e) Add. dep. is allowed only if assessee opt WDV method. It is not allowed to Power units if they opt SLM method.

(f) Forklift Truck used in factory is not treated as transport vehicle so it is eligible for Add. dep.

I. Sec 43(1) Actual Cost

Particular	₹
Cost of asset (purchase price)	xx
Add: Installation charges	x
Transportation expenses for asset	x
Trial run/test run expenses	x
Taxes & duties (if ITC not available)	x
Interest on loan taken for acquisition of asset (upto the date of asset put to use)	x
	xx
Less: Amount recd. on sale of trial run product	(x)
Subsidy/Govt Grants recd. for acquisition of assets	(x)
Actual Cost	xx

Note: If assessee incurs any exps. for acquisition of any asset & payment made to single person in single day, otherwise than by an a/c payee cheque/DD or ECS exceeds ₹ 10,000, such expenditure shall not form part of actual cost of such asset.

Explanation to Sec 43(1): Actual Cost in Special Cases

S.No.	Case	Actual Cost
1.	Asset previously used for Scientific Research brought into regular business	Actual cost = NIL (because deduction already claimed u/s 35)

2.	Stock converted into Capital asset and used for Business or Profession	FMV on the date of conversion
3.	Asset acquired by way of gift/Will/ Inheritance	Actual cost to the previous owner less depn already allowed to him
4.	Asset acquired with an intention to claim higher depreciation	Amt. determined by A.O., with the approval of Joint Commissioner (JC) (Normally AO take FMV of such asset)
5.	Re-acquisition of asset sold	(i) WDV at the time of sale xx (ii) Reacquisition cost xx
6.	Asset Purchased & Leased back to the same person	WDV of the previous owner (Lessee)
7.	Building was used for other purpose now brought into business.	Original cost xx (-) Notional depn till xx at current depn rate Actual cost xx
8.	Asset brought into India by NR for use in his Business or Profession	Actual Cost xx -Dep. Calculated at the rate in force as if the asset was used xx in India from date of acquisition
9.	Actual Cost allowed as deduction u/s 35AD and capital asset transferred to non-specified business after 8 years from the year of acq. or transfer by way of transactions referred in sec.47.	Actual cost for transferee shall be NIL

➢ Expln 7 of Sec. 43(6): In cases where partly income from Business and Partly from Agriculture (Tea, coffee & Rubber Growing & Mnf.), for the purpose of computing WDV, the depreciation shall be computed as if the entire income of the assessee is "PGBP". The depreciation so computed shall be deemed to have been "actually allowed" to the assessee.

E.g. Mr. BB engaged in Grwoing & Mnf. of Tea in this case only 40% income taxable under PGBP. If the turnover is, say, ₹20 lakh, the dep. ₹ 1 lakh and other exps. ₹ 4 lakh, then the income would be ₹ 15 lakh. PGBP would be ₹ 6 lakh (being 40% of ₹ 15 lakh). As per earlier Court decisions, only the depreciation "actually allowed" i.e., ₹ 40,000, being 40% of ₹ 1 lakh, has to be deducted to arrive at the WDV but as per this explanation total ₹ 1 lakh shall be reduce to compute WDV.

J. Dep. for Power Units/Sale of Assets/SLM method /Individual asset system

If power units follows SLM method then they are subject to individual asset system profit & loss is calculated on every sale.

For better understanding let's take an example:

Actual cost of asset = ₹ 100 Rate of depn = 10% SLM

In 3rd year suppose asset sold for a) ₹ 72 b) ₹ 89 c) ₹ 117

Calculation of Dep. for 2 years

Actual Cost	100
- Dep. 1st Year	(10)
	90
- Dep. 2nd Year	(10)
WDV	80

Tax treatment in the year of sale (3rd Year)

	A	B	C
Sale Value	72	89	117
Less: WDV	80	80	80
Profit/(loss)	(8)	9	37

- A → Terminal Dep. Allowed as ded. u/s 32(1)(iii) P&L - Dr. Side
- B → Balancing Charge taxable u/s 41(2) under PGBP
- C → ₹20 (upto cost) Balancing Charge u/s 41(2)-PGBP; ₹ 17 SP > Cost STCG u/s 50A

K. If asset is not exclusively used for the purpose of Business/Profession then deduction u/s 30,31,32 shall be restricted to a proportionate part as determined by A.O.

Example:

Opening WDV of car (01/04/24) = ₹ 4,00,000

Suppose, CAR 60% used for business purpose & 40% used for personal purpose

Dep. @15% on ₹ 4,00,000 i.e. ₹ 60,000. In this case 60% i.e. ₹ 36,000 dep. allowed and 40% i.e. ₹ 24,000 disallowed.

While calculating Closing WDV only ₹ 36,000 dep. actually allowed shall be reduced from Block.

L. Sec.32(2) Unabsorbed Depreciation

Where, in any PY the PGBP is not sufficient to give full effect to the dep., the unab. dep. shall be added to the dep allowance for next PY and shall be deemed to be part of that allowance. Thus, the unab. dep. shall be c/f indefinite no. of years till it is fully set off.

- It can be set-off against the income of any other head except "Salaries".
- It can be setoff even if the business to which it relates does not exists.
- Order of setoff will be: C.Y. dep → B/F business loss → unabsorbed dep.

Sec 35: Scientific Research

Part A: Inhouse Research [Research related to assessees Business]

- Research during* the Business
  - Revenue Exps. [35(1)(i)] → 100% deduction
  - Capital Exps. [35(1)(iv)]
    - Land → NO deduction
    - Others → 100% deduction
- Research before commencement of Business (Max. 3 Yrs before date of commencement)
  - Revenue Exps. [35(1)(i)]
    - -Salary (exclude perks) -Raw Material → 100% deduction
    - Others → NO dedn
  - Capital Exps. [35(1)(iv)]

Part B: Donation/Contribution to outsiders

- To Approved
  R - Research Association
  I - Institute
  C - College
  U - University
  - For Scientific Research 35(1)(ii) → 100% dedn
  - For Social & statistical Research 35(1)(iii) → 100% dedn
- To I.I.T. & National laboratory → For Scientific Research 35(2AA) → 100% dedn
- To Approved Indian Co. engaged in R&D → For Scientific Research 35(1)(iia) → 100% dedn

Notes:

1. The deduction u/s 35(1)(ii)/(iia)/(iii)/35(2AA) shall not be denied if approval of such institution has been withdrawn after payment of sum by assessee.
2. No depreciation allowed on assets if deduction u/s 35 claimed.
3. If L&B purchased through a composite agreement then the cost of L&B shall be bifurcated on the basis of FMV because cost of land is not allowed as deduction.
4. Unabsorbed research capital expenditure can be set off & c/f same as un-absorbed depreciation.

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Sec 35D: Preliminary expenses

➢ Meaning: (a) Preparation of feasibility study/project report
(b) Market survey
(c) Engineering services
(d) Drafting & printing of MOA/ AOA.
(e) Legal fees
(f) Expenses related to public issue of shares & Debenture
(g) other expenses may be notified by CBDT.

➢ Deduction allowed to Resident Assessee who incurs preliminary exps before commencement of business or after commencement for extension or for setting up a new unit.

➢ Amount of deduction

Indian Company

(i) Actual Preliminary Exps.	xx
(ii) 5% COP/CE**	xx
Whichever is Lower	

Other Resident

(i) Actual Preliminary Exps.	xx
(ii) 5% COP	xx
Whichever is Lower	

** COP or CE, whichever is Higher

➢ Notes :

1. Above deduction is allowed in 5 equal instalments.
2. COP =Cost of project [Amount invested in fixed asset of new project or extension or setup new unit as per books as on last day of P.Y.]
3. CE = Capital employed [share capital + debentures + long term borrowing for new project or extension or setup new unit as per books as on last day of P.Y.]
4. Reserve and surplus (including security premium) shall not be part of CE.
5. Audit is mandatory for the year in which such expenses incurred except company and co-operative society & audit report should be submit upto date given u/s 44AB.
6. Assessee shall furnish the details of expenditure in Form No. 3AF to Income Tax Authority within 1 month prior to the due date of ROI u/s 139(1).

Sec 35DDA: Expenditure on Voluntary Retirement Scheme

Assessee : All Assesses

Deduction allowed in 5 equal instalments.

Note: 35D & 35DDA: If there is Amalgamation/Demerger, then remaining deduction shall be Allowed to Amalgamated Company/Resulting Company

Sec 35AD: Specified Business No.	Business	Commencement on or after
Under this section ded. @100% allowed for Capital Expenses and this section is optional for assessee.		
1	Setting up & Operating a Cold Chain facility	01/04/2009
2	Setting up & Operating a warehousing facility for agri. Produce	01/04/2009
3	Laying & Operating cross country pipeline for distribution of petroleum oil, natural gas.	Nat. Gas. $\frac{1}{4}$/07 Petro. $\frac{1}{4}$/09
4	Building & Operating a Hotel of 2 star or above	01/04/2010
5	Building & Operating a Hospital with min. 100 patient beds	01/04/2010
6	Developing & Building a Housing Project under Slum Development scheme	01/04/2010
7	Developing & Building a housing Project under affordable housing scheme	01/04/2011
8	Production of Fertilizers in India	01/04/2011
9	Setting up & Operating inland container depot or container freight station	01/04/2012
10	Bee keeping and production of bee's Honey & Wax	01/04/2012
11	Setting up & Operating a warehousing facility for sugar	01/04/2012
12	Laying & Operating a slurry pipeline for transportation of Iron ore	01/04/2014
13	Setting up & Operating a Semi-conductor wafer fabrication manufacturing unit	01/04/2014
14	Developing or maintaining and operating or developing, maintaining and operating a New Infrastructure Facility	01/04/2017

Conditions & Notes:

1. Not formed by splitting or reconstruction of existing business means business should be New.
2. P&M should be New
   Exception: (a) Imported old P&M (P&M on which dep. not claimed under IT Act.)
   (b) 20% of total P&M can be old (Second Hand)
3. Deduction allowed on all Capital expenses except (a) Land (b) Goodwill (c) Financial instruments. Further, any exps. for which payment made to a person of an amount exceeding ₹ 10,000 in a day otherwise than by a/c payee cheque or DD or ECS would not be eligible for deduction.
4. Depreciation not allowed if deduction claimed u/s 35AD.
5. Loss of specified business can be carried forward indefinitely.



6. If asset (on which deduction claimed u/s 35AD is allowed) sold, then the entire sales price shall be taxable as PGBP [Section 28].
7. Loss of specified business can be set off only against specified business income irrespective of whether the latter is eligible for deduction u/s 35AD.
   Example: A assessee can therefore, set-off the losses of a hospital or hotel which begins to operate after 1/04/2010 and which is eligible for deduction sec. 35AD, against the profits of the existing business of operating a hospital (with atleast 100 beds for patients) or a hotel (of 2* or above) started before 1/04/2010 even if the latter is not eligible for deduction u/s 35AD.
8. In case of Hotel (2 * or more) if assesse transfers operation to another person, then assessee shall be deemed to be carrying on the specified business.
9. Infrastructure facility means:
   (i) A road including toll road, a bridge or a rail system.
   (ii) A highway project including housing or other activities being an integral part of the highway project.
   (iii) Water supply project, water treatment system, irrigation project, sanitation and sewage system or solid waste management system.
   (iv) A port, airport, inland waterway, inland port or navigational channel in the sea.
10. Business of cross-country pipeline and new infrastructure facility should be owned by Indian Company or consortium of such companies or by an authority or a board or corporation or any other body established or constituted under any Central or State Act.
11. Business of cross-country pipeline should be approved by the Petroleum and Natural Gas Regulatory Board and notified by the CG. Under New infrastructure facility entity should have entered into an agreement with the CG/SG/Local Authority or any other Govt body.
12. Asset (on which deduction claimed u/s 35AD) should be exclusively used for specified business for minimum 8 yrs. from the year of acquisition.
    If it is used for non-specified business within 8 yrs. then following shall be taxable under PGBP.

Particular	₹
Amount of deduction claimed u/s 35AD earlier	xx
(-) depreciation that would have been allowable if Sec. 35AD not there	(xx)
PGBP	xx

13. If asset is transferred from specified business to non-specified business within 8 years then Actual cost shall be-

Particular	₹
Cost of Such Asset	xx
(-)depreciation allowable if such asset used for non-specified business from acquisition	(xx)
Actual Cost	xx

➢ Asset of specified business u/s 35AD

Transfer to another business

- **To Specified business** → No treatment
- **To non-specified business**
  - **Within 8 year**

PGBP shall be:

Amt of deduction claimed u/s 35AD earlier	xx
(-) Notional dep allowable as if sec 35AD is not there	(xx)
	xx

Actual cost (added to Block) shall be:

Cost of such asset	xx
(-) Notional dep allowable to non-specified business	(xx)
	xx

  - **After 8 years** → No PGBP; Actual cost = Nil [expln to sec 43(1)]

Sale → PGBP = Sale price

No CG even SP > Actual Cost



Sec 36: Certain deduction u/s 36

- **Sec. 36(1)(i): Premium for insurance of stock -in-trade**

  It is allowed as deduction.

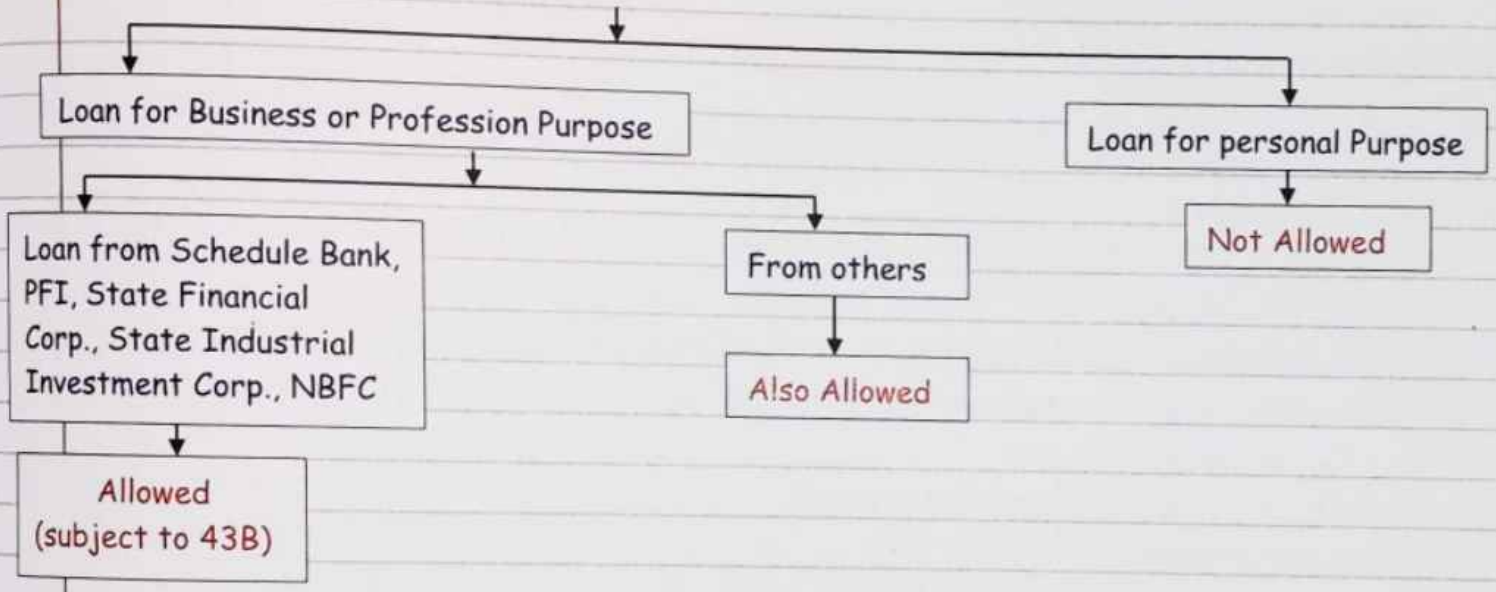
- **Sec. 36(1)(ib): Health insurance premium for employees**

  It is allowed as deduction if premium paid in any mode other than cash.

- **Sec. 36(1)(ii): Bonus or commission to employees**

  It is allowed as deduction subject to Sec. 43B. There is no restriction on the amount of bonus and it may exceed the bonus payable under the Payment of Bonus Act, 1965.

- **Sec. 36(1)(iii): Interest on Loan**



- **Sec. 36(1)(iiia): Discount on Zero Coupon Bonds (ZCB)**

Pro-rota amount of discount shall be amortized over the life (calendar months) of ZCB.

Example:

KRK Ltd issued 1,00,000 ZCB on 06/12/25 @ ₹ 80. Face value of bond is ₹ 100. ZCB redeemable after 10 months. Compute deduction allowed for P.Y. 2025-26

Solution: Total Discount = 1,00,000 x 20 = ₹ 20,00,000

$$\text{Monthly Discount} = \frac{20,00,000}{10 \text{ months}} = 2,00,000 \text{ p.m}$$

Discount for P.Y. 2025-26 = ₹ 2,00,000 x 4 months (Dec. 25 to March 26) = ₹ 8,00,000

Note: If any calendar month part is 15 days or more, it shall be increased to one calendar month & if such part is less than 15 days it shall be Ignored.

Suppose in above example if ZCB issued on 16/12/25 then we will take 11 calendar months because period is 15 days, or more in the month of issue and redemption.

Monthly discount = $\frac{20,00,000}{11 \text{ months}}$ = 1,81,818

Deduction for PY 25-26 = 1,81,818 x 4 months = ₹ 7,27,273

➢ Sec. 36(1)(iv)/(v) Employer's contribution for the benefit of the Employee

- Statutory Provident fund(SPF)
- Recognized Provident fund(RPF)
- Approved Super annuation fund(ASF)
- Approved Gratuity fund(AGF)
- Any other fund as per law

↓

Allowed (subject to 43B)

- Unrecognized Provident fund (URPF)
- Unapproved Super annuation fund (UASF)
- Unapproved Gratuity fund (UAGF)
- Any other fund

↓

Not Allowed

➢ Sec. 36(1)(iva): Employer contribution towards Pension scheme referred u/s 80CCD

Deduction allowed to employer [Subject to sec 43B]

(i) Actual contribution
(ii) 14% of salary [Basic +DA (Terms)]

Whichever is lower.

➢ Sec. 36(1)(va): Employees contribution towards welfare fund

Any sum received by Employer from Employee as contribution to PF, super annuation fund, ESI etc. is deemed to be PGBP if such sum is not deposited in respective fund up to the due date to such fund.

Notes:

1. PF due date is 15th of next month.
2. If any amount deposited after due date of fund, then it will be treated as PGBP income of employer and never be allowed to employer.

➢ Sec. 36(1)(vi): Animals used in Business (other than SIT)

Deduction is allowed in the year in which such animal become permanently useless or died.

Deduction = Cost of animal - scrap value

Note: Depreciation u/s 32 not allowed on animal.

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➢ Sec. 36(1)(vii): Bad debts

- Actual Bad debts
  - Related to Sales → Allowed
  - Related to Loan → Not Allowed Except - Money Lending Business
- Provision for Bad debts → Not Allowed

Notes:

1. Bad debts should be written off in the books of A/c's of Assessee in the P.Y. in which deduction is claimed.
2. The debt should have been taken into account for computing income for P.Y. or earlier P.Y.
3. No need to prove that the debts have become bad.
4. Where the amount of such debt has been taken into account in computing the income for PY or earlier PY (on the basis of ICDSs without recording the same in the accounts), Such debt shall be allowed in the PY in which such debt becomes bad and it shall be deemed that such debt has been written off as irrecoverable in the accounts.

♦ Sec. 41(4): Bad-Debts Recovery

Where deduction has been allowed in respect of bad debts, recovery shall be taxable as PGBP in the year of recovery. This shall apply even if the business or profession is not in existence in the PY in which recovery has been made.

Bad debt claimed = 100

- Allowed = 100 → Any Recovery → Taxable
- Allowed = 60, Disallowed = 40
  - Recovery = 50
    - Recovery 50
    - Disallowance earlier (40)
    - 10 → Taxable
  - Recovery = 30
    - Recovery 30
    - Disallowance earlier (40)
    - (10) → Deduction allowed

➢ Sec. 36(1)(ix): Expenses on Promotion of Family Planning of employees

Assessee: Only Company

Revenue Exps: 100% deduction allowed

Capital Exps: Allowed in 5 equal Instalments

➢ Sec. 36(1)(xv)/(xvi): Securities Transaction Tax (STT)/Commodities Transaction Tax (CTT)

It is allowed as deduction if assessee held shares /Units/Commodities as stock -in-trade.

Sec 37: General Deduction

Any expenditure [other than covered u/s 30 to 36] shall be allowed as deduction if following conditions are satisfied:

1. Expenses should be incurred Wholly or Exclusively for the purpose of Business or Profession.
2. Expenses should be Revenue in nature.
3. Expenses should be Legal (It should not be illegal like Hafta, Bribes, secret commission, etc.)

Explanation - Following expenses treated as illegal and not allowed as deduction

- ➢ For any purpose which is an offence or prohibited by any law in India or outside India; or
- ➢ To provide any benefit or perquisite to a person, whether or not carrying on a business or profession & acceptance of such benefit/perquisite is in violation of any law or rule or regulation or guideline governing the conduct of such person (free samples to Dr.); or
- ➢ To compound an offence under any law for the time being in force, in India or outside India.
- ➢ To settle proceedings initiated in relation to contravention under such law as may be notified by the Cen. Govt.

➢ Corporate social Responsibility (CSR) expenses

It is not treated as Business expense, so not allowed.

➢ Allowability of some expenses -

(a) Advertisement in brochure, souvenir, newspaper, pamphlet published by political party - Not allowed

(b) Gift to employee - Allowed

(c) Customary expenses (Puja at the time of new year, Diwali) - Allowed

(d) Expenses incurred by CA' s for attending CPE seminars - Allowed

(e) Dividend - Not Allowed

(f) Taxes, Interest & Penalties

	Tax	Interest	Penalty
Direct Tax (Tax ,Surcharge & Cess.)	Not Allowed	Not Allowed	Not Allowed
Indirect Tax (GST)	Allowed	Allowed	Not Allowed

Subject to Sec 43B



- Penalty of Breach of law - Not Allowed
- Breach of Contract (Contract of Revenue Nature) - Allowed

(g) Freebies (gifts, travel facility) provided by Pharmaceutical company to doctors - illegal expenses - Not allowed.

(h) Interest on loan taken for payment of income tax - Not allowed

(i) Premium paid by the firm on the Keyman Insurance policy of a partner- Allowed

Sec 40: Amount specifically Not deductible

- Sec. 40(a)(i): Payment made to Non-Resident

Amount paid or credited to Non-resident or foreign Co. & if:

a. TDS has not been deducted in P.Y. or,

b. TDS deducted but not paid to Govt up to due date of return filing,

- then such sum (100%) shall not be allowed as deduction in current P.Y.

- Sec. 40(a)(ia): Payment made to Resident

Any amount paid or credited to Resident & if :-

a. TDS has not been deducted in P.Y. or,

b. TDS deducted but not paid to Govt upto due date of return filing,

-then 30% of such sum shall not be allowed as deduction in current P.Y.

Notes:

1. If TDS deducted in subsequent year or deducted in P.Y. but paid to Govt. after due date of return filing then such sum (100% NR)/(30% Resident) shall be allowed as a deduction in the P.Y. in which such TDS has been paid to Govt.

2. Exception to Sec. 40(a)(ia) & 40(a)(i)

If any amount paid/credited to payee without deduction of TDS but such payee

- Furnishes his ROI.
- Takes into account such amount in total income.
- Has paid the tax due on such income
- Payer furnishes a certificate in FORM 26A from CA to this effect then it shall be deemed that the payer has deducted TDS & paid to Govt on date of furnishing of return by payee & deduction of such expenditure shall be allowed accordingly. [30%/100% disallowed in current year and will be allow in the year in which payee file his ROI]

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➢ Sec. 40(a)(iii) TDS on salary payable outside India or NR

Any salary payable outside India or to NR in India and if:

a) TDS not deducted or,

b) TDS deducted but not paid to Govt upto due date of TDS payment,

- then such sum shall not be allowed as deduction.

Note: If TDS deposited late even by one day, the salary shall not be allowed as deduction.

➢ Sec. 40(a)(v) Tax on Non-Monetary Perquisite

If employer offers some Non-Monetary perquisite to the employee, then tax on such Non-Monetary perquisite is the responsibility of the employee. But instead of employee, if employer decides to pay tax on such Non-Monetary perquisite from his pocket, then that Tax is Not Allowed as deduction because its Exempt in hand of Employee u/s 10(10CC).

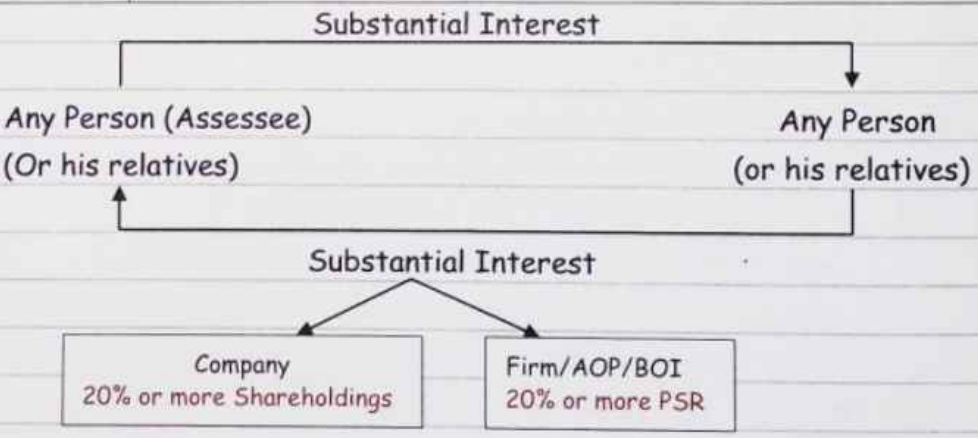
Sec 40A(2): Payments to specified Persons (Relatives)

If payment of expenditure made to relative then A.O can disallow excessive or unreasonable amount.

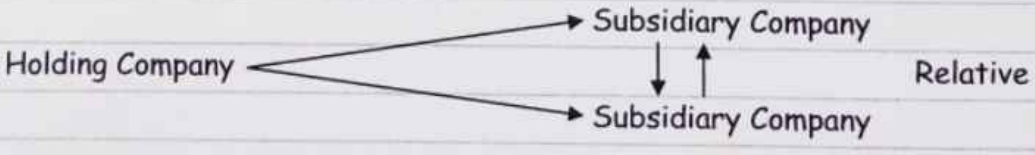
➢ Specified Person (Relatives) for Sec 40A(2)

Assessee	Relatives
1. Individual	S, M, F, B, S, LA, LD
2. HUF	Members & their Relatives
3. FIRM/LLP	Partners & their Relatives
4. Company	Directors & their Relatives
5. AOP/BOI	Members & their Relatives

6.



7.





Sec 40A(3): Cash payment > ₹ 10,000 to single person in a single Day

If assessee makes payment for any expenditure to any single person otherwise than by A/c Payee Cheque or Demand Draft or which is more than ₹ 10,000 in a single day then such expenditure shall be disallowed.

Notes:

1. If payment made to transporter then limit is ₹35,000.
2. If the expenditure is claimed as deduction in earlier year on accrual basis & if such expenses is subsequently paid in cash or bearer cheque then deduction allowed earlier shall be withdrawn & taxable as PGBP [40A(3A)].
3. If expenditure paid by Cross cheque then also deduction not allowed.

➢ Exceptions of Sec. 40A(3) [Rule 6DD]

1. Payment made to RBI/LIC/Banks/Govt.
2. Payment made through NEFT/RTGS/Debit card /ECS /credit card/UPI/ BHIM.
3. Payments by book entry (adjustment).
4. Payment to producers of agriculture product, forest product, poultry product, fish product, live-stock etc.
5. Payment of Retirement benefits, provided such payment is upto ₹ 50000.
6. Payment of salary to an employee who is posted to any other place or ship for 15 days or more other than his normal place of duty.
7. Payment made where Banking facility not available.
8. Payment is made by any person to his agent who is required to make payment in cash for goods or services on behalf of such person.
9. Payment is made by an authorised dealer or a money changer against purchase of foreign currency or travellers cheques in the normal course of his business.
10. Payment for purchase of product manufactured or processed without aid of power in a cottage industry, to the producer of such product.

Sec 40A(7): Provision of Gratuity - Not Allowed

Only payment to Approved Gratuity Fund or provision for gratuity actually become payable during the P.Y. (due basis) is allowed as deduction.

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Sec 43B: Expenses allowed on Payment Basis

Following expenses [except point (h)] are allowed only if they are actually paid upto the due date of return filling as per Sec. 139(1)

(a) Any tax, Duty, Cess & Fees

(b) Employer's contribution towards SPF, RPF, Approved Gratuity Fund, Approved Super Annuation Fund, New pension scheme, any fund as per Law

(c) Bonus or Commission to Employees

(d) Interest on loan to any PFI, State Financial corp, state industrial Investment Corp, scheduled Banks [scheduled bank include co-operative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank]

(e) Leave encashment (Leave salary) to employees

(f) Any sum payable to Indian railways for use of Railway Assets.

(g) Interest on any loan or borrowing from such class of NBFC as may be notified by CG.

(h) Any sum payable by the assessee to a micro or small enterprise beyond the time limit specified in sec. 15 of the Micro, Small and Medium Enterprises Development Act, 2006. (refer note 3)
[Added by FA 2023 w.e.f. AY 24-25]

Note: If payment (a to g) made after due date of return filing & payment (h) made after time limit of MSMED Act, then such expenses shall be allowed in the year of actual payment.

Notes:

1. Where the interest payable on loans has been converted into a loan or borrowing, it shall not be deemed that the interest is paid off. Interest shall only be allowed as deduction in the PY in which such instalments are paid.
2. If interest payable on loan is converted into debenture or any other instrument by which the liability to pay is deferred to a future date shall not be treated as actual payment.
3. Any payment made to Micro & Small enterprise allowed as deduction in current year if payment made within time allowed u/s 15 of MSMED Act otherwise allowed in the year of Actual Payment.
4. Time Limit as per Sec 15 of MSMED Act: Where any person purchases goods/services, from a micro/small enterprise, the payment shall be made before the date agreed upon between him and supplier in writing. In no case the period agreed upon between the supplier and the buyer in writing shall more than 45 days. If, however, there is no such agreement, the payment shall be made within 15 days of acceptance or deemed acceptance of goods/services.

	Micro Ent.	Small Ent.
Investment in P&M or equipment's, and	Upto ₹ 2.5 crore	Upto ₹ 25 crore
Turnover	Upto ₹ 10 Crore	Upto ₹ 100 crore



Example-1: BB Ltd. purchased goods from DB Ltd (a small enterprise as per MSME Act) for ₹ 15,00,000 on 2nd March 26. As per written agreement payment is to be made upto 30th April 26. However payment is made as follows;

- 2,00,000 paid on 30th March 26
- 4,00,000 paid on 6th April 26
- 3,00,000 paid on 15th April 26
- 6,00,000 paid on 6th May 26

Soln

Date of acceptance of goods is 2nd March 26. Due date for payment as per MSMED Act is 16th April 26 (i.e., the agreed date of payment or 45 days, whichever is earlier).

Deduction will be available to BB Ltd. as follows-

Amount ₹	Payment date	Due date as per MSMED Act	Payment made before due date ?	Basis of Deduction	PY in which exps allowed
2,00,000	30th March 26	16th April 26	Yes	Accrual	PY 25-26
4,00,000	6th April 26	16th April 26	Yes	Accrual	PY 25-26
3,00,000	15th April 26	16th April 26	Yes	Accrual	PY 25-26
6,00,000	6th May 26	16th April 26	No	Payment	PY 26-27

Example-2: Suppose in example-1 there is no agreement about the time of payment

Date of acceptance of goods is 2nd March 26. Due date for payment as per MSMED Act is 17th March 26 (i.e., 15 days of acceptance of goods).

Amount ₹	Payment date	Due date as per MSMED Act	Payment made before due date ?	Basis of Deduction	PY in which exps allowed
2,00,000	30th March 26	17th Mar. 26	No	Payment	PY 25-26
4,00,000	6th April 26	17th Mar. 26	No	Payment	PY 26-27
3,00,000	15th April 26	17th Mar. 26	No	Payment	PY 26-27
6,00,000	6th May 26	17th Mar. 26	No	Payment	PY 26-27

Sec 43A: Asset acquired from foreign country

If any asset is acquired from a foreign country through a loan in foreign currency or foreign suppliers credit, any loss/gain arising at the time of payment shall be adjusted within the Block of asset.

Notes:

1. Adjustment is made only at the time of actual payment of foreign loan or supplier's credit.
2. If there is gain then reduce from block of asset & if there is loss then added to the block.

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Sec 41: Deemed PGBP

➢ Sec. 41(1) Recovery against any deductions already claimed

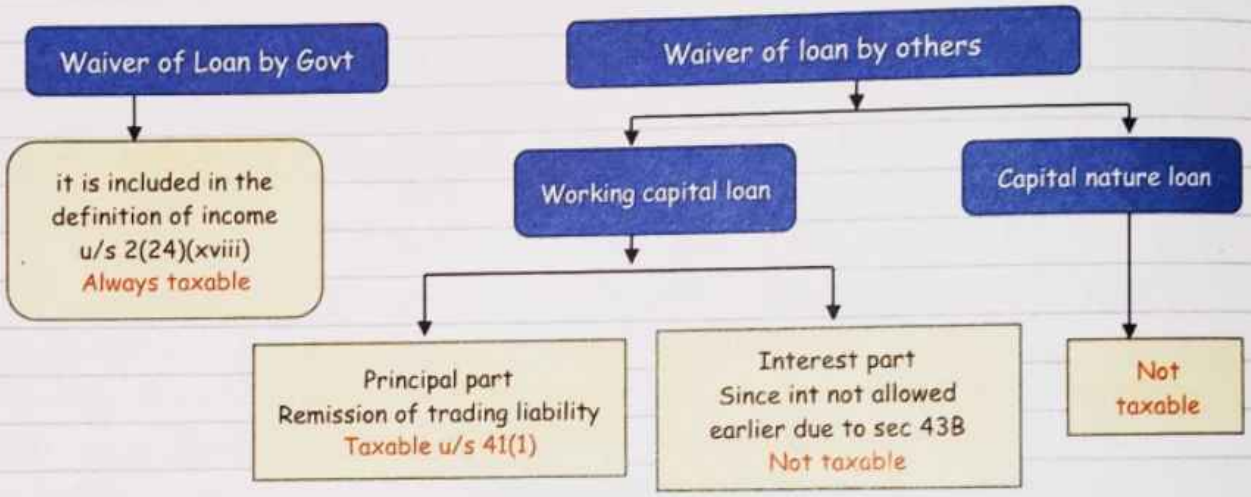
If Assessee was allowed a deduction in earlier P.Y. by way of expenditure, loss, trading liability & now during the current P.Y. assessee has obtained a refund of such liability or there is remission/cessation of such trading liability, then such refund /remission shall be taxable under PGBP.

Example:

a) Sales Tax/GST Refund

b) stock in trade is destroyed by fire & allowed as trading loss & later on insurance compensation is received by assessee.

Waiver of loan



➢ Sec. 41(3): sale of Scientific Research Assets

Sale without use in Business	Sale after use in Business
(i) Sale price (ii) Deduction already claimed u/s 35(1)(iv) Whichever is lower ↓ Taxable as PGBP If SP> Cost then capital gain also arise.	(a) Add to Block of asset Actual cost =Nil Expln 1 of Sec. 43(1) (b) at the time of sale Sec. 50 will apply [full block /part block sold]

➢ Sec. 41(2): Balancing charge

Already discussed with the power units depreciation.

➢ Sec. 41(4): Recovery of Bad debts.

Recovery amount shall be taxable in the year in which it is recovered.

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Sec 44AA: Compulsory maintenance of books of accounts

A. Specified Profession: In case of specified profession, if Gross Receipt is more than ₹ 1,50,000 in all 3 years preceding the PY or likely to exceed if the profession is newly setup then, assessee is required to maintain books of accounts as per Rule-6F, otherwise he is required to maintain such books of accounts or documents from which AO is able to complete the assessment.

Specified profession:

1. Medical
2. Engineering
3. Technical consultant
4. IT professional
5. Accountancy
6. Company secretary
7. Legal
8. Authorised representative
9. Architect
10. Interior decorator
11. Film artists

Prescribed books as per Rule 6F:

1. Cash book
2. Journal (in case of mercantile system)
3. Ledgers
4. Carbon copies of bills issued by the assessee serially numbered for an amt > ₹ 25.
5. Original bills issued to the assessee for expenditure > ₹ 50.
6. In case of medical profession, additional books i.e. daily case register and inventory register has to be maintained.

B. Other Assessee (Business): In case of other assessee, if PGBP is more than ₹ 1,20,000/- or Total Sales /Gross receipt is more than ₹ 10,00,000/- in any of the 3 years preceding the PY or likely to exceeding in case of newly setup business/profession, then assessee is required to maintain any books of accounts or documents from which AO is able to complete the assessment otherwise the assessee is not required to maintain any books of accounts.

However, in case of Individual & HUF, limit will be ₹2,50,000 for PGBP and ₹ 25,00,000 for Turnover or Gross Receipts.

C. Special Cases:

- Assessee declared lower income u/s 44AD/44ADA and NTI > Basic exemption.
- Assessee claiming lower income u/s 44AE

Notes:

- Period: The prescribed BOA shall be kept and maintained for a period of 6 years from the end of the AY.
- Penalty u/s 271A: Failure to maintain BOA shall attract a penalty of ₹ 25,000.

Sec 44AB: Compulsory Audit of books of accounts

Following persons are required to furnish audit report by 1 month before the due date of filing ROI u/s 139(1) in a prescribed form (3CA/3CB/3CD):

A	B	C
Specified profession	Business	Special Cases
G.R > ₹ 50 Lac	T.O./G.R. > ₹ 1 crore	• Assessee claiming lower income u/s 44AD or 44ADA and NTI > Basic exemption • Assessee claiming lower income u/s 44AE
	In case of business, T.O. Limit shall be ₹ 10 crores instead of ₹ 1 crore if: i) *Cash receipts out of total receipts is upto 5% during the PY and ii) *Cash payment out of total payments is upto 5% during the PY.	

*cheque/DD, which is not account payee, shall be treated as Cash

➢ Non-applicability of Sec 44AB: Person declaring income u/s 44AD or 44ADA.

➢ Penalty u/s 271B: if assessee fails to get accounts audited:

(i) 0.5% of T.O. or G.R. or
(ii) ₹ 1,50,000
Whichever is lower

Sec 44AD: Profit & Gains of Business on Presumptive Basis

a) Eligible Assessee: Resident Individual/Resident HUF/ Resident Firm (excluding LLP) who has not claimed dedn u/s 10AA or 80IA to 80RRB.

b) This section is applicable for any Business except
- Sec. 44AE Business,
- Agency Business,
- Commission & Brokerage business;

and Turnover/Gross Receipts is upto ₹ 2 crore.

Note: Where the amounts received during the PY in *cash does not exceed 5% of the total turnover or gross receipts of such PY then limit of T/o ₹ 3 crore apply instead of ₹ 2 crore.

[Amended by FA 2023 w.e.f. AY 24-25]

*cheque/DD, which is not account payee, shall be treated as Cash

c) Presumptive PGBP income= Turnover/Gross receipt x 8%

"If Turnover/ Gross Receipts realized by Account Payee Cheque/DD/ ECS upto due date of Return Filing then PGBP = T/O x 6 %"



d) If assessee declares income as per Sec. 44AD or higher income and whose T/O is up to 2Cr/3Cr then assessee is not required to maintain books of account & get it audited.

e) If assessee declares income for any P.Y as per 44AD & he doesn't declare income as per 44AD in any of the five consecutive P.Y.s, then he shall not eligible to claim benefit of sec. 44AD for 5 years subsequent to the year in which assessee did not declare income as per Sec. 44AD.

f) If point (e) is applicable & NTI of assessee is more than basic exemption then assessee is required to maintain books of accounts & get it audited.

Example:

Let us consider the following particulars relating to an resident individual, Mr.A being an eligible assessee whose Turnover do not exceed ₹ 2 crore in any of the AY's between A.Y. 24-25 to A.Y. 26-27.

Particular	AY 24-25	AY 25-26	AY 26-27
Total T/o (All Cash)	1,80,00,000	1,90,00,000	2,00,00,000
Income offered for tax	14,40,000	15,20,000	10,00,000
% of Gross receipts	8%	8%	5%
Offered income as per 44AD	Yes	Yes	No

In the above case Mr. A an eligible assessee, opts for presumptive taxation u/s 44AD for A.Y. 24-25 & A.Y. 25-26. However, for A.Y. 26-27, he offers income of only ₹ 10 lakh on turnover of ₹ 2 crore, which amounts to 5% of his gross receipts. He has to maintains books of accounts u/s 44AA & gets the same audited u/s 44AB. Since he has not offered income is accordance with the provisions of Sec. 44AD, for five consecutive A.Y. after A.Y. 24-25, he will not be eligible to claim the benefit of Sec. 44AD for next five AY succeeding A.Y. 26-27 i.e. from A.Y. 27-28 to 31-32.

Sec 44ADA: Profit & Gains of profession on Presumptive Basis

a) Eligible Assessee: Resident Individual or resident firm (excluding LLP) engaged in profession as referred in Sec.44AA.

b) This section is applicable if Gross Receipt is upto ₹ 50 lakhs.

c) PGBP Income = Gross receipt x 50%.

Note: Where the amounts received during the PY in *cash does not exceed 5% of the gross receipts of such PY then limit of GR ₹ 75 lakhs apply instead of ₹ 50 lakhs.

*cheque/DD, which is not account payee, shall be treated as Cash

d) If assessee declares income as per Section 44ADA or higher then, he is not required to maintain books of accounts & get it audited.

e) If assessee declares income lower than 50% & his NTI is more than basic exemption he is required to maintain books of A/ cs & get it audited.

➢ Common notes for 44AD and 44ADA

1. Deduction u/s 30-38 shall not be allowed. (Assume its deemed to be already allowed).
2. WDV is to be calculated considering notional dep every P.Y.
3. Partners' remuneration & interest are not allowed from deemed PGBP.
4. 100% Advance Tax can be paid by 15th march of P.Y.

Sec 44AE: Profit & Gains of Transporter on Presumptive Basis

If assessee engaged in the business of plying, hiring, leasing such goods carriage then PGBP will be-

- ➢ Heavy goods Vehicle: ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, for every month or part of a month
- ➢ Other Vehicle: ₹ 7,500 for every month or part of a month

Notes:

1. The assessee can also declare a higher amount in his return of income. In such case, the latter will be considered to be his income.
2. This section is applicable if assessee owns Max 10 vehicles. If assessee owns more than 10 vehicles at any time during the P.Y. then this section shall not apply.
3. Income calculated even vehicle not put to use but own by assessee.
4. Partners remuneration, salary, interest etc as per 40(b) shall be deductible while computing income u/s 44AE
5. Heavy goods vehicle means any goods carriage, the Gross Vehicle Weight of which exceeds 12,000 kilograms (12 tons)
6. As per CBDT clarification we have to consider Gross Vehicle Weight (GVW) for calculating income however if GVW not available then we have to consider unladen weight.
7. Assessees opting for presumptive taxation are not required to maintain books of account as per Sec 44AA or get them audited u/s 44AB. However, where an Assessee wishes to declare income lesser than as computed u/s 44AE, he is required to mandatorily maintain books of account and get the same audited.
8. Deduction u/s 30-38 shall not be deemed. (Assume its deemed to be already allowed).
9. WDV is to be calculated considering notional dep every PY.



Sec 40(b): Payment of Interest, Bonus, Commission or Remuneration

Interest & Remuneration paid by Firm/LLP is allowed as deduction if following conditions are satisfied :

1. Remuneration paid to only Working Partner.
2. Remuneration & Interest should be authorised by Partnership deed.
3. Remuneration & Interest should relate to period falling after the date of Partnership deed. That means it should not be retrospective.
4. Interest on partner's capital & loan allowed max@ 12% p.a. simple interest.
5. Remuneration allowed on Book profit basis *

* Book Profits (BP)

On first ₹ 6,00,000 of BP		On Balance Book Profit	
(a) BP x 90%	xxx	Book Profit x 60%	xxx
(b) ₹ 3,00,000	xxx		
Whichever is higher			

❖ Meaning of Book Profit

	₹
Net Prof it under PGBP	xx
(-) Current year + b/f deprecation	xx
	xx
(+) Remuneration (if it is debited to P&L A/c)	xx
Book Profits	xx

In simple terms: Book Profit means PGBP before Remuneration.

❖ Explanation to see 40(b)

1. If any individual is a partner in a Firm on Individual capacity & receiving interest on Representative's capacity, then sec 40(b) not applicable on such interest.
2. If any individual is a partner in a Firm on Representative's capacity & receiving interest on Individual capacity, then sec 40(b) not applicable on such interest.

Summary

Partner on	Interest Recd. on	Treatment
Individual Capacity	Individual Capacity	Max. 12% interest allowed as per 40(b)
Representative Capacity	Representative Capacity	Max. 12% interest allowed as per 40(b)
Individual Capacity	Representative Capacity	Limit of Sec. 40(b) Not applicable so even interest more than 12% allowed
Representative Capacity	Individual Capacity	Limit of Sec. 40(b) Not applicable so even interest more than 12% allowed

Note: The above explanation is applicable only for Interest. If any individual is partner representative capacity or individual capacity and received any remuneration then on su remuneration limit of section 40(b) shall apply.

➢ Sec 145(1) Method of Accounting

For PGBP & IFOS assessee can follow mercantile or cash system.

➢ Format to Solve PGBP Question as per Indirect Method under default Tax Regime u/s 115BAC

Particular	Amount	Amount
Net profit as per statement of profit and loss		A
Add: Exps. dr to P&L but Disallowed		
✓ Depreciation as per books of account	xx	
✓ Income-tax [disallowed u/s 40(a)(ii)]	xx	
✓ 30% of sum payable to residents on which TDS is not deducted or has not been paid on or before the due date u/s 139(1), disallowed under section 40(a)(ia) [The same is allowable in the year in which the tax is deducted and remitted]	xx	
✓ Any expenditure incurred, in respect of which payment is made for goods, services or facilities to a related person, to the extent the same is excessive or unreasonable, in the opinion of the A.O.[disallowed u/s 40A(2)]	xx	
✓ Any expenditure incurred in respect of which payment or aggregate of payments to a person exceeding ₹ 10,000 in a single day is made otherwise than by way of A/c payee cheque/bank draft/ ECS (debit card, credit card, Net banking, RTGS, NEFT, IMPS, BHIM Aadhar Pay) [disallowed u/s 40A(3)]	xx	
✓ Certain sums payable by the assessee which have not been paid during the relevant P.Y. in which the liability was incurred on or before the due date for filing return u/s 139(1) in respect of that P.Y. [disallowed u/s 43B]	xx	
✓ Sum payable by the assessee to a micro or small enterprise beyond the time limit u/s 15 of MSME Development Act, 2006 [disallowed u/s 43B]	xx	
✓ Personal expenses [not allowable as per section 37]	xx	
✓ Capital expenditure [not allowable as per section 37]	xx	
✓ Repairs of capital nature [not allowable as per Sections 30 & 31]	xx	
✓ Amortization of preliminary expenditure u/s 35D/ expenditure incurred under voluntary retirement scheme u/s 35DDA [4/5th of such expenditure to be added back]	xx	
✓ Family planning expenses not allowable in the case of a person other than a company	xx	
✓ Fine or penalty paid for infringement or breach of law [However, penalty in the nature of damages for delay in completion of a contract, being compensatory in nature, is allowable]	xx	
✓ All expenses related to income which is not taxable under this head e.g. municipal taxes in respect of residential house property	xx	
✓ Any sum paid by the assessee as an employer by way of contribution to pension scheme u/s 80CCD exceeding 14% of the salary of the employee	xx	B
(A + B)		C



Less: Expenditure allowable as deduction but not debited to statement of profit and loss (Allowed) ✓ Depreciation computed as per Rule 5 of Income-tax Rules, 1962 ✓ 30% of expenditure disallowed in an earlier P.Y. due to non-deduction of tax at source/ non-remittance before due date u/s 139(1) of that year, allowed this year on remittance (This item of adjustment is generally given under "Additional information" in the question) ✓ Amount disallowed in an earlier P.Y. as per section 43B, due to non-payment on or before due date u/s 139(1), allowed as deduction in this year on actual payment (This item of adjustment is generally given under "Additional information" in the question)	xx xx xx	D
C - D		E
Less: Income credited in statement of profit and loss but not taxable/taxable under any other head ✓ Dividend income ✓ Agricultural income exempt under section 10(1) ✓ Interest on securities/savings bank account/FD taxable under the head "Income from other sources" ✓ Profit on sale of capital asset taxable under the head "Capital Gains" ✓ Rent from house property taxable under the head "IFHP" ✓ Winnings from lotteries, horse races, games etc. taxable under the head "IFOS" ✓ Gifts exempt or taxable under the head "IFOS" ✓ Income-tax refund not taxable ✓ Interest on income-tax refund taxable under the head "IFOS"	xx xx xx xx xx xx xx xx xx	F
(E - F)		G
Add: Income chargeable under this head/Deemed Income [If the same is given as additional information and has not already been credited to Statement of Profit & Loss] ✓ Salary, remuneration, interest received by a partner from the firm, to the extent the same is deductible in the hands of the firm as per section 40(b) ✓ Bad debt allowed as deduction u/s 36(1)(vii) in an earlier P.Y., now recovered [deemed as income u/s 41(4)] ✓ Remission or cessation of a trading liability [deemed as income u/s 41(1)]	xx xx xx	H
PGBP (G + H)		I

Note: When assessee opted section 115BAC then following deduction not allowed

- Additional Depreciation
- Donation u/s 35(1)(ii)/(iii)/(iia)/35(2AA)
- Deduction u/s 35AD

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6 Capital Gain



Sec. 45(1): Charging Section

Any profit and gain arising from Transfer of a Capital Asset shall be chargeable under the head capital gain in the P.Y. in which transfer took place.

Sec. 2(14): Capital Asset

Capital Asset means-

A) Property of any kind held by assessee, whether or not connected with business or profession.

B) Any Securities held by a Foreign Institutional Investor (FII).

But Capital Asset does not include (excludes)

(i) Stock in trade (RM/WIP /FG).

(ii) Movable personal asset (used by assessee or dependent family member for personal purpose).
But Excludes: Jewellery, Drawings, Paintings, Sculpture, Archaeological Collection, or Any other work of Art.

(iii) Rural Agricultural Land in India.

(iv) Gold Deposit Bonds, 1999 or Deposit Certificates issued under the Gold Monetisation Scheme, 2015.

← Interest on Instrument also exempt u/s 10(15)

Notes:

1. Assets used for personal purpose of assessee :-
   - ⇒ T.V.,Car, Mobile etc - Not a Capital Asset - CG not Applicable
   - ⇒ Jewellery, Drawings, Paintings - Capital Asset - CG Applicable
2. Gold Utensils, Silver Bars, Silver Coins were held not to be Consider as Personal Effect - Capital Gain Applicable (Maharaja Rana Hemanth Singh)
3. Silver Utensils held to be Personal Effect - No Capital Gain (Benarshilal Kataruka)
4. Car used in the business treated as capital asset.
5. Jewellery means:
   a.) Ornaments made of gold, silver, platinum or other precious metal or alloy containing such metals.
   b.) Precious stones whether or not set in any furniture, utensil or other article.
6. Definition of Urban Area
   a) Any area (municipality, cantonment board etc) which has a population of 10000 or more.
   b) In the following area within the distance, measured aerially

Shortest distance from area referred in point (a)	Population according to last census
upto 2kms	>10,000 upto 1,00,000
upto 6kms	>1,00,000 upto 10,00,000
upto 8kms	>10,00,000



Rural Area Means Area Which is Not a Urban Area.

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Sec. 2(47): Transfer

'Transfer' includes

(i) The sale, exchange or relinquishment of the asset, or

(ii) The extinguishment of any right there in, or

(iii) Compulsory acquisition there of under any law, or

(iv) Conversion of capital asset into stock in trade, or

(v) Allowing the possession of any immovable property to be taken or retained in part performance of a contract.

(vi) Any transaction (like becoming a member of, or acquiring shares in a Co. operative society) which has the effect of transferring or enabling the enjoyment of immovable property.

(vii) The redemption of Zero-Coupon Bonds (ZCB)

Types of Capital Asset

- Short Term Capital Asset (STCA) → STCG
- Long Term Capital Asset (LTCA) → LTCG

Capital Asset		Period of Holding
Part: A	➢ Security listed in recognised stock exchange of India ➢ Unit of UTI ➢ Unit of Equity oriented Mutual Fund ➢ ZCB	1 Year
Part: B	➢ Any other Asset	2 Years

If any asset held for more than 1/2 years then it is treated as LTCA otherwise STCA.

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Yes People!

Sec. 48: Computation of Capital Gain

Particular	Amount
Full value of consideration (FVOC)	xx
(-) Expenses incurred in connection of transfer	(x)
Net Consideration	xx
Less: Cost of Acquisition (COA)	(x)
Cost Of Improvement (COI)	(x)
Capital Gain	xx

Proviso added by FA- 23: Provided that the COA or COI shall not include the deductions claimed in respect of interest u/s 24(b) or under the provisions of Chapter VI-A.

♦ Second proviso (exception) to section 48: Indexation [Not applicable w.e.f. 23rd July, 2024]

In case of LTCA (long term capital asset) COA & COI should be indexed:

a) ICOA:

$$COA \times \frac{\text{CII of the year of Transfer}}{\text{CII for the first year in which asset was held by assessee or for the year 01-02, whichever is later}}$$

b) ICOI

$$COI \times \frac{\text{CII for the year of transfer}}{\text{CII for the year in which the improvement to the asset took place}}$$

Cost Inflation Index (CII)

FY	C.I.I.	FY	C.I.I.	FY	C.I.I.
2001-02	100	2010-11	167	2019-20	289
2002-03	105	2011-12	184	2020-21	301
2003-04	109	2012-13	200	2021-22	317
2004-05	113	2013-14	220	2022-23	331
2005-06	117	2014-15	240	2023-24	348
2006-07	122	2015-16	254	2024-25	363
2007-08	129	2016-17	264	2025-26	376
2008-09	137	2017-18	272		
2009-10	148	2018-19	280		

Note: From July 23, 2024, indexation benefits are not available on the transfer of long-term capital assets, regardless of the holding period.

Note: Site (land) and Building are separate assets for the purpose of capital gain. If site acquired before 2 years and building constructed within 2 years then we have to calculate separate capital gain for both the assets. Capital gain on land is treated as L TCG and on building treated as STCG.

c) Asset acquired before 01/04/2001:

COA = Actual cost or FMV as on 1/4/01, whichever is higher

Note: In case of immovable properties if Stamp Duty Value (SDV) as on 01.04.2001 available then FVM as on 01.04.2001 should not be more then SDV as on 01.04.2001.

COA = ↑ a) Actual Cost of Asset			xx
↑ b) ↓	(i) FMV as on 01/04/01	xx	
	(ii) SDV as on 01/04/01	xx	xx

d) Improvement done before 1/4/2001 - Should be ignored.

◆ First proviso to section 48: Capital Gain in case of Non-Resident

- NR Assessee (include foreign company);
- Asset being Shares & Debenture of Indian Company;
- Such asset acquired in foreign currency by way of purchase or reinvestment;
- then capital gain shall be calculated in foreign currency & after that it shall be reconverted into Indian currency.

Rule 115A: Method of Conversion	
COA	Avg. of TTBR & TTSR on the date of Acquisition
FVOC & Transfer Exps.	Avg. of TTBR & TTSR on the date of Transfer
CG into Indian currency	TTBR on the date of Transfer

Notes: 1. Assessee should be NR in the year of sale.
2. Index benefit not available where first proviso applies.

◆ Third proviso to section 48: First and second proviso NOT Applicable for computation of LTCG referred u/s 112A.

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- Seventh proviso to Section 48: Security Transactions Tax (STT) not Allowed

STT paid on sale/purchase of shares/unit shall not be allowed under capital gain.

If it is paid at the time of Sale - Not treated as transfer expense

If it is paid at the time of Purchase - Not added to the cost of acquisition

Sec. 55: Cost of Acquisition and Improvement

- Cost of Acquisition (COA)

a) Goodwill or any other intangible asset of Business or Profession,

b) Trademark or Brand name associates with a business or profession,

c) Right to manufacture, produce, process any article or things (patent & copyright),

d) Right to carry on any Business or Profession,

e) Tenancy right, Loom hours, Route permits or any other right.

COA → Self-Generated → Always Nil

COA → Purchased → Purchase Price

Notes

1. Benefit of FMV as on 01/04/2001 NOT available in case of above assets.
2. In case of Goodwill, in respect of which depreciation has been claimed upto PY 19-20, the COA would be purchase price as reduced by depreciation claimed by the assessee.

- Bonus Shares & Security

If acquired before 01/04/2001 → FMV as on 01/04/2001

If acquired on or after 01/04/2001 → Nil

POH Case of Shares/Securities - from allotment date to transfer date.

Note: If sec. 112A apply & Bonus shares allotted before 01/2/18 then COA is FMV as on 31/1/18.

➢ Right Shares & Security

If acquired by shareholder
COA: Amount paid to Company
(POH- From allotment date)

Renouncement of Right
CG applicable

FVOC	Renouncement Price
COA	Nil
STCG	xxx

POH= From offer date to renouncement date

- In hands of purchaser of right
  COA: Amount paid to Company for shares + Amount paid for purchase of right
  POH: From date of allotment of shares

➢ Cost of Improvement (COI)

1. In case of goodwill or any other intangible asset of business, patent, copyright, right to carry on any business or profession or any other right - always Nil.
2. In case of other assets capital expenses incurred on improvement on or after 01/04/2001.

Exception of Section 45(1)

As per section 45(1), Capital Gain is chargeable to tax in the year of transfer but in the following cases Capital Gain is not taxable in the year of transfer:-

Sec 45(2): Conversion of capital Asset into Stock in Trade

Conversion of capital asset into stock-in-trade is treated as transfer, capital gain shall arise where an assessee converts capital asset into stock in trade.

Capital Gain shall be taxable in the year in which such stock in trade is sold.

Capital Gain	₹	PGBP	₹
FVOC (FMV on date of conversion)	xx	Sale Price of stock in trade	xx
(-) COA/ICOA	(x)	(-) FMV of Asset on date of conversion	(x)
(-) COI/ICOI	(x)		
STCG/LTCG	xx	PGBP	xx

➢ Amount recorded in books of accounts - Not Relevant

➢ FMV as on date of conversion - Relevant

Notes:

1. If any part of stock in trade is sold then only part capital gain shall arise in the year in which part stock-in-trade is sold.



2. In case of conversion of capital asset into stock and subsequent sale of stock, period of 6 months shall be calculated from date of sale of stock for the purpose of exemption u/s 54EC (CBDT Circular)

Conversion of Stock in Trade into Capital Assets

- Section 28(via): PGBP

The FMV of Inventory as on the date on which it is converted into capital asset shall be Taxable under PGBP.

- Section 49(9): Cost of Acquisition

For the purpose of computing capital gain COA of such asset shall be FMV Referred in sec. 28(via).

- Section 2(42A): Period of Holding

POH Shall be reckoned from the date of conversion into Capital Asset.

Note: In this case the PGBP taxable in the year of conversion of SIT into Capital asset and capital gain taxable in the year in which capital asset transferred but in section 45(2) conversion of capital asset into stock in trade, capital gain and PGBP both taxable in the year in which stock sold.

Section 45(5): Compensation on compulsory Acquisition under any Law

Normally capital gain is taxed in the year of transfer but in case of compulsory acquisition of capital asset, capital gain will be taxable in the year in which compensation is received.

For Initial Compensation	₹	For Enhanced Compensation	₹
FVOC (Initial Compensation)	xx	FVOC (Enhanced Compensation)	xx
(-) COA/ICOA	(x)	(-) Litigation Expenses	(x)
(-) COI/ICOI	(x)		
STCG/LTCG	xx	STCG/LTCG	xx

CBDT Clarification - Compensation received in respect of any award or agreement which has been exempted from levy of income-tax u/s 96 of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (RFCTLARR) shall also not be taxable under Income-tax Act, 1961

- If compensation received in instalment
  - Initial compensation → It will be taxable in the year in which first instalment is received
  - Enhanced Compensation → It will be taxable as & when received

- If any enhanced compensation is received due to the interim order of any court, then such compensation shall not be taxable in the year of receipt but shall be taxable in the year in which final order is passed by such court or other authority.

- Any interest received on late compensation shall be taxable under IFOS in the year of receipt & 50% deduction will be allowed u/s 57.

- Nature of Capital Gain of Enhanced compensation will be same as that of Initial compensation.

- If due to the death of transferor, the enhanced compensation is received by any other person. In that case, the enhanced compensation will be taxable under Capital gain of such other person.

- Any Capital Gains arising to an Individual or HUF on compulsory acquisition of urban agricultural land shall be exempt from tax provided such land has been used for agricultural purposes during the preceding 2 years by the Individual or his parents or by such HUF [Sec 10(37)].

Section 45(1A): Insurance Claims for Damage or Destruction of Capital Asset

Normally capital gain is taxed in the year of transfer but in case of destruction of capital asset, Capital gain will be taxable in the year in which insurance claim is received.

Capital asset is destroyed due to fire, flood, earthquake, tsunami, riot, civil disturbance, enemy action or any other natural calamity and insurance claim is received then capital gain is applicable.

- If no claim received, no capital gain shall arise.
- Computation of Capital Gain

Particular	₹
FVOC [Insurance claim (Money/ FMV of asset received as claim)]	xx
(-) COA/ICOA	(x)
(-) COI/ICOI	(x)
STCG/LTCG	xx

Summary

Section	Year of Transfer	Year of Tax	POH	FVOC
45(1A) Destruction of CA	Year of Destruction	Ins. Claim Recd.	Till date of destruction	Ins. Claim Recd.
45(2) Conversion of CA into SIT	Year of Conversion	Year in which SIT sold	Till date of conversion	FMV on the date of Conversion
45(5) Compulsory Acq. of CA	Year of compulsory Acq.	Compensation Recd	Till date of compulsory acq.	Compensation Recd.



Sec 50AA: Capital Gain in case of Debt. MF & Market linked Debentures

In Case of:

(a) unit of a Specified Mutual Fund acquired on or after 1st April, 23 or a Market Linked Debenture (MLD); or

(b) unlisted bond or an unlisted debenture which is transferred or redeemed or matures on or after the 23rd July, 2024,

the capital gain shall be calculated as follows & it is always STCG.

Computation of Capital Gain	₹
FVOC on transfer, redemption or maturity	xx
Less: Transfer Expenses	(x)
Net Consideration	xx
Less: Cost of Acquisition	(x)
STCG	xx

Notes:

1. STT not allowed while calculating capital gain.
2. In this case capital asset deemed to be STCA & CG STCG, so index not allowed.
3. "MLD" means a security which has an underlying principal component in the form of a debt security and where the returns are linked to market returns on other underlying securities or indices and include any security classified or regulated as a Market Linked Debenture by the SEBI;
4. "Specified Mutual Fund" means; -
   (a) Mutual Fund, which invests more than 65% of its total proceeds in debt and money market instruments; or
   (b) fund which invests 65% or more of its total proceeds in units of a fund referred to in sub-clause (a).

Percentage of equity shareholding shall be computed with reference to the annual average of the daily closing figures.

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Sec 50B: Slump Sale

Slump sale means transfers the entire undertaking or division for lumpsum consideration without assigning value/selling price of individual asset.

Computation of Capital Gain	₹
FVOC [FMV as per rule 11UAE] (Given in Question)	xx
Less: Transfer Expenses	(x)
Net Consideration	xx
Less: Cost of Acquisition (Net worth of Undertaking) (Note-1) [Index not allowed on COA]	(x)
STCG/LTCG	xx

Notes:

1. Computation of Net worth = Assets minus liabilities

	₹
Assets ➢ Depreciable Asset ➢ Other Assets	WDV as per Income Tax Book Value
Less: Liabilities	(Book Value)
Net worth	xxx

2. Revaluation of asset shall be ignored.
3. If Net-worth comes negative then, COA = Nil.
4. For computing net worth,
   - ➢ if asset (on which deduction u/s 35AD was claimed) - Value taken as Nil
   - ➢ Value of self-generated goodwill - Value taken as Nil
5. No Profit under PGBP shall arise even if stock is transferred in slump sale.
6. Nature of capital gain
   - ➢ If undertaking held for More than 3 Years - LTCG
   - ➢ If undertaking held for 3 Year or Less - STCG
7. Assessee shall furnish a CA report upto date of Audit u/s 44AB indicating the computation of the net worth, and certifying that the net worth, has been correctly arrived.
8. Rule 11UAE: FMV on the date of transfer (slump sale) shall be higher of FMV-1 or FMV-2
   - FMV-1 : FMV of Undertaking transferred
   - FMV-2 : FMV of Consideration Received

Sec 50C: Stamp Duty value shall be treated as FVOC

In case of immovable property held as capital asset, if SDV (assessed/assessable by stamp valuation authority) is more than 110% of consideration such SDV shall be deemed to be FVOC.

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- Where assessee claims that SDV is more than FMV of the property & such SDV has not been disputed in any appeal then the A.O. may refer the valuation to valuation officer (VO).

Value ascertained by VO

More than SDV of Stamp Valuation Authority	Less than SDV of Stamp Valuation Authority
↓	↓
FVOC - SDV of Stamp Authority [Value of V.O ignored]	FVOC - Value ascertained by VO

- Normally SDV considered on the date of registration but u/s 50C if date of agreement & registration are not same, then assessee can take SDV on the date of agreement if he has received consideration or part thereof upto the date of agreement in A/c payee cheque /DD, use of electronic clearing system (ECS) through a bank account or any other electronic modes as may be prescribed.

Notification 8/2020 - Other electronic modes

(a) Credit Card, Debit Card ;
(b) Net Banking ;
(c) IMPS (Immediate Payment Service) ;
(d) UPI (Unified Payment Interface) ;
(e) RTGS (Real Time Gross Settlement) ;
(f) NEFT (National Electronic Funds Transfer), and
(g) BHIM (Bharat Interface for Money) Aadhaar Pay.

Note: Above notification also applicable for section 13A, 35AD, 40A, 43, 43CA, 44AD, 56, 80JJAA, 269SS, 269ST, 269T.

Sec 50CA: FMV of Unquoted Shares shall be Treated as FVOC

Where Unquoted Shares (i.e. shares other than Quoted Shares), being a Capital Asset is transferred for consideration lower than FMV, then such FMV shall be deemed to be FVOC.

Sec 50D: Where sales consideration is not ascertainable or cannot be determined

Then FMV of such asset as on the date of transfer shall be FVOC

Sec 51: Advance money forfeited (Token money)

If any advance money/token money/earnest money is forfeited by the assessee (present owner) before 01/04/2014, then it shall be reduced from "Cost of Acquisition" (before indexing).

Note: Above provisions are applicable only in case of forfeitures done by present owner - Any forfeiture done by previous owner shall not be considered.

Sec. 56(2)(ix): Any advance money forfeiture on or after 01/04/14 shall be charged to tax in the year of forfeiture under the head "Income from Other Sources".

Sec 47: Certain Transaction not regarded as Transfer (Exempt transfer)

Following transactions are not regarded as transfer. Therefore, no Capital Gain will arise

1. Distribution of capital asset on the partial or total partition of HUF- [Sec. 47(i)]
2. Transfer of capital asset by Individual or HUF under gift, will, irrevocable trust - [Sec. 47(ii)]

Notes:

→ This clause shall not apply to gift or an irrevocable trust of share, debenture or warrants allotted by company to employee under ESOPS.

→ As per sixth proviso to section 48- FMV on the date of transfer (date of GIFT or irrevocable trust) shall be treated as FVOC of such shares, debentures or warrants.

3. & 4. Transfer of capital asset by holding Co. to its subsidiary Co. or subsidiary Co. to its holding Co. provided following conditions are satisfied - [Sec. 47(iv)/ Sec.47(v)]

a) Holding Co. holds 100% shareholding of subsidiary Co.

b) Transferee Co. should be Indian Co.

➢ In Above cases

(a) Cost of Acquisition Sec. 49 (1): Cost to the Previous Owner.

(b) Cost of Improvement: Incurred by previous owner & present owner shall be considered.

(c) Period of Holding: POH of previous owner shall also be considered.

(d) Indexed Cost of Acquisition: Manjula J. Shah (Bombay H.C)

$$\text{COA of Previous owner} \times \frac{\text{CII of the year of Transfer}}{\text{CII for the year in which asset first held by Previous Owner}}$$

(e) Benefit of FMV as on 01/04/2001 - Available

5. Transfer under Amalgamation

Transfer of Any Capital asset by Amalgamating Co. to amalgamated Co.	If Amalgamated Co. is an Indian Co. [Sec. 47(vi)]

6. Transfer under Demerger

Transfer of Any Capital asset by Demerged Co. to Resulting company	If Resulting Co. a is Indian Co. [Sec. 47(vib)]



7. Conversion of securities

Conversion of Bond, debenture, debenture stock, deposit certificates of a company into Share or debenture of same Co. [Sec. 47(x)]	COA of share/debenture received on conversion = cost of that part of Bond, debenture, Deposit certificates which is so converted. -Sec. 49(2A) POH of share/debenture shall also include the period for which Bond, debenture, Deposit certificates held by the assessee.
Conversion of Preference share of a Co. into Equity share of same co. [Sec. 47(xb)]	COA of equity share received on conversion = cost of that part of preference shares which is so converted. -Sec. 49(2AE) POH of equity share shall also include the period for which preference shares held by the assessee. Sec. 2(42A)
Conversion of Gold into Electronic Gold Receipt (EGR) issued by a Vault Manager, or conversion of Electronic Gold Receipt into Gold. [Sec. 47(viid)]	COA of current asset (EGR/gold) received on conversion = cost of earlier asset (gold/EGR) which is so converted. -Sec. 49(10) POH of earlier asset (gold/EGR) shall also include the period for which current asset (EGR/gold) held by the assessee. Sec. 2(42A)

8. Transfer of Sovereign Gold Bond issued by RBI under Sovereign Gold Bond Scheme 2015, by way of redemption by the assessee being an Individual. [Sec. 47(viic)]

9. Transfer of Work of Art, scientific, archaeological, manuscript, books, photograph or print to Govt., University, National Museum or art gallery or archives, any public notified museum. [Sec. 47(ix)]

10. Transfer of capital asset under reversed mortgage under a scheme made and notified by CG. [Sec. 47(xvi)]

Note: Amount of loan (either in instalment or lumpsum) received by the senior citizen under the transaction of reverse mortgage would be exempt from income tax u/s 10(43).

Exemption under Capital Gain

Sec 54: Exemption for Residential House Property

A.	Assessee	Individual or HUF
B.	Transferred Assets	Residential house property (RHP) being building & land appurtenant there to.
C.	CG on Transferred Asset	LTCG
D.	Asset to be acquired	One Residential HP in India Note: IF LTCG is upto ₹ 2 Crore then Assessee can acquire Two Residential HP in prescribed time limit. This benefit of 2 HP is available only once in life time.
E.	Time limit for Purchase or construction	Purchase: Within 1 yr. before or 2 yrs after the date of transfer; and (-1+2) Construction: Complete construction within 3 yrs after date of transfer. (+3)
F.	Deposit Scheme (Note-1)	CGAS applicable
G.	Amount of Exemption	(i) Capital Gain xxx (ii) Cost of New Asset/Deposit Amount xxx Whichever is lower Note: If Cost of new asset exceeds ₹ 10 crores, then the amount exceeding ₹ 10 crores shall not be taken into account for the purposes of exemption. [Added by FA 2023 w.e.f. AY 24-25]
H.	Locking period on transfer of New Asset	New Asset transferred within 3 yrs from date of purchase or construction then exemption claimed earlier shall be withdrawn & COA of new asset reduced by exempted Capital Gain while calculating CG on new asset.

Sec 54B: Exemption for Urban Agriculture Land

A.	Assessee	Individual or HUF
B.	Transferred Assets	Urban Agricultural land use by Individual or his Parents for agri. purpose during 2 yrs. before the transfer.
C.	CG on Transferred Asset	STCG/LTCG
D.	Asset to be acquired	Urban or Rural Agriculture Land
E.	Time limit for Purchase or construction	Purchase: Within 2 yrs after the date of transfer; (+2)
F.	Deposit Scheme (Note-1)	CGAS applicable
G.	Amount of Exemption	(i) Capital Gain xxx (ii) Cost of New Asset/Deposit Amount xxx



		Whichever is lower
H.	Locking period on transfer of New Asset	Same as section 54.
I.	Notes	1. If assessee acquired new asset as Rural Agriculture land & if he transfer that land within 3 years period then exemption claimed earlier shall not be withdrawn as Rural agriculture land is not a capital asset. 2. Deduction u/s 54B can be for STCG also. The condition is that land should be used by assessee or his parents for 2 years prior to the date of transfer.

Sec 54D: Exemption for Industrial Land & Building

A.	Assessee	Any Person
B.	Transferred Assets	Compulsory acquisition of land or building which was used by assessee in the business of industrial undertaking during 2 yrs prior to date of transfer.
C.	CG on Transferred Asset	STCG/LTCG
D.	Asset to be acquired	New land or buildings for the industrial undertaking.
E.	Time limit for Purchase or construction	Purchase: Within 3 years from date of receipt of compensation.
F.	Deposit Scheme (Note-1)	CGAS applicable
G.	Amount of Exemption	(i) Capital Gain xxx (ii) Cost of New Asset/Deposit Amount xxx Whichever is lower
H.	Locking period on transfer of New Asset	Same as section 54.

Sec 54EC: Exemption for Immovable Property

A.	Assessee	Any Person
B.	Transferred Assets	Land, Building or Both
C.	CG on Transferred Asset	LTCG
D.	Asset to be acquired	Bonds redeemable after 5 years issued, by (a) National Highway Authority of India (NHAI) (b) Rural Electrification Corp. Ltd. (RECL) (c) Power Finance Corp. Ltd. (PFCL) (d) Indian Railway Fin. Corp. Ltd. (IRFCL)

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		Maximum exemption limit being ₹ 50 lakhs within prescribed time limit.
E.	Time limit for Purchase or construction	Purchase: Within 6 months from the date of transfer of original asset.
F.	Deposit Scheme	CGAS NOT applicable
G.	Amount of Exemption	(i) Capital Gain xxx (ii) Cost of New Asset xxx Whichever is lower [Max. can be ₹ 50 lakhs]
H.	Locking period on transfer of New Asset	New asset is transferred or converted into money within 5 years from date of acquisition then exempt LTCG will be taxable in year of transfer/conversion. Note: If assessee takes any loan or advance on the security of bonds, he shall be deemed to have converted into money on the date on which such loan or advance is taken & CG exempted earlier shall be taxable.

Sec 54F: Exemption for Any LTCA other than Residential House Property

A.	Assessee	Individual or HUF
B.	Transferred Assets	Any LTCA other than Residential House Property
C.	CG on Transferred Asset	LTCG
D.	Asset to be acquired	One Residential HP in India
E.	Time limit for Purchase or construction	Purchase: Within 1 yr. before or 2 yrs after the date of transfer; and (-1+2) Construction: Complete construction within 3 yrs after date of transfer. (+3)
F.	Deposit Scheme (Note-1)	CGAS applicable
G.	Amount of Exemption	LTCG x Cost of New Asset/Deposit Amt / Net Consideration Note: If Cost of new asset exceeds ₹ 10 crores, then the amount exceeding ₹ 10 crores shall not be taken into account for the purposes of exemption. [Added by FA 2023 w.e.f. AY 24-25]
H.	Locking period on transfer of New Asset	New Asset transferred within 3 yrs from date of purchase or construction then exemption claimed earlier shall be withdrawn & treated as LTCG.
I.	Additional Conditions	➢ On the date of transfer of LTCA, assessee should not own more than one residential HP, and

		➢ Should not purchase any other house within 2 years or construct within 3 years after the date of transfer. If above conditions not satisfied then exempt CG, taxable in PY in which such other residential house is purchased/ constructed.

Notes:

1. Capital Gain Account Scheme:

a. Amount: If investment u/s 54, 54B, 54D, 54F is not made before the date of filing of return, then the amount of net consideration (in case of sec. 54F) or capital gain has to be deposited under the CGAS. The amount so deposited shall be deemed to be cost of new asset.

b. Time limit: Such deposit in CGAS should be made before due date or actual date of filing the return, whichever is earlier.

c. Unutilized amount: If the amount deposited is not utilized for the specified purpose within the stipulated period, then the unutilized amount shall be charged as CG of the PY in which the specified period expires. However, In the case of sec. 54F, proportionate amount will be taxable.

Note: CBDT clarifies that in the event of death of an individual before the stipulated period, the unutilized amount is not chargeable to tax in the hands of the legal heirs of the deceased individual.

2. Section 54H: Extension of time for acquiring new asset

Where transfer of capital asset is by compulsory acquisition under any law, then, Time limits for acquiring new assets & for depositing in CGAS shall be computed from date of receipt of compensation & not from the date of compulsory acquisition.

Example: Mr. BB purchase gold in PY 12-13 for ₹ 13 crore. On 16/03/26 he sold such gold for ₹ 40.05 crores. Transfer expenses is ₹ 0.05 crore. On 28/06/26 he has purchased a residential house property in Mumbai for ₹ 28 crores. He does not own more than 1 HP on the date of transfer of Gold. On 30/03/28 he has transferred Mumbai HP for ₹ 34 crores. Discuss Tax treatment.

Solution:

Computation of Capital Gain on transfer of Gold — PY25-26 AY26-27

Particular	₹ in crores
Full Value of Consideration	40.05
Less: Transfer expenses	0.05
Net Consideration	40.00
Less: COA	13.00
Gross LTCG	27.00
Less: Exemption u/s 54F	

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LTCG × Cost of New Asset ₹ 28 Cr. but its restricted to ₹ 10 Cr. / ₹ 27 Net Consideration ₹ 40		(6.75)
	Net LTCG	20.25

Computation of Capital Gain on transfer of Mumbai HP — PY27-28 AY28-29

Particular	₹ in crores
Full Value of Consideration	34.00
Less: Transfer expenses	-
Net Consideration	34.00
Less: COA	28.00
STCG	6.00
Deemed LTCG as Mumbai property transfer within 3 years of acq.	6.75

Tax Rates for Capital Gain

Sec 112A: Tax on LTCG of certain Asset [Added by FA18 - Applicable from AY 19-20]

1. LTCG on transfer of equity shares or equity-oriented units or units of Business Trust, in excess of ₹ 1,25,000 shall be taxable:-
   (a) @ 10% for any transfer which takes place before 23rd July, 2024; and
   (b) @ 12.5% for any transfer which takes place on or after 23rd July, 2024,
   if following conditions are satisfied;
   - STT paid on acquisition & transfer of Equity shares.
   - STT paid on transfer of equity-oriented units and units of business trust.

   Note: limit of ₹ 1,25,000 shall apply on aggregate of the LTCG under sub-clauses (a) and (b).
   [Amended by FA 24, w.e.f. 23rd July, 24]
2. LTCG arising from transaction in recog. stock exchange located in an international financial service centre (IFSC) would be taxable @ 12.5% where the consideration in foreign currency, even though STT Not Paid in respect of such transaction.
3. Deduction u/c VI-A & Rebate u/s 87A Not Allowed Against Capital Gain referred u/s 112A.

◆ Sec. 55: Cost of Acquisition

In case of equity shares or unit of equity-oriented fund or unit of Business Trust acquired before 1/2/2018 & transferred on or after 1/4/2018, COA shall be:

Higher of step 1 & 2

Step - 1	(i) Cost of acquisition		xxx
Step - 2	(ii) Lower of		
	a. FMV as on 31/01/2018	xxx	
	b. Sale value FVOC	xxx	xxx



COA xxx

Note: Indexation not available for computation of Capital Gain u/s 112A.

Computation of FMV on 31/01/2018

(i) Listed shares/Units on RSE on 31/01/2018:

FMV = Highest price Quoted on 31/01/2018.

Note: If no trading on 31/01/2018 then the highest price of last trading session before 31/01/2018.

(ii) Unit/Shares not listed on 31/01/2018

In case of Units

FMV = NAV on 31/01/2018

In case of Share Not Listed on 31/01/2018 but Listed on Date of transfer

$$FMV = COA \times \frac{CII \text{ of FY } 17\text{-}18 \text{ i.e. } 272}{CII \text{ of the year in which the share was first held by assessee or 01-02, whichever is later.}}$$

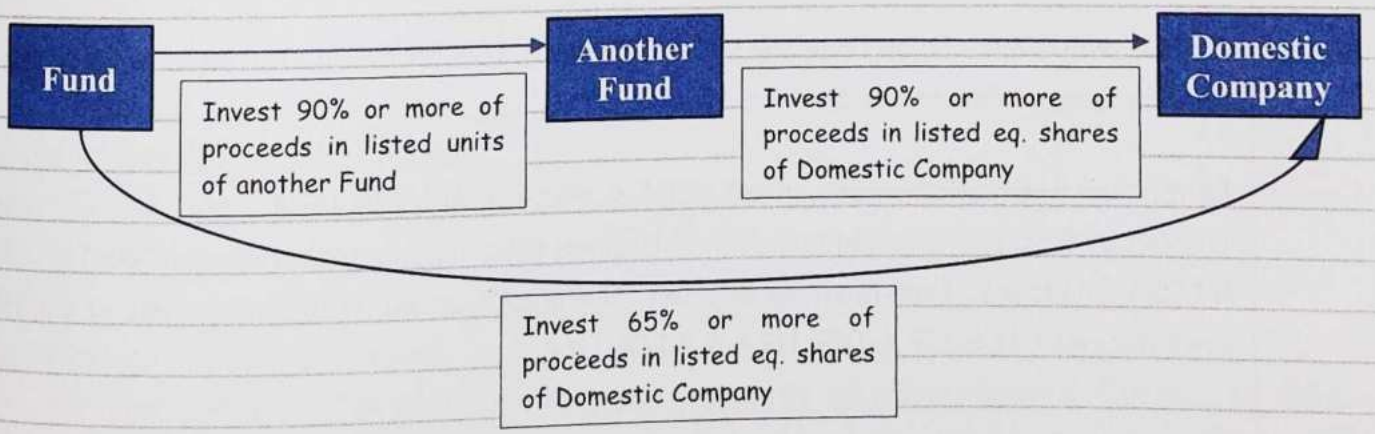
Equity Oriented Fund meaning: Fund set-up under a scheme of a MF or ULIP to which exemption u/s 10(10D) does not apply;

(i) In a case where the fund invests in the units of another fund which is traded on a RSE,-

(A) a minimum of 90% of the total proceeds of such fund is invested in the units of such other fund; and

(B) such other fund also invests a minimum of 90% of its total proceeds in the equity shares of domestic companies listed on a RSE; and

(ii) In any other case, a minimum of 65% of the total proceeds of such fund is invested in the equity shares of domestic companies listed on a RSE.



Sec 111A: Tax on STCG of certain Asset

- STCG on transfer of equity shares or unit of equity-oriented fund or unit of business trust shall be taxable ;-
  (a) @ 15% for any transfer which takes place before the 23rd July, 2024; and
  (b) @ 20% for any transfer which takes place on or after the 23rd July, 2024,
  if STT paid on transfer of such assets. [Amended by FA 24 w.e.f. 23rd July 24]
- Concessional rate of 20% available on transaction in foreign currency on RSE located in IFSC even though STT not paid in respect of such translation.
- Deduction u/s VI-A not available against STCG taxable u/s 111A.

Other Capital Gain Tax (other than referred in 112A & 111A above)

No.	Particular	LTCG	STCG
A.	Transfer took place before 23rd July, 24	20%	Normal Tax Rate (slab rate)
B.	Transfer took place on or after 23rd July, 24	12.5%	Normal Tax Rate (slab rate)

Note: If a Resident Individual or HUF transfers any immovable property acquired before 23rd July, 2024, and the tax calculated on LTCG at the new rate (12.5% without indexation) is higher than the tax calculated at the old rate (20% with indexation), then the excess tax is ignored. In other words, the assessee is required to pay tax at 12.5% without indexation or 20% with indexation, whichever is lower.

- Proviso to Sec. 112 [Not applicable w.e.f. AY 23rd July 24]
  In case of LTCG on listed securities (other than units) & Zero Coupon Bonds, assessee can pay tax
  (i) 10% (without indexation)
  (ii) 20% (with indexation)
  whichever is lower

- In case of NR or Foreign Company - 12.5% Tax on LTCG from Unlisted securities or shares without First & Second Proviso to Section 48.

- Benefit of Basic Exemption against LTCG / STCG 111A/LTCG 112A
  In case of Resident Individual/HUF, if balance total income (other than LTCG 112, LTCG 112A & STCG 111A) is less than basic exemption then unexhausted (unutilised) basic exemption can be used against LTCG 112, LTCG 112A & STCG 111A.



Example: Total income (NTI) of Mr. Ram is ₹ 4,20,000 (it include LTCG on sale of land ₹ 2,50,000) Now tax liability of Ram (assume he opted out from default tax regime 115BAC), [2,50,000-80,000] = ₹ 1,70,000 x 20% = ₹ 34,000 - Rebate u/s 87A+ HEC@ 4%.

Sec 55A: Reference to Valuation officer (V.O.)

A.O May Refer Case to Valuation officer in the following circumstances

(i) FMV Claimed by assesee as per registered valuer:- A.O. is of Opinion that the Value so Claimed is at variance with its FMV.

(ii) In any other Case:-

a) FMV as per A.O. Opinion more than value claimed by assessee by

- i) 15% of value claimed by assessee, OR
- ii) 25000/-

whichever is lower

b) Having regard to nature of asset and other relevant circumstances, it is necessary so to do.

➢ Sec. 2(1B): Definition of Amalgamation

Merger of one or more companies with another company or the merger of two or more companies to form one company, in such a manner that -

(i) All the asset & liabilities of amalgamating company becomes the asset & liabilities of amalgamated company.

(ii) Shareholders holding minimum 75% in value of shares in amalgamating company become shareholder of amalgamated company.

➢ Taxation of Shareholder

a) As per Sec. 47, there will be no transfer & hence no CG when shareholder allotted shares of amalgamated Company in exchange of share of amalgamating Co.

b) COA of the shares in the Amalgamated Company = COA of the shares in the Amalgamating Company [Sec. 49(2)].

c) POH = Period for which shares held in Amalgamating Company + Period in Amalgamated Company.

➢ Taxation of Amalgamating company

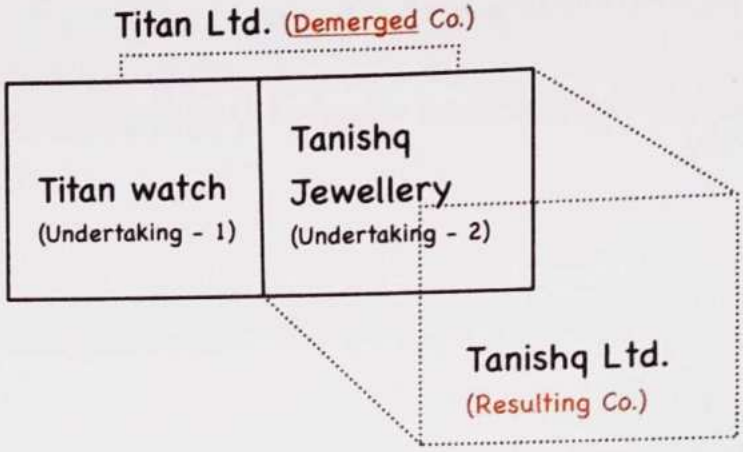
As per Sec. 47, there will be no capital gain on transfer of capital asset by amalgamating company to amalgamated company.

➢ Taxation of Amalgamated Company

a) As per Sec. 49 (1) COA of asset becomes property of Amalgamated Company = COA of Amalgamating Company [Cost of Previous Owner].

b) POH of asset = Period of Amalgamating Company as well as Amalgamated Company.

➢ Meaning of Demerger



➢ Sec. 2(19AA): Demerger means transfer by demerged Co. of its one or more undertaking to any resulting Company, all the following conditions are fulfilled:

(a) All the assets & liabilities of undertaking-2 (tanishq) transferred by demerged company become the asset & liabilities of resulting company (tanishq ltd).

(b) All assets & liabilities should be transferred at Book value [Revaluation is to be ignored].

(c) The resulting company (tanishq ltd.) issues, its shares to the shareholder of demerged company (titan ltd.) on proportionate basis except when the resulting company itself is a shareholder of the demerged Company.

(d) The shareholders holding minimum 75% value of shares in the demerged Company becomes the shareholder of resulting Company.

(e) Transfer of undertaking on a going concern basis.

➢ Taxation of Shareholder

a) Sec. 47: There will be no capital gain in hands of shareholders of demerged Company when they receive share of resulting Company.

b) POH of shares of resulting company: Period for which shares were held in demerged Co. shall also be considered [Sec. 2(42A)]

c) Sec. 49(2C): COA of shares of Resulting Company

$$\text{COA of shares held in demerged Company} \times \frac{\text{Net Book value of assets transferred in demerger}}{\text{**Net worth of demerged Company before demerger}}$$

**Net worth = Paid up share capital + General reserve



d) Sec. 49(2D): COA of shares in the Demerged Company

COA of originals shares in demerged Company	xx
(-) COA of shares in resulting Company (point c).	xx
	xx

➢ Taxation of Resulting Co.

COA of Asset received in Demerger = COA to Demerged Company

➢ Taxation of Demerged Co.

As per Sec. 47 there will be no capital gain when asset transferred by Demerged Company to Resulting Company.

In case of Liquidation

♦ In hands of Company

(a) Distribution shall be treated as Deemed dividend u/s 2(22)(c).

(b) As per sec 46(1): Where asset of Co. is distributed on its liquidation, such distribution shall not be treated as transfer. Hence, Capital Gain shall not apply in hands of company.

♦ In hands of Shareholder

Where shareholder, on liquidation, receives any money or other assets from company then capital gain is applicable in hands of shareholder.

Computation of Capital Gain

Particulars	₹
Money received	xx
(+) FMV of asset recd. on date of Distribution	xx
	xx
(-)Amount assessed as deemed dividend u/s 2(22)(c)	(x)
Full Value of Consideration (FVOC)	xx
(-) COA/ICOA of shares	(x)
STCG/LTCG	xx

Notes:

- POH of shares: Date of Acquisition to date of Liquidation.
- CG is applicable in the hands of SH in the year in which he received assets under Liquidation.
- COA of assets received under Liquidation is FMV of such asset on the date of distribution. (Sec.- 55)

Rahul5209

Taxation in Case of Buy Back by Domestic Company w.e.f. 1st October, 2024

- In hands of company: There is NO Tax treatment in hands of Company.
- In hands of shareholder:

(a) Sec. 2(22)(f): Any payment by Company on Buy Back of shares shall be treated as deemed dividend in hands of shareholder and it is taxable under IFOS as per normal tax rate.

(b) Buy Back is treated as extinguishment of rights so CG is applicable as per section 46A in hands of shareholder.

Computation of Capital Gain

Particulars	₹
Full Value of Consideration	Always NIL
(-) COA of shares	(x)
STCL/LTCL	(xx)

POH = Date of Acquisition till date of Buy back.

Example: Mr. BB acquired 1,000 shares of BB Virtuals Ltd @ ₹ 50 per share during PY 20-21. BBVL buy back 300 shares @ ₹ 120 per share on 10/12/2025. Mr. BB sold 700 shares on 15/07/2026 @ ₹ 200 per share. Discuss Tax treatment in hands of Mr. BB.

Solution:

(a) During PY 24-25, ₹ 36,000 (300 shares x ₹ 120) is treated as deemed dividend in hands of Mr. BB u/s 2(22)(f) & it is taxable under IFOS.

(b) Computation of Capital Gain on Buy Back PY 25-26 AY 26-27

Particulars	₹
Full Value of Consideration	Always NIL
(-) COA of shares [300 shares x ₹ 50]	(15,000)
LTCL (it can be setoff against any other LTCG or C/F for next 8 AY's.)	(15,000)

(c) Computation of Capital Gain on sale of 700 shares PY 26-27 AY 27-28

Particulars	₹
Full Value of Consideration [700 shares x ₹ 200]	1,40,000
(-) COA of shares. [700 shares x ₹ 50]	35,000
LTCG	1,05,000
Less: LTCL of last Year	(15,000)
Net LTCG Taxable in AY 27-28	90,000



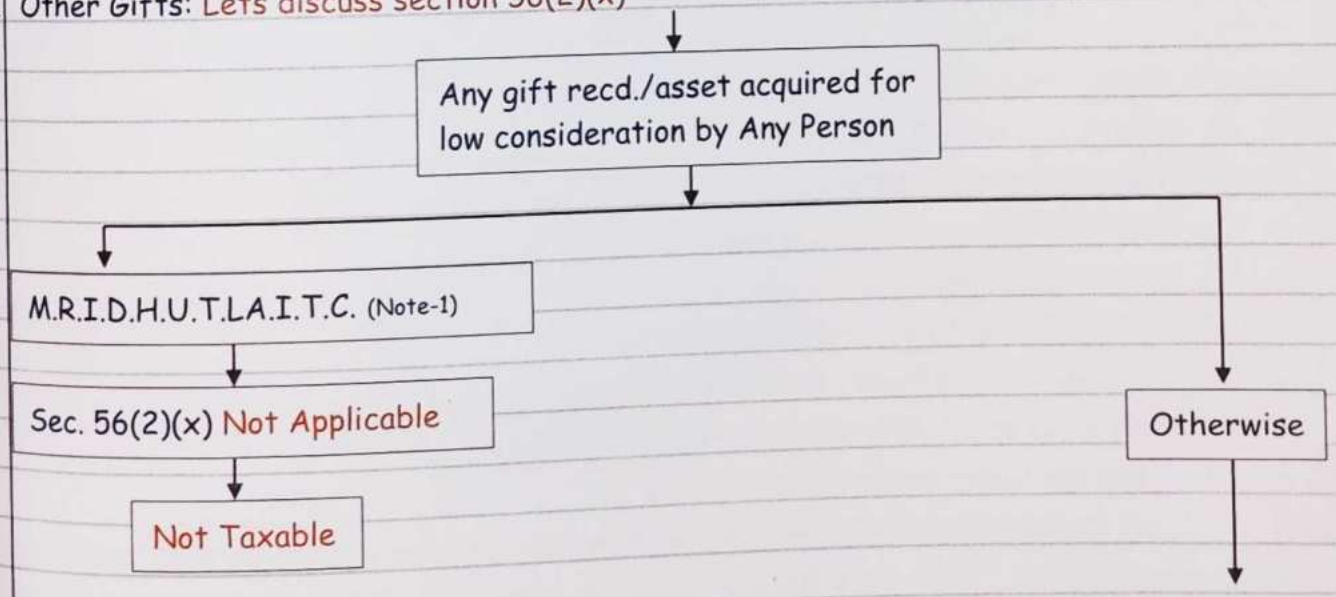
Sec. 56(1): Any Income which is not taxable under Salary, IFHP, PGBP or Capital gain, shall be chargeable under IFOS.

Sec. 56(2) Income taxable under IFOS

- Dividend
- Winning from lotteries, puzzles, card game etc.
- Interest on securities (if shares held as SIT then taxable under PGBP)
- Rent from letting out of P&M or furniture with or without building, if not chargeable under PGBP
- Any sum received under keymen insurance policy if not chargeable under PGBP or Salaries
- Interest received on compensation of compulsory acquisition of capital asset
- Gift
- Other income taxable under IFOS:
  - Amount received under family pension.
  - Interest on bank deposit & loan given.
  - Interest on Income tax refund.
  - Income from sub-letting of house property.
  - Royalty income.
  - Agriculture income.
  - Director sitting fee.
  - Salary of MP/ MLA/ MLC etc.

Taxation of Gift

1. Any gift received by employee from employer due to employee - employer relationship - always taxable [even if received on marriage] under income from salary.
2. Any gift/benefit/perquisite arising from Business or Profession – always taxable under PGBP.
3. Other Gifts: Lets discuss section 56(2)(x)



(Note:2)

Money (without consideration)

If Aggregate Money > ₹ 50,000 then whole of money shall be taxable

Movable property [S.S.J.D.P.S.A.O.B.V]

Without consideration
If Agg. FMV > ₹ 50,000 then entire FMV shall be taxable

Inadequate Consideration
If Agg. (FMV - consid.) > ₹ 50,000, then different between FMV & consideration shall be taxable

Immovable property [Land, Building or Both]

Without consideration
If per property, SDV > ₹ 50,000 then entire SDV shall be taxable

Inadequate Consideration
If per Property
a) (SDV-Consideration) > ₹ 50,000
And
b) SDV is more than 110% of Consid.
↓
then difference between SDV & Consid. shall be taxable

Note-1: Money/Property Not Taxable if it is received

- M - On the occasion of Marriage
- R - From any Relative (note-3)
- I - Under will or way of Inheritance
- D - In contemplation of Death
- H - From any Hospital or medical institution
- U - From any University or educational institution
- T - From or by any Trust registered u/s 12AA/12AB
- LA - From any Local Authority u/s 10(20)
- I - From an Individual by a trust created solely for the benefit of the relative of the Ind.
- T - by any Fund, Trust, Hospital, Medical Inst., University, Edu. Institution ref. u/s 10(23C)

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➢ C - Certain Exempt transfer as per sec. 47 HUF Partition, Holding to Subsidiary, Subsidiary to Holding , Amalgamation & Demerger)

◆ Amendment by FA-22 w.e.f. AY 20-21

Sec. 56(2)(x) not applicable in the following cases, Money recd.:-

(i) By Individual, from any person, for exps. actually incurred on treatment of Covid-19 related illness of him or any family member.

(ii) By family member of deceased person, within 12 months of death (death due to Covid-19 illness) -

(a) from the employer of the deceased person (without any limit); or

(b) from any other person or persons upto ₹ 10 lakhs.

Note-1: Family means spouse, children and dependent relative (parents, brother, sister).

Note-2: Death should be within 6 months from the date of testing covid positive.

Note-2: Property (Movable & Immovable)

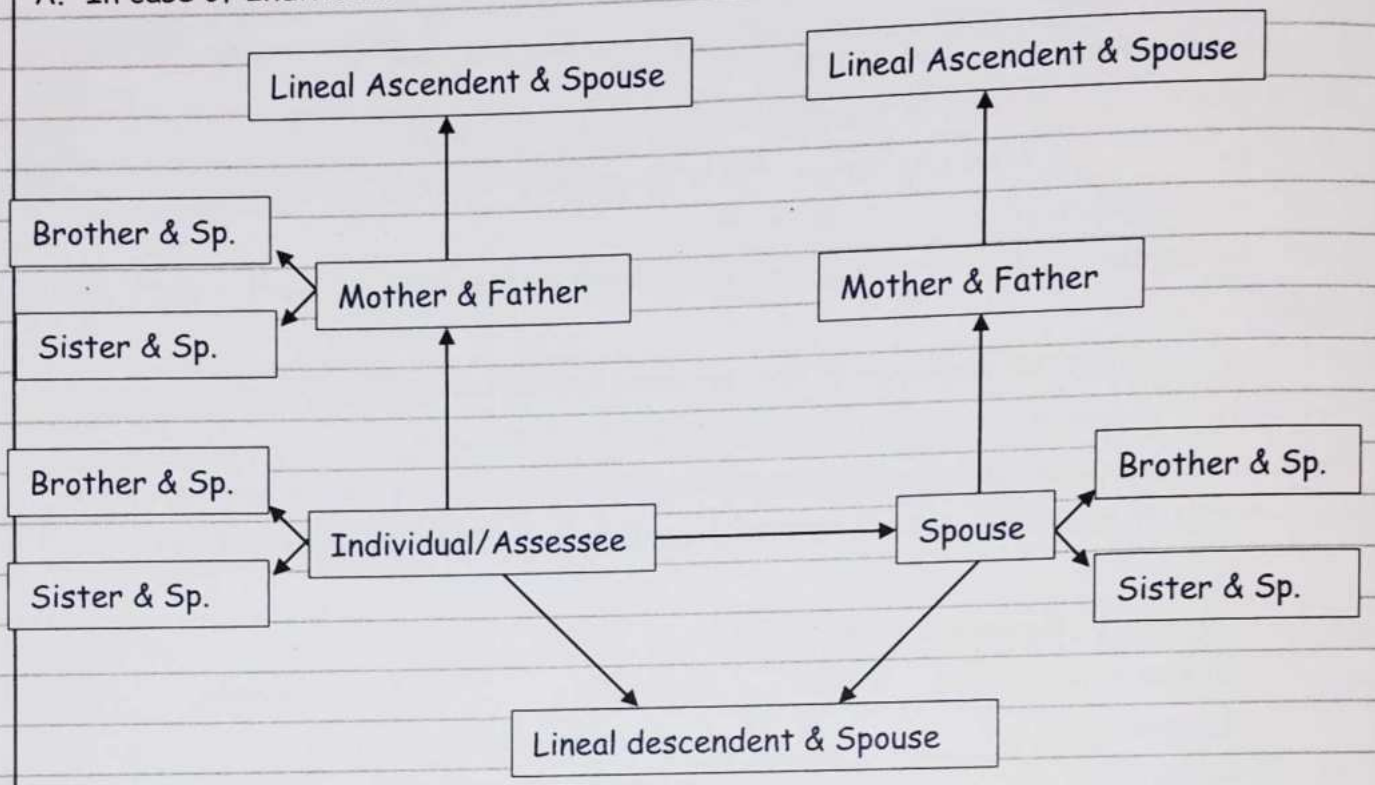
1.	Shares & securities	2.	Jewellery	3.	Drawing
4.	Painting	5.	Archaeological collection		
6.	Sculptures	7.	Any other work of art		
8.	Bullion	9.	Immovable property		
10.	Virtual Digital Assets				

Any property received as gift or acquired for low consideration other than above, Sec. 56(2)(x) Not applicable - Not taxable.

Car, Iphone 14, T.V., Furniture, Wrist Watch, etc. received then not taxable even value is more than ₹ 50,000/-

Note-3: Relative

A. In case of Individual



B. In case of HUF - Any member of HUF

Note-4: Assessee is not satisfied with SDV then his case may be transfer to VO (same as sec 50C)

Note 5: Sec. 56(2)(x) applicable only if property is in the nature of capital asset of the recipient, if it is Stock-in-trade then Sec. 56(2)(x) Not applicable.

Note 6: Sec.49(4): If any person receiving any asset as gift or acquires for inadequate consideration & he already assessed u/s 56(2)(x) on FMV/SDV then COA of such asset shall be FMV/SDV which was considered under IFOS u/s Sec. 56(2)(x). When COA is computed as per section 49(4), the period of holding of the previous owner shall not be included in the period of holding.

Note 6: If date of agreement & registration is not same, SDV on the date of agreement can be considered u/s 56(2)(x), if full or part consideration paid by A/c Payee cheque, A/c Payee DD or any ECS through bank A/c upto date of agreement.

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Sec. 43CA: SDV shall be treated as sales consideration

In case of immovable property held as stock-in-trade, if SDV is more than 110% of consideration then such SDV shall be deemed to be sales consideration for computing PGBP.

- If assessee not satisfied with SDV then his case may be transferred to V.O. (same as Sec. 50C).
- If date of agreement & registration is not same, SDV on the date of agreement can be considered u/s 43CA, if full or part consideration received by A/c Payee cheque, A/c Payee DD or any ECS through bank A/c upto date of agreement.
- Immovable property
  - Capital Asset → 50C Apply → Capital Gain
  - SIT → 43CA Apply → PGBP

Sec. 56(2)(xi): Compensation on termination of Employment

Any compensation received by any person in due to termination of his employment (or modification of terms of employment) is treated as income.

This section is applicable only if compensation is received from a person other than employer. However, if it is received from employer, then it is taxable u/s 17(3)(i) under the head "Salaries".

Sec. 57: Allowable Deduction

a) Dividend [other than referred u/s 2(22)(f)] or income on units of MF/UTI: Only interest expenses is allowed as deduction subject to maximum 20% of dividend or income from MF /UTI.

b) Income under family pension: deduction shall be lower of $1/3^{rd}$ of family pension or ₹ 15,000 p.a.

Note: In case of assessee opted default taxation regime u/s 115BAC then deduction is ₹ 25,000 instead of ₹ 15,000.

Certain exemption in respect of family pension:

- Received by the widow or children or nominated heirs, of a member of the armed forces (including para-military forces), where the death has occurred in the course of operational duties shall be exempt u/s 10(19) .
- Received by any family member of individual who had been in the service of CG or SG and had been awarded "Param Vir Chakra" or "Vir Chakra" or Mahavir Chakra" or other notified gallantry awards shall be exempt u/s 10(18)(ii).

c) Interest on compensation of compulsory acquisition - 50% of such Interest.

d) Any other expenditure (not being in the nature of capital expenditure) - Allowed if it's wholly and exclusively for the purpose of making or earning such income.

Sec. 58: Expenses Not allowed as deductions under IFOS

- Any personal expenses of the assesse.
- Any interest or salary payable outside India on which TDS has not been paid or deducted.
- Cash Expenditure exceeding ₹ 10,000. Provisions of section 40A(3) shall apply.
- 30% of any sum payable to a resident on which TDS has not been paid or deducted at source. Provision of section 40(a)(ia) shall apply.
- Any expenditure incurred in connection with casual income.

Exempt Incomes	
Section	Provisions
10(4)(ii)	Income by way of interest on moneys standing to his credit in a Non-resident (External) Account (NRE A/c), is exempt in the hands of an individual, being a person resident outside India as per the FEMA, 1999 or in the hands of an individual who has been permitted by the RBI to maintain such account.
10(10BC)	Compensation received or receivable from CG, SG or local authority by an individual or his legal heir on account of any disaster is exempt except to the extent of loss or damage allowed as deduction under the Act.
10(16)	The value of scholarship granted to meet the cost of education would be exempt from tax in the hands of the recipient irrespective of the amount or source of scholarship.
10(17)	Daily allowance and Constituency allowance received by any Member of Parliament or of State Legislatures is exempt.
10(17A)	Payment, whether in cash or kind, in pursuance of an award instituted in public interest by the Govt or reward by the Govt. for approved purposes is exempt.
10(15)	Interest on Post Office Savings Bank Account (1) ₹ 3,500 in case of an individual account. (2) ₹ 7,000 in case of a joint account.

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Taxability of Dividend

- Indian Company: Company formed & registered under Companies Act, 2013 or any law of state.
- Domestic Company: Indian Company or any other company (foreign company) who made prescribed arrangement for the declaration and a payment of dividend within India. Thus all Indian Co. are treated as domestic companies but all Dom. Co. not treated as Indian Co.
  If a Foreign Co. makes prescribed arrangements for payment of dividends in India it shall be treated as Dom. Co.
- Foreign Company: Company which is not a Domestic Company.

Sec 8: Taxability of Dividend

Dividend Income from Domestic Co. or Foreign Co. taxable in hands of Shareholder at Normal Tax rate.

- Final Dividend: It is taxable in the year in which it is declared at the AGM by company.
- Deemed Dividend: It is taxable in the year in which it is distributed/paid by company.
- Interim Dividend: It is taxable in the year in which it is received by shareholder.

Deemed Dividend

In reality these payments are not dividend but for the purpose of income tax they are treated as dividends. The objective is to plug the loopholes in the tax provision & to check avoidance.

◆ Sec. 2(22)(a): Any distribution of assets

Any distribution of Assets by a company to its shareholders to the extent the company possesses accumulated profits (capitalised or not).

Notes:

- In case of Bonus shares, there is no release of assets hence, issue of bonus shares is not deemed as dividend.
- When assets are distributed u/s 2(22)(a)/(c)/(d), the FMV of the asset on the date of distribution has to be taken for computing the dividend.

◆ Sec. 2(22)(b): Any distribution of Debentures, deposit certificate etc.

(a) Any distribution to its shareholders by Co. of debentures, debentures stock or deposit certificates, and

(b) Any distribution to its preference shareholders of shares by way of Bonus,

to the extent to which Co. possesses accumulated profit (capitalised or not).

◆ Sec 2(22)(c): Distribution of assets on liquidation

Any distribution of assets by company on liquidation to the extent to which company possesses accumulated profit (capitalised or not).

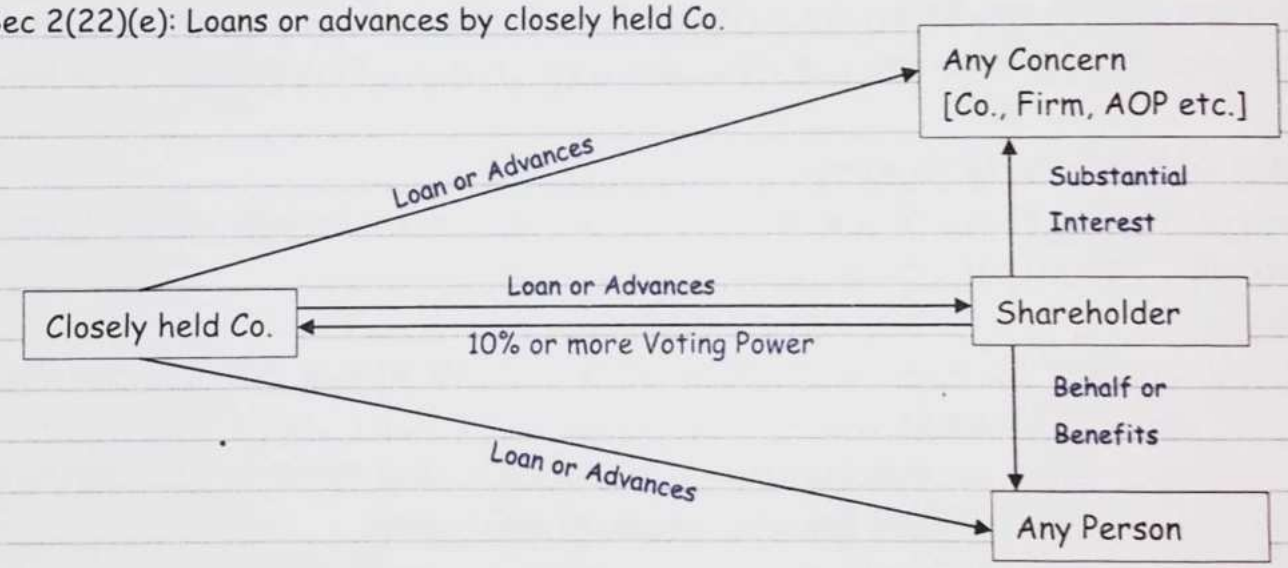
◆ Sec 2(22)(d): Reduction of share Capital

Any distribution to its shareholder by company on reduction of its capital to the extent to which company has accumulated profit (Capitalised or not).

➢ Some differences between 2(22)(a)/(b)/(c)/(d) & 2(22)(e)

S.No.	2(22)(a)/(b)/(c)/(d)	2(22)(e)
1.	Treated as Deemed dividend to the extent accumulated Profit (capitalised* or not).	Treated as deemed dividend to the extent accumulated profit.
2.	Applicable to all Companies.	Applicable to only closely held Company.
Notes	Distr. treated as DD "to the extent of accum. profits". In case accum. loss, the above prov. shall not apply. Accum. profit means profit/reserve created through P&L A/c.	
	*Capitalised means issue of bonus shares, transfers to capital reserves etc. shall also be included in accum. profit.	

◆ Sec 2(22)(e): Loans or advances by closely held Co.



Notes :

1. Loan or advances is treated as deemed dividend & taxable in hands of shareholder to the extent to which company possesses accumulated profit.
2. Concern means HUF, Firm, Company, AOP/BOI.
3. Substantial interest means 20% or more voting power/PSR at any time during the P.Y.
4. Loan is repaid or Company charges market rate of interest then also loan is treated as deemed dividend.

5. Accum. profit means profit as per Companies Act (means accounting profit) not Assessable profit.
6. Section 2(22)(e) is not applicable in case of trade advances means advance which is in the nature of commercial transaction. [CBDT Circular 19/2017]
Example: Advance made by company to sister concern for job work, Advance was made by a company to its shareholder to install P&M at the shareholder's premises to enable him to do job work for the company so that the company could fulfil an export order etc.
7. If loan and advance given to concern then it is treated as deemed dividend in hands of concern but as per some court judgments its taxable in hands of shareholder.

Dividend shall not include -

(a) Any Advance or Loans given by Company in the ordinary course of its business of money lending. where money lending is "substantial part of the business (SPOB)". SPOB has to be understood on case to case basis. The relevant factors can be T/o, profits, manpower, capital employed etc.
(b) Any dividend paid by a company, which is set off against the loan which has been deemed as dividend u/s 2(22)(e).
(c) Buy back of shares.
(d) Shares allotted to shareholder of demerged Company by resulting Company under Demerger.
(e) Any distribution made u/s 2(22)(c)/2(22)(d) is respect of preference shares.

➢ Sec 10(10D): Exemption on maturity of Life Insurance Policy

Any sum received under a LIP, including the bonus is Exempt from Tax.

Following sums are taxable:

(i) Received under a Keyman insurance policy.

(ii) Received where premium paid is more than prescribed limit (20%,10%,15%) given u/s 80C. (If it is received on death then its exempt).

(iii) Received where any LIP, other than ULIP, issued on or after the 1st April, 2023, if the amount of premium payable for any of the PY during the term of policy exceeds ₹ 5,00,000.
Provided, if premium is payable for more than one LIP, other than ULIP, issued on or after 1st April, 2023, the exemption u/s 10(10D) shall apply only with respect to those LIP's, where the aggregate amount of premium does not exceed ₹ 5,00,000, in any of the PY during the term of any of those policies. [6th & 7th provisos of sec 10(10D)-added by FA, 23 w.e.f. AY 24-25]
Note: Exemption is available if sum received in point (iii) on the death of person.

Example 1:

LIP	A
Date of issue	1.4.2013
Annual premium	6,00,000
Sum assured	60,00,000
Consideration received as on 01.11.2023 on maturity	70,00,000
Note - The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2023-24.	

Eligibility for exemption u/s 10(10D) - Consideration received under LIP "A" would be exempt u/s 10(10D) in A.Y. 2024-25 since annual premium does not exceed 10% of the actual capital sum assured. Moreover, as the policy has been issued before 1.4.2023, limit of ` 5,00,000 of amount of premium payable is not applicable.

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Example 2:

LIP	A
Date of issue	1.4.2023
Annual premium	5,00,000
Sum assured	50,00,000
Consideration received as on 01.11.2033 on maturity	52,00,000
Note - The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.	

Eligibility for exemption u/s 10(10D) - Consideration received under LIP "A" would be exempt u/s 10(10D) in A.Y. 2034-35 since annual premium does not exceed 10% of the actual capital sum assured & premium is not more than ` 5,00,000.

Example 3:

LIP	A
Date of issue	1.4.2023
Annual premium	6,00,000
Sum assured	60,00,000
Consideration received as on 01.11.2033 on maturity	70,00,000
Note - The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.	

Eligibility for exemption u/s 10(10D) - Consideration received would not be exempt u/s 10(10D) in A.Y. 2034-35 since the annual premium payable on the eligible LIP exceeds ` 5,00,000.

Example 4:

LIP	A	B
Date of issue	1.4.2023	1.4.2023
Annual premium	3,00,000	2,00,000
Sum assured	30,00,000	20,00,000
Consideration received as on 01.11.2033 on maturity	32,00,000	21,00,000

Note - The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.

Eligibility for exemption u/s 10(10D) - In this case, the aggregate of the annual premium payable for LIP "A" and LIP "B" does not exceed ` 5,00,000 during the term of these policies. Further, annual premium payable in respect of LIP "A" and LIP "B" does not exceed 10% of actual capital sum assured. Therefore, the consideration received under LIP "A" and "B" would be exempt u/s 10(10D) in A.Y. 2034-35

Example 5:

LIP	A	B
Date of issue	1.4.2023	1.4.2023
Annual premium	4,50,000	5,50,000
Sum assured	45,00,000	55,00,000
Consideration received as on 01.11.2033 on maturity	52,00,000	60,00,000

Note - The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.

Eligibility for exemption u/s 10(10D) - In this case, the aggregate of the annual premium payable for LIP "A" and LIP "B" exceeds ` 5,00,000 during the term of these policies. However, the consideration received under LIP "A" would be exempt u/s 10(10D) in A.Y. 2034-35, since its annual premium payable does not exceed ` 5,00,000 for any previous year during the term of the policy and also does not exceed 10% of actual capital sum assured. Consequently, the consideration received under LIP "B" alone would not be exempt u/s 10(10D) in A.Y. 2034-35.

Example 6:

LIP	A	B	C
Date of issue	1.4.2023	1.4.2023	1.4.2023
Annual premium	1,00,000	3,50,000	6,00,000
Sum assured	10,00,000	35,00,000	60,00,000
Consideration received as on 01.11.2033 on maturity	12,00,000	40,00,000	70,00,000

Note - The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.



Eligibility for exemption u/s 10(10D) - The aggregate of annual premium payable for LIP "A", LIP "B" and LIP "C" exceeds ` 5,00,000 during the term of these policies. However, the consideration received under LIPs "A" and "B" would be exempt u/s 10(10D) in A.Y. 2034-35, since aggregate of annual premium payable for these two policies does not exceed ` 5,00,000 for any previous year during the term of these two policies and annual premium payable in respect of these policies does not exceed 10% of actual capital sum assured.

Consequently, the consideration received under LIP "C" alone would not be exempt u/s 10(10D) in A.Y. 2034-35.

Example 7:

LIP	X	A	B	C
Date of issue	1.4.2022	1.4.2023	1.4.2023	1.4.2023
Annual premium	5,50,000	1,00,000	3,50,000	6,00,000
Sum assured	55,00,000	10,00,000	35,00,000	60,00,000
Consideration received as on 01.11.2032 on maturity	62,00,000			
Consideration received as on 01.11.2033 on maturity		12,00,000	40,00,000	70,00,000
Note - The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34, except LIP X in P.Y. 2032-33.				

Eligibility for exemption u/s 10(10D) - The consideration received under LIP "X" would be exempt u/s 10(10D) in A.Y. 2032-33, since annual premium does not exceed 10% of the actual capital sum assured. Moreover, as the policy has been issued before 1.4.2023, limit of ` 5,00,000 on amount of premium payable is not applicable, since LIP "X" is not an eligible LIP.

The aggregate of annual premium payable for LIP "A", LIP "B" and LIP "C" (being LIPs issued on or after 1.4.2023) exceeds ` 5,00,000 during the term of these policies.

However, the consideration received under LIPs "A" and "B" would be exempt u/s 10(10D) in A.Y. 2034-35, since aggregate of annual premium payable for these two policies does not exceed ` 5,00,000 for any previous year during the term of these two policies and annual premium payable in respect of these policies does not exceed 10% of actual capital sum assured.

Consequently, the consideration received under LIP "C" alone would not be exempt u/s 10(10D) in A.Y. 2034-35.

Example 7:

LIP	X	A	B	C
Date of issue	1.4.2023	1.4.2024	1.4.2024	1.4.2024
Annual premium	4,50,000	1,00,000	1,50,000	6,00,000
Sum assured	45,00,000	10,00,000	15,00,000	60,00,000
Consideration received as on 01.11.2033 on maturity	50,00,000			
Consideration received as on 01.11.2034 on maturity		12,00,000	18,00,000	70,00,000
Note - The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2034-35, except LIP X in P.Y. 2033-34.				

Eligibility for exemption u/s 10(10D) - Consideration under LIP "X" would be exempt u/s 10(10D) in P.Y. 2033-34, since the annual premium does not exceed ` 5,00,000 and also does not exceed 10% of actual capital sum assured.

In this case, the aggregate of the annual premium payable for LIP "A", LIP "B" and LIP "C" along with the premium for LIP "X" exceeds ` 5,00,000 during the term of these policies.

The aggregate of the annual premium payable for LIP "A" and the premium for LIP "X" also exceeds ` 5,00,000 during the term of these policies.

Consequently, the consideration received under LIP "A", LIP "B" and LIP "C" would not be exempt u/s 10(10D) in A.Y. 2035-36.

Example 9:

LIP	X	A	B	C
Date of issue	1.4.2023	1.4.2024	1.4.2024	1.4.2024
Annual premium	2,50,000	2,00,000	2,50,000	6,00,000
Sum assured	25,00,000	20,00,000	25,00,000	60,00,000
Consideration received as on 01.11.2033 on maturity	30,00,000			
Consideration received as on 01.11.2034 on maturity		24,00,000	38,00,000	70,00,000
Note - The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2034-35, except LIP X in P.Y. 2033-34.				

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Eligibility for exemption u/s 10(10D) - The consideration under LIP "X" would be exempt u/s 10(10D) in P.Y. 2033-34, since the annual premium does not exceed ` 5,00,000 and also does not exceed 10% of actual capital sum assured.

In this case, the aggregate of the annual premium payable for LIP "A", LIP "B" and LIP "C" along with the premium for LIP "X" exceeds ` 5,00,000 during the term of these policies.

However, the consideration received under LIPs "A" or "B" (any one) can be claimed as exempt u/s 10(10D) in A.Y. 2035-36.

If the consideration received under LIP "A" is claimed to be exempt as aggregate of the annual premium payable for LIP "X" and "A" did not exceed ` 5,00,000 for any of the PYs., the consideration received under LIP "B" would not be exempt.

If the consideration received under LIP "B" is claimed to be exempt as aggregate of the annual premium payable for LIP "X" and "B" did not exceed ` 5,00,000 for any of the PYs., the consideration received under LIP "A" would not be exempt. Exemption for consideration received under LIP "B" is preferred as it is more beneficial to the assessee.

Alternative treatment: If the consideration under LIP "X" was not claimed to be exempt u/s 10(10D) in A.Y. 2034-35 by the assessee, then, the consideration received under LIP "A" and LIP "B" would be exempt u/s 10(10D) in A.Y. 2035-36 since the aggregate of the annual premium payable for the LIPs "A" and "B" together did not exceed ` 5,00,000 for any of the previous years during the term of these two policies. However, the most beneficial treatment is to claim LIP "X" and "B" as exempt.

It may be noted that in every case, the consideration received for LIP "C" would not be exempt u/s 10(10D).

Example 10:

LIP	X	Y	A	B	C
Date of issue	1.4.2023	1.4.2023	1.4.2024	1.4.2024	1.4.2024
Annual premium	2,00,000	2,00,000	2,00,000	3,00,000	6,00,000
Sum assured	20,00,000	20,00,000	20,00,000	30,00,000	60,00,000
Consideration received on surrender as on 1.7.2033	12,00,000				
Consideration received as on 01.11.2034 on maturity		24,00,000			
Consideration received as on 01.11.2035 on maturity			24,00,000	36,00,000	70,00,000

Note - The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2035-36, except LIP "X" and "Y".

Eligibility for exemption u/s 10(10D) - The consideration under LIP "X" would be exempt u/s 10(10D) in A.Y.2034-35, since the annual premium does not exceed ` 5,00,000 and also does not exceed 10% of actual capital sum assured.

The consideration received under LIP "Y" would be exempt u/s 10(10D) in A.Y. 2035-36, since the aggregate of annual premium payable for LIP "X" and "Y" does not exceed ` 5,00,000 and annual premium payable for LIP "Y" does not exceed 10% of actual capital sum assured.

The consideration received under LIPs "A", ULIP "B" and ULIP "C" would not be exempt u/s 10(10D) in A.Y. 2036-37, since aggregate of annual premium payable for these three policies and LIP "X" and "Y" exceeds ` 5,00,000.

Alternative treatment: If the consideration on surrender under LIP "X" was not claimed to be exempt u/s 10(10D) in A.Y. 2034-35 by the assessee, then the consideration received under LIP "Y" would be exempt and the consideration received under LIP "A" or LIP "B" (any one) can be exempt u/s 10(10D) in A.Y. 2036-37. If the consideration received under LIP "A" is claimed to be exempt, as aggregate of the annual premium payable for LIP "Y" and "A" did not exceed ` 5,00,000 for any of the PYs., the consideration received under LIP "B" would not be exempt.

If the consideration received under LIP "B" is claimed to be exempt as aggregate of the annual premium payable for LIP "Y" and "B" did not exceed ` 5,00,000 for any of the PYs., the consideration received under LIP "A" would not be exempt. Exemption for consideration received under LIP "B" is preferred as it is more beneficial to the assessee.

If the consideration on surrender of LIP "X" and on maturity of LIP "Y" were not claimed to be exempt under section 10(10D) in A.Y.2034-35 and A.Y.2035-36, respectively, then consideration received under both LIP "A" and LIP "B" would be exempt in A.Y.2036-37 (being LIPs issued on or after 1.4.2023, whose aggregate consideration does not exceed ` 5,00,000).

It may be noted that, in every case, consideration received under LIP "C" would not be exempt u/s 10(10D).

Clarification on GST Component: It is also clarified by the CBDT that the premium payable/ aggregate premium payable for a life insurance policy/policies, other than a ULIP, issued on or after 1.4.2023, for any PY, would be exclusive of the amount of GST payable on such premium.

Clarification on premium of Term life insurance policy: It is further clarified by the CBDT that the limit of ` 5,00,000 of amount of premium payable would not be applicable in case of a term life insurance policy i.e. where sum under a life insurance policy is only paid to the nominee in case of the death of the person insured during the term of the policy and no amount is paid to anyone if the insured person survives the policy tenure.

Rahul5209



Sec 56(2)(xiii): Income from Life Insurance Policy (Added by FA-23 w.e.f. AY 24-25)

Any sum is received, including bonus, at any time during a PY, under a life insurance policy, other than KIP & ULIP, which is not exempted u/s 10(10D), the sum received as exceeds the aggregate of the premium paid, during the term of such life insurance policy, and not claimed as deduction under any other provision of this Act, computed in such manner as may be prescribed.

Example : Hari, Ram & Kavi take life insurance policy on 10/07/24. They do not have any other policy & do not intend to take any other insurance policy in future. Discuss tax treatment

Particular	Hari	Ram	Kavi
Sum Assured	45,00,000	60,00,000	60,00,000
Annual Insurance Premium	4,00,000	5,20,000	6,50,000
Term of Policy	10 Years	10 Years	10 Years
Deduction claimed u/s 80C every year	60,000	1,50,000	1,20,000
Maturity Amount	52,00,000	77,00,000	80,00,000

Solution:

- Mr. Hari - As annual premium within the limit of 10% of sum assured & annual premium doesn't more than 5,00,000 so exemption u/s 10(10D) available. Nothing will be taxable u/s 56(2)(xiii).
- Mr. Ram - Annual premium withing the limit of 10% of sum assured but premium on policy taken on or after 01/04/23 is more than 5,00,000 so exemption u/s 10(10D) not available & it is taxable u/s 56(2)(xiii) under IFOS.
- Mr. Kavi - Annual premium exceed the limit of 10% of sum assured & premium on policy taken on or after 01/04/23 is more than 5,00,000 so exemption u/s 10(10D) not available & it is taxable u/s 56(2)(xiii) under IFOS.

Computation of Taxable amount from LIP under IFOS PY 33-34 AY 34-35

Particular	Mr. Ram	Mr. Kavi
Maturity Amount (A)	77,00,000	80,00,000
Annual Premium Paid	5,20,000	6,50,000
Less: Deduction Claimed u/s 80C	1,50,000	1,20,000
Total Premium paid net of deduction u/s 80C (B)	37,00,000	53,00,000
Taxable Income	40,00,000	27,00,000



Sec 64(1A): Income of a minor child

Income of a minor child is taxable in hands of the parent whose income is more before clubbing minor's income.

Exception:- In the following 3 cases minor's income is taxable in the hands of minor only;-

- ✓ Income is due to manual work.
- ✓ Income is due to skill & talent.
- ✓ Minor child suffering from disability.

Notes:

1. If minor child's income is clubbed in the hands of parent then exemption u/s 10(32) of ₹ 1500 p.a. per child is allowed to parent.
2. Once minor's income is clubbed with one parent, it will continue to be clubbed with that parent only, in subsequent years. AO, may, club the minor's income with other parent after giving an opportunity to be heard.
3. Where the marriage of the parents does not subsist, income of the minor will be includible in the income of that parent who maintains the minor child in the relevant PY.
4. Clubbing provisions are attracted even in respect of income of minor married daughter.
5. Child in relation to an individual includes a step-child and an adopted child of that individual.

Sec 64(1)(iv): Asset transferred to spouse

If any individual transfers any asset to his or her spouse without consideration or for inadequate consideration then income from such asset is received by spouse but tax on such income is paid by transferor (Assessee).

Notes:-

1. The above provision is applicable only if relationship of husband & wife should exist at the time of transfer of asset as well as at the time of generating the income.
2. This provision is not applicable if asset is transferred in connection with agreement to live apart.
3. If a House property is transferred by an individual to his spouse or minor child (Not being a minor married daughter) for without/inadequate consideration then such individual is treated as Deemed owner as per sec 27 & sec 64 shall not apply.

Sec 64(1)(vi): Asset transferred to Son's Wife

If any individual transfers any asset to his/her son's wife without consideration or for inadequate consideration, then income from such asset is received by son's wife but tax on such asset is paid by transferor.

Note: This provision is applicable only if the relationship of mother/father - in law & daughter - in law exists at the time of transfer of asset as well as at the time of generating the income.

Sec 64(1)(vii/viii): Asset transferred to any person for the benefit of spouse/son's wife

If an individual transfers any asset to any person without consideration or for inadequate consideration for the benefit of son's wife/spouse then income from such asset is received by any other person (transferee) but tax on such income is paid by transferor.

Sec 64(1)(ii): Income of spouse from a concern where assessee has substantial interest

Income of spouse is taxable in hands of assessee if following conditions are satisfied ;-

1. Income should be in the nature of salary, commission, bonus (remuneration) &
2. Such remuneration should be received from a concern where assessee has substantial interest.

Assessee + Relative (S.M.F.B.S.LA.LD) —Substantial Interest→ Concern (Co./Firm/AOP/BOI) —Remuneration→ Spouse

Substantial interest:
- Company → 20% or more shareholding
- Firm/AOP/BOI → 20% or more PSR

- Exceptions: If remuneration received by spouse due to technical & professional qualification & such remuneration is attributed to such qualification then the above provision is not applicable.
- Where both husband and wife have substantial interest in a concern and both are in receipt of income by way of remuneration from concern, such income will be includible in the hands of that spouse, whose total income, excluding such income is higher. Where any such income is once included in the total income of either spouse, income arising in the succeeding year shall not be included in the total income of the other spouse unless the AO is satisfied, after giving that spouse an opportunity of being heard, that it is necessary to do so.

Sec 60: Income transfer without transfer of asset

If an individual transfers any income without transfer of asset then such income is taxable in the hands of transferor.

Sec 61: Revocable transfer of asset

In case of revocable transfer, income is received by transferee but tax is paid by transferor.
Exception: If transfer is revoked after the death of beneficiary or transferee then the above provision is not applicable.

Sec 64(2): Asset transfer to HUF

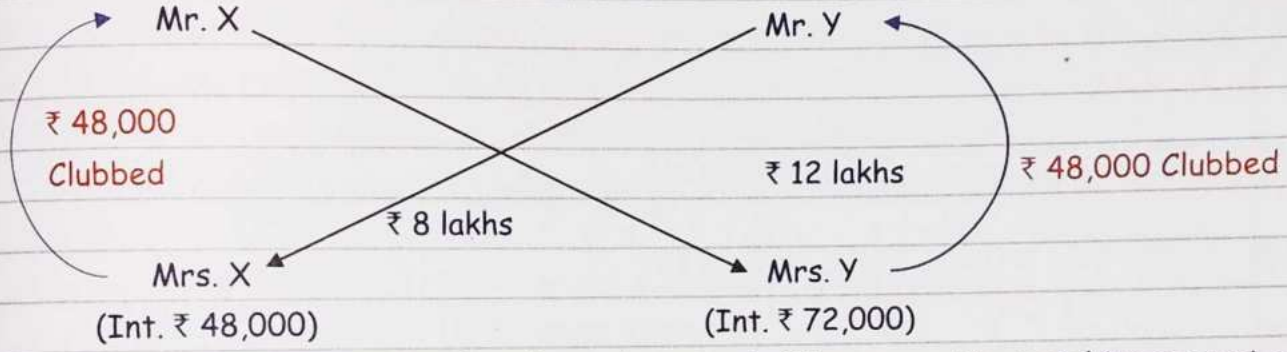
If any individual transfers any asset to his HUF without/for inadequate consideration, then income from such asset is received by HUF but taxable in hands of transferor (member).

- After partition of HUF, Income from such asset recd. by spouse shall be clubbed in hands of transferor.

Notes:

1. Income includes loss, so, if there is loss then also clubbing provisions are applicable.
2. Where an asset transferred is converted into other form, income derived from such converted asset shall be clubbed.
3. Natural love & affection may be a good consideration but it's not adequate consideration.
4. If the asset transferred is sold by the transferee then CG is treated as income & shall be clubbed.
5. If there are two transactions and they are inter-connected and part of same transaction, it shall be considered to be a device for evasion of tax and therefore clubbing provision shall apply. (Cross Gifts)

E.g.- Mr. X gifted ₹ 12 Lakhs to his brother's wife (Mrs. Y) & his brother (Mr. Y) gifted ₹ 8 Lakhs to Mrs X (Mr. X's wife). Gifted amount deposited in Banks@ 9% on 1/8/2025.



Clubbing provisions will be applicable only to the extent of income on the matching amount of cross gifts, in the above example, ₹ 8 Lakhs is matching amount.

6. Where any asset is transferred by individual to his spouse/son's wife & such amount is invested in Business by transferee then proportionate profit of such business shall be clubbed as per following formula :

$$\text{Income from business} \times \frac{\text{Gifted by Assessee}}{\text{Capital of Business on first day of P.Y. (Opening Capital)}}$$

Clubbing shall be applicable only if gifted money is included in opening capital.

7. All the clubbing provisions are not applicable to second generation income i.e. income from accretion of transferred asset.

Rahul5209

Sec 70: Intra head adjustment

It means loss from one source of income can be set off against income from another source of income but in the same head of income.

Exceptions:

- Speculative business loss can be set off against only speculative business income.
- Specified business loss (Sec 35AD) can be set off against specified business income.
- Long term capital loss (LTCL) can be set off against long term capital gains.
- Loss from owning & maintaining race horses can be set off against income from owning & maintaining race horses.

Sec 71: Inter head adjustment

It means loss under one head of income can be set off against income from another head of income but in the same previous year*.

Exceptions:

- Speculative business loss can be set off against only speculative business income.
- Specified business loss (Sec 35AD) can be set off against specified business income.
- Long term capital loss (LTCL) can be set off against long term capital gains.
- Loss from owning & maintaining race horses can be set off against income from owning & maintaining race horses.
- Short term capital loss (STCL) can be set off only against STCG &LTCG.
- Loss from Business cannot be set off against salary.

* For carry forward losses Inter-head adjustment Not Allowed

Summary

1. Income From Salary - Loss not possible

2. Income From House Property - Loss from HP
   - Step - 1 Intra head adjustment
   - Step - 2 Inter head adjustment (Max ₹ 2,00,000)
   - Step - 3 Carry Forward for next 8 AY's

3. Profit & Gain from Business or profession

   (i) Loss from Speculative Business
   - Step - 1 Setoff against speculative business income
   - Step - 2 Carry Forward for next 4 AY's

   (ii) Loss from Specified Business
   - Step - 1 Setoff against specified business income
   - Step - 2 Carry Forward for Unlimited Period

(iii) Any other Business Loss
- Step - 1 Intra head adjustment
- Step - 2 Inter head adjustment (except Salary)
- Step - 3 Carry Forward for next 8 AY's

4. Capital Gain

(i) STCL
- Step - 1 Setoff against STCG or LTCG
- Step - 2 Carry Forward for next 8 AY's

(ii) LTCL
- Step - 1 Setoff against LTCG
- Step - 2 Carry Forward for next 8 AY's

5. Income from other sources

(i) Loss from Owning & Maintaining race-horses
- Step - 1 Setoff against Owning & Maintaining race-horses income
- Step - 2 Carry Forward for next 4 AY's

(ii) Other losses of IFOS
- Step - 1 Intra head adjustment
- Step - 2 Inter head adjustment
- Step - 3 Carry Forward NOT allowed.

Notes:

1. Loss from house prop. which can be set-off against income from any other head is max. ₹2 lakhs.
2. It is to be remembered that once a particular loss is carried forward, it can be set off only against the income from the same head in the forthcoming AY's.

Carry Forward & Set-off of Losses

Section	Losses to be C/F	B/F losses setoff against	Time Limit	ROI on time
71B	Loss from HP	Income from HP	8 Years	No
72	Normal Business Loss	Any Business Income	8 Years	Yes
73	Speculative Business Loss	Speculative Business Income	4 Years	Yes
73A	Specified Business Loss	Specified Business Income	Unlimited	Yes
74	STCL	STCG & LTCG	8 Years	Yes
	LTCL	LTCG	8 Years	Yes
74A	Owning & maint. race horses	Income from Owning & maint race horses	4 Years	Yes
32	Unabsorbed Dep.	Any head of Income except salary	Unlimited	No

Rahul5209



Notes:

1. Whenever income is exempt then losses does not have any tax treatment means it should be ignored.
2. Loss from any lottery, card games, races, etc are Not Eligible for set off & C/F & Losses cannot be set off against the income referred u/s 115BB i.e lottery income, crossword puzzles, income in TV show, etc.
3. B/f losses from a business can be set off even if such business is Not continued.
4. Order for set off of losses.
   - ✓ Current year depreciation
   - ✓ B/f loses from Business or profession
   - ✓ Unabsorbed depreciation
5. If there is income under any head & eligible losses under any other head, such loss shall be first set off against the income before set off & elf of losses(CBDT circular).
6. Set off of losses not permissible against unexplained income, investment, money etc, chargeable u/s 68 to 69D [Sec 115BBE].
7. If assessee opted section 115BAC default tax regime then HP head losses not allowed to setoff against any other head and it cannot be carry forward.

Stock & Commodity market

1. Transactions in shares where delivery effected
   - ☞ PGBP if shares held as Stock in trade
   - ☞ Capital Gain if shares held as Capital Asset
2. Transactions in shares where delivery not effected i.e., Intraday
   - ☞ Always Speculative Business Income
3. Transactions in Derivative i.e. futures, options etc. & currency futures at recognised stock exchange
   - ☞ Always Normal Business Income



1. Deduction u/c VI-A is restricted to Gross Total income & deduction cannot be carry forward.
2. Deduction u/c VI-A is Not Allowed against LTCG, LTCG 112A, STCG 111A & special rates of tax income.

Payment Related Deductions

Sec 80C: Specified Investments

- Eligible Assessee: Individual & HUF
- Amount of Deduction: Max ₹ 1,50,000
- Eligible Investments

1. Life Insurance Premium (LIP)

For Individual: Self, Spouse, Children

For HUF: Any Member

Policy issued before 1/4/12	Policy issued on or after 1/4/12	Policy issued on or after 1/4/13 for person with disability (u/s 80U) or person suffering from specified disease (u/s 80DDB)
(i) Premium Paid xx (ii) 20% of Policy Value xx	(i) Premium Paid xx (ii) 10% of Policy Value xx	(i) Premium Paid xx (ii) 15% of Policy Value xx

2. Amount deposited in Public Provident Fund (PPF)
(For Individual: Self, Spouse, Children)
(For HUF: Any Member)
3. Employee's contribution to Statutory provident fund, Recognised Provident fund or Approved Superannuation Fund (SPF, RPF & ASF).
4. Amount invested in NSC as well as interest accrued on NSC.
5. Repayment of Loan taken from banks or financial institution for purchase or construction of House.
6. Fixed Deposit in a scheduled Bank or Post office for 5 years or more.
7. Tuition fees paid for education of children. [Max 2 children for full time education in India]
8. Deposit in Notified bonds of NABARD.
9. Deposit in Senior citizen Saving Scheme.
10. Contribution towards Unit Linked Insurance Plan (ULIP) or ELSS.
11. Notified units of Mutual Funds or UTI.
12. Notified Pension scheme of UTI or MF.
13. Deposit in Sukanya Samridhi scheme A/c [For any girl child of individual or girl child for whom such individual is a legal guardian].
14. Stamp duty, Registration fee for acquisition of house property.
15. By employee of CG as a contribution to a specified account of the pension scheme referred to in Sec. 80CCD for a fix period of Three years or more (NPS Tier - II).
16. Contribution to National Housing Bank (Tax Saving) Term Deposit Scheme, 2008.

Sec 80CCC: Contribution to Pension Fund of LIC or other Insurance company

- Eligible Assessee: Individual & HUF
- Amount of Deduction: Max ₹ 1,50,000

Sec 80CCD: Contribution to Pension scheme of Central Govt. / National Pension scheme

- Eligible Assessee: Individual
- Amount of Deduction: Max ₹ 1,50,000

Sec 80CCD(1)

Salaried Employee		Other Individuals	
(i) Employees Contribution	xx	(i) Assessee's Contribution	xx
(ii) 10% of salary	xx	(ii) 20% of GTI	xx

Sec 80CCD(1B): Additional deduction up to ₹ 50,000 shall be allowed other than contributions covered u/s 80CCD(1)

Note: Deduction u/s 80CCD(1B) is allowed to the parent or guardian's for amount deposited for Minor's (NPS Vatsalya) to maximum limit of ₹ 50,000 mandated under this subsection.

Example: Assessee's contribution - ₹ 1,40,000 towards NPS & GTI is ₹ 5,50,000, in this case, assessee can claim ₹ 1,10,000 (20% of GTI) u/s 80CCD(1) & remaining ₹ 30,000 u/s 80CCD(1B) or He can first claim u/s 80CCD(1B) of ₹ 50,000 & remaining ₹ 90000 u/s 80CCD(1).

Sec 80CCD(2): Employer's contribution to NPS for the benefit of Employee

Employer's contribution is first taxable under the head salary in hands of Employee & then he gets deduction u/s 80CCD(2)

(i)	Employer's Contribution	xx
(ii)	10%* / 14%* of Salary	xx

* 14 % where such contribution made by C.G or S.G.

* 14% if assessee follow default tax regime u/s 115BAC [Added by FA 24 w.e.f. AY 25-26]

Notes

- ✓ For the purpose of Sec 80CCD(1) & (2), Salary means = Basic salary +DA (In terms)
- ✓ As per Sec 10(12A) any payment received by assessee on closure of his account is exempt to the extent of 60% (40% is taxable) of total amount payable to him at the time of closure. In case of employee or Non-employee, any amount received from NPS by the nominee legal heir on death of an assessee is Fully Exempt.
- ✓ As per Sec 10(12BA) any payment received by parent/guardian on partial withdrawal from NPS Vatsalya is exempt to the extent of 25% of contributions made by him . In case of death of minor amount received by parent/ guardian is Fully Exempt.

✓ Subscribers from Recognised Provident Funds and Super-annuation Funds would be able to transfer their corpus from these funds to National Pension System (NPS) without any tax implication.

✓ In case of partial withdrawal from NPS by an employee, payment shall be exempt upto 25% of contributions made by him (Fully taxable for non-salaried employee) [Sec 10(12B)].

➢ Sec 80CCE: Aggregate deduction u/s 80C + 80CCC + 80CCD(1) is restricted to Max. ₹ 1,50,000

Sec 80CCH: Contribution to Agnipath Scheme (Added by FA 23 w.e.f. AY 24-25)

➢ Eligible Assessee: Individual enrolled in Agnipath scheme subscribing to the Agniveer Corpus Fund on or after 1.11.2022.

➢ Sec 80CCH(1): 100% of his contribution to Agnipath Corpus Fund

➢ Sec 80CCH(2): 100% of CG contribution to Agnipath Corpus Fund (first it is taxable under salary and then EE can claim deduction here)

➢ Sec 10(12C): Any amount received by assessee or his nominee from Agnipath Fund is exempt from tax.

Note: As per Agnipath scheme 30% of monthly package should contributed to Agnipath fund by assessee and CG will also contribute matching amount.

Sec 80D: Medical Ins. Premium, CG Health Scheme, Preventive Health check-up & Medical Treatment

➢ Eligible Assessee: Individual & HUF

➢ For Whom: Individual - Self, spouse, Parents & dependent children.
HUF - Any member of HUF.

➢ Mode of payment: Any mode other than Cash, but payment of preventive health check-up can be made in Cash.

➢ Amount of Deduction

	Particular	Individual		HUF
		Self, Spouse, depended Children	Parents	Members
A.	(i) Medical insurance Premium	Yes	Yes	Yes
	(ii) CG Health scheme	Yes	No	No
	(iii) Preventive Health check-up	Yes	Yes	No
	General Deduction [i + ii + iii]	Max 25,000	Max 25,000	Max 25,000
	+			
	Additional Deduction (When Mediclaim taken for Senior Citizen - Age 60 or more)	Max 25,000	Max 25,000	Max 25,000
B.	Medical Exps. of Senior citizen (Age 60 or more) & Mediclaim premium not paid for Such person	Max 50,000	Max 50,000	Max 50,000
	Maximum Deduction (A+B)	Max 50,000	Max 50,000	Max 50,000

Notes: Aggregate payment for preventive health check-up of self, spouse, dependent children & parents cannot exceed ₹ 5000/-

- Where the medical insurance premium is paid in lumpsum for more than 1 year, deduction for each year shall be : $\frac{\text{Lumpsum premium}}{\text{PY's in which Insurance in force}}$

E.g.: Mr. BB paid health insurance premium to star health of ₹ 60,000 for 5 years on 01/11/25. Policy tenure is 5 years i.e. from 01/11/25 till 31/10/30. Calculate deduction to be allowed in PY 25-26.

In this case deduction allowed in 6 PY's i.e., from PY 25-26 till PY 30-31, so deduction for PY 25-26 is ₹ 60,000/6 years= ₹ 10,000.

Sec 80DD: Medical treatment & Maintenance of Handicapped dependant relative

- Eligible Assessee: Resident Individual & HUF
- Amount of Deduction: (i) Normal disability : ₹ 75,000
  (ii) Severe disability (80% or more disability) = ₹ 1,25,000

Notes

1. Assessee should incur expenses on medical treatment or deposit any amount for maintenance of such handicapped dependant relative.
2. Relative Individual - Spouse, Brother, Sister, Children, Mother, Father.
   HUF - Any dependant member of HUF
3. Deduction will be reversed if dependent handicapped relative received annuity before the death of assessee or before attaining age of 60 years of assessee.

Sec 80DDB: Deduction in respect of Medical treatment of specified Disease

- Eligible Assessee: Resident Individual & HUF
- Amount of Deduction:

	₹
(i) Actual Expenses on treatment	xx
(ii) Maximum * ₹ 40,000/ ₹ 1,00,000 Whichever is Lower	xx
Less: Insurance Claim Recd.	xx
Amount of Deduction	xx

* Normal case - ₹ 40,000
Senior citizen patient - ₹ 1,00,000

- Assessee should incur expenditure on the treatment of specified diseases for ;-

Individual - Self or dependant relative (Spouse, Brother, Sister, Children, Mother, Father)
HUF - Any dependant member of HUF

Rahul5209



Sec 80U: Deduction for handicapped Assessee

- Eligible Assessee: Resident Individual
- Amount of Deduction: (i) Normal disability : ₹ 75,000
  (ii) Severe disability (80% or more disability) = ₹ 1,25,000

Sec 80E: Interest on loan for higher education in India or abroad [any course after XII Class]

- Eligible Assessee: Individual
- Amount of Deduction: Interest amount for a period of 8 consecutive years starting from the year in which assessee starts paying interest.
- Deduction is allowed if loan taken for the education of self, spouse, children or any student for whom assessee is a legal guardian.

Sec 80EE: Deduction in respect of interest on housing loan

- Eligible Assessee: Individual
- Amount of Deduction: Max. ₹ 50,000
- Conditions
  - Loan should be taken from bank or financial institution for acquisition of residential property.
  - Purchase price of house upto ₹ 50 Lakhs.
  - Loan should be sanctioned between 1/4/2016 to 31/3/2017.
  - Loan amount up to ₹ 35 lakhs.
  - Assessee does not own any residential house on the date of sanction of loan.
  - First deduction should be claimed u/s 24(b) of house property (up to ₹ 2,00,000) & remaining int. deduction u/s 80EE.

Sec 80EEA: Deduction in respect of interest on housing loan

- Eligible Assessee: Individual (other than covered u/s 80E)
- Amount of Deduction: Max. ₹ 1,50,000
- Conditions
  - Loan should be taken from banks or financial institution for acquisition of residential property.
  - Stamp Duty Value of house property should be upto ₹ 45 lakhs.
  - Loan should be sanctioned between 1/4/2019 to 31/3/2022.
  - Assessee does not own any residential house property on the date of sanction of loan.
  - If deduction allowed for any interest here then deduction shall not be allowed in respect of such interest under any other provision.
  - First deduction should be claimed u/s 24(b) of house property and remaining interest deduction u/s 80EEA.

Sec 80EEB: Deduction in respect of interest on Electric Vehicle (EV) Loan

- Eligible Assessee: Individual
- Amount of Deduction: Max. ₹ 1,50,000
- Conditions
  - Loan should be taken from banks or financial institutions including NBFC.
  - Loan should be sanctioned between 1/4/2019 to 31/3/2023.
  - If deduction allowed for any interest here then deduction shall not be allowed in respect of such interest under any other provision.

Sec 80G: Donations

- Eligible Assessee: All Assessee
- Eligible Donations

Part A - Unlimited Category

- National Defence fund
- P.M. National Relief fund
- P.M. Armenia Earthquake Relief fund
- C.M. Relief fund & Lieutenant Governor Relief fund
- Zilla Saksharta Samiti
- National Sports fund
- National Children fund
- National Cultural fund
- Swachh Bharat Kosh
- Clean Ganga Fund
- National Fund for control of Drug abuse
- P.M. Citizen Assistance and Relief Fund (Care Fund)
- Fund for Army, etc.

→ 100% Unlimited

- P.M. Drought Relief fund - 50% Unlimited



Part B -Limited Category

- ✓ Donation to Govt. or Local Authority or approved Institution for promoting Family Planning (F)
- ✓ Donations by Company to Indian Olympics Association (O) or any other institution for development of infrastructure for sports in India,

} 100% Limited

- ✓ Donation to Housing development authority (H)
- ✓ Donation for renovation or repair of temple, (T) gurudwara, mosque or church, etc.
- ✓ Donation to any Public Charitable Trust (C)
- ✓ Donation for Promoting minority community in India (M)

} 50% Limited

➢ Under limited category, there is limit of Eligible donation

F.O.	xx
H.T.C.M.	xx
Total Donation	xx
10% of ATI *	xx
Eligible Donation	xx

*ATI - Adjusted Total income

	₹
GTI (exclude LTCG 112, 112A & STCG 111A)	xx
(-) All deductions (except 80G)	xx
ATI	xx

➢ Notes:

1. Deduction under this section is not allowed if donation made in cash is more than ₹ 2000.
2. Donations paid in kind are not eligible for deduction u/s 80G.

Sec 80GG: Rent paid of House Property (HRA not recd.)

➢ Eligible Assessee: Individual

➢ Amount of Deduction

(i) ₹ 5000 P.M.
(ii) 25% of Adj. GTI
(iii) Rent Paid - 10% of Adj. GTI

➢ Assessee or his spouse or minor child or HUF should not own any house at the place of his duty.

Adjusted GTI = GTI - All deductions u/c VIA (Except u/s 80GG)

Sec 80GGA: Donation for scientific research or rural development

- Eligible Assessee: All assessees (except assessees having income under the head PGBP)
- Amount of Deduction: 100% of donation
- If donation amount is more than ₹ 2,000 then should be made other than Cash.

Sec 80GGB/80GGC: Donation to Political Parties or Electoral Trust

- Eligible Assessee: 80GGB - Indian Company, 80GGC - Any Other Person
- Amount of Deduction: 100% of donation

Note: No deduction, if donation made in Cash.

Income Based Deductions ["VI-A Part - C" Income in respect of certain Income]

General points regarding Income Based Deductions

1. Deduction u/s 10AA/chapter VI - A Part-C shall NOT be allowed, if NOT claimed in return. Also, deduction shall be allowed, only if the return is filed upto the due date of filing of return.
2. Income based deduction u/c VI-A "Part-C" means deduction covered u/s 80-IA to 80RRB. Deduction u/s 80JJAA practically allowed on expenditure but it is included in income based deduction "Part-C" in law so AMT also apply if assessee claimed deduction u/s 80JJAA.

Sec 80JJAA: Deduction in respect of Employment of new employees

- Eligible Assessee: Any Assessee engaged in Business & to whom Sec 44AB applies
- Amount of Deduction: 30% of Additional employee cost (deduction for 3 consecutive years)
- Additional employee cost: Total emolument paid or payable to Additional employees employed during the P.Y.
  - ☞ In case of existing business, Additional employee cost shall be Nil, if
  - There is no increase in the Total number of employees.
  - Emoluments paid otherwise than by alc payee cheque, DD or ECS.

E.g.: Suppose total employee as on 31/3/25 were 100 and during P.Y. 25-26, 15 employees left the job & 15 new employees joined, then there will be no deduction, suppose in above example if 20 new employees joined then deduction will be allowed on emolument paid to 5 employees.

- ☞ In case of New Business - Emoluments paid or payable to employees employed during that P.Y.

- Additional employees do not include -
  - ⊗ Employee whose emoluments > ₹ 25,000 p.m.
  - ⊗ Employee employed for less than 240 days in P.Y. (in case of manufacture of apparel or footwear or leather products then 150 days)
  - ⊗ Employee does not participate in RPF.

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⊗ Employee for whom the entire contribution is paid by Govt under Employees Pension scheme notified in accordance with the provision of the Employees PF & Misc. Provision Act, 1952.

➢ Notes:

1. If an employee is employed during PY for less than 240/150 days, but is employed for a period of 240/150 days, in next year, he shall be deemed to have been employed in nexy year. Accordingly, assessee entitled for deduction of 30% of additional employee cost in the next.
2. Deduction under this section allowed only if BOA is audited of assessee and audit report should be submit upto date given u/s 44AB.

Sec 80QQB: Royalty from Books of literacy, artistic, scientific nature

➢ Eligible Assessee: Resident Individual

➢ Amount of Deduction:

(i)	Eligible Royalty received	xx
(ii)	Max. ₹ 3,00,000	xx
	Whichever is Lower	xx

➢ Eligible Royalty: In case of lumpsum Royalty - Amount Received as Royalty
Otherwise - Max. 15% of value of Book sold

Sec 80RRB: Royalty from Patent

➢ Eligible Assessee: Resident Individual

➢ Amount of Deduction:

(a)	Royalty received	xx
(ii)	Max. ₹ 3,00,000	xx
	Whichever is Lower	xx

➢ Note for 80QQB & 80RRB: If Royalty is earned outside India, then deduction is allowed only if such royalty amount is brought in India in convertible foreign exchange within 6 months from the end of the P.Y. or time allowed by RBI

Other Income Based Deductions ["VI-A Part - CA"]

Sec 80TTA: Interest on Savings Account from Bank, Co.op Bank & Post office

➢ Eligible Assessee: Individual & HUF

➢ Amount of Deduction:

(i)	Interest Amount	xx
(ii)	Max. ₹ 10,000	xx
	Whichever is Lower	xx

➢ Note: Deduction under this section not available to a resident senior citizen eligible for deduction u/s 80TTB

Sec 80TTB: Interest on Deposits from Bank, Co.op Bank & Post office

- Eligible Assessee: Resident Senior Citizen
- Amount of Deduction:

(i)	Interest Amount	xx
(ii)	Max. ₹ 50,000	xx
	Whichever is Lower	xx

- Sec 10AA: Special Provisions for newly establish units SEZ

1. In computing Total income of an undertaking, which begins to manufacturing or produce article or things or computer software in any SEZ

Deduction under this section is available only if the SEZ unit has received the necessary approval upto 31.3.2020 and begins manufacture or production of articles or things or providing services upto 31.03.2021.

Amount of Deduction	
For First 5 AY's	100% of Export Profit
For Next 5 AY's	50% of Export Profit
For Next 5 AY's	Amount debited to P&L A/c & credited to SEZ Reinvestment Allowance Reserve A/c OR 50% of Export Profit Whichever is lower

2. Export Profit

$$\text{PGBP of unit located in SEZ} \times \frac{\text{Export Turnover}^{**}}{\text{Total Turnover}}$$

**Export Turnover means the consideration in respect of export brought into India in convertible foreign currency within 6 months from end of PY or time permitted by RBI.

Notes:

1. Sales proceeds deemed to have been received in India if such amount is credited to a separate A/c maintained by assessee outside India with approval of RBI.
2. Amount credited to SEZ Re-invest allowance reserve A/c should be utilized for acquiring new P&M & put to use within 3 years from the end of P.Y. in which reserve was created. If amount mis-utilised or un-utilised then deduction claimed earlier shall be taxable as PGBP.

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Yes People!

Deemed Income

- If Reserve has been utilized for non-specified purpose: of the year in which wrongly utilized.
- If Reserve has not been utilized till the expiry of time limit: of the year immediately following the period of 3 years.

3. Export T/O does not include freight, telecommunication charges, Insurance or expenses for providing service outside India. Further export T/O shall not include cash compensatory support, Duty drawback and profit on sale of import entitlement licenses.

4. Total T/O shall not include freight, telecommunication charges, insurance or expenses for providing service outside India. Further it shall not include CCS, DD and profit on sale of import entitlement licenses. Total T/O includes Export T/O and Domestic T/O and it further includes even that portion of export T/O which is not received in convertible foreign exchange.

5. Deduction u/s 10AA available after claiming all deduction u/c VI-A from GTI.

6. Income from cash Compensatory support, duty drawback and sale of import entitlement licenses are taxable under the head PGBP but not eligible for deduction calculation as these are ancillary profit and hence do not constitute profit "derived from" business.

7. Assessee shall obtain a report from an CA and furnish it before the due date specified u/s 44AB.

8. P&M used in business should be New:-
   Exceptions:
   a) 20% of total value of P&M used in undertaking can be second hand.
   b) P&M Imported from outside India for the first time shall be treated as New P&M.

Alternate Minimum Tax (AMT)

AMT is applicable to All assessee except Company.

➢ Sec 115JC: Income tax payable by any person, higher of

		₹
(i)	Income Tax payable as per Normal Provision of Income Tax	xxx
(ii)	18.5% of Adjusted Total income (ATI)	xxx

[Surcharge (if applicable) + 4%]

Notes:

1. Calculation of ATI

	₹
Total Income (NTI) as per Normal provision of Income Tax	xx
Add: (i) Deduction u/s 10AA (SEZ)	xx
(ii) Deduction u/s 35AD (14 Business)	xx
(iii) Deduction u/c VI-A (80JJAA, 80QQB & 80RRB)	xx
	xx
Less: Depreciation allowable as per Sec. 32 assuming that deduction u/s 35AD was not allowed on the assets on which deduction u/s 35AD is claimed	xx
ATI	xx

2. AMT shall not be applicable if ATI (Adjusted Total income) is up to ₹ 20 lakhs in case of Individual, HUF/AOP/BOI/Artificial Judicial Person.
   The provision of AMT apply only if assessee is claiming deduction u/s 10AA, 35AD, 80JJAA, 80QQB or 80RRB.
3. AMT not applicable if assessee follow section 115BAC.

➢ Sec 115JD : AMT Credit

a) If AMT > Normal Income tax then excess shall be treated as AMT credit.
b) AMT credit can be C/F and set off for 15 years.
c) Credit can be set-off in the year in which regular tax is more than AMT.
d) The credit allowed to be set off will be restricted to the difference between the regular Income tax computed under normal provision of IT & the AMT.
e) Assessee can claim AMT credit in such subsequent P.Y. even if AMT is not applicable in subsequent P.Y.



ADVANCE TAX

1. Advance tax means tax paid in the financial year immediately preceding the A.Y. (i.e. P.Y.)
2. Advance shall be calculated by estimating the current year income then applying tax rates. TDS, TCS, AMT Credit, Relief credit shall be deducted to arrive at Advance tax liability.
3. Assessee is required to pay Advance tax if his liability for advance tax is ₹ 10,000 or more.
   Exceptions: Resident Senior citizen not having income under "PGBP", shall not be required to pay advanced tax.
4. Due dates of Advance Tax for All Assesseee's

Due Date	Amount of Advance Tax	Important
upto 15th June of P.Y.	upto 15% of advance tax liability	If Assessee opts for Sec 44AD/ADA (Presumptive PGBP) then due date is 15th March of P.Y. (100% of Advance tax in 1 instalment)
upto 15th Sept of P.Y.	upto 45% of advance tax liability	
upto 15th Dec of P.Y.	upto 75% of advance tax liability	
upto 15th Mar of P.Y.	upto 100% of advance tax liability	
Note: Tax paid upto 31st March of P.Y. is treated as advance tax.		

INTEREST u/s 234A, 234B & 234C

➢ Sec 234A: Interest for delay in Return filing

Tax as per ROI [After Adjustment of TDS/TCS/ Advance tax/ AMT credit/ Relief] i.e. Tax remaining unpaid on 1st April of A.Y. × Rate [1 % per month or part of a month] × Period [From the date after due date of ROI till the date of actual filing of Return]

Notes:1. However as per supreme court decision in Dr. Prannoy Roy, credit will be given of self-Assessment tax, if it is paid upto due date of return filing.

➢ Sec 234B : Interest for non / short payment of advance tax

This interest is not applicable if assessee paid 90% or more of Advance tax payable.

Advance Tax Short Paid as per ROI × Rate [1 % per month or part of a month] × Period [From 1st April of A.Y. till the date of actual payment of Tax]

➢ Sec 234C: Interest for deferment of Advance tax instalments

Deferred Amount × 1% per month or part of a month × 3 months for all instalments except last instalment

[For last instalment, Int is applicable always for 1 month] [16/3 to 31/3]

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Notes:

1. Interest u/s 234C always calculated on tax as per ROI.
2. Interest u/s 234C shall not be levied for 1st or 2nd instalment deferment, if Assessee has paid Advance tax upto 12% in 1st instalment, upto 36% in 2nd instalment.

3. Advance tax in case of Capital gain, Winnings, Dividend, PGBP first time
   Assessee is not able to estimate capital gains or winnings or income under PGBP accrues first time or Dividend so advance tax on such income shall be paid in remaining instalment by assessee after receipt of such income. If no instalment is due [income recd. during 16/3 to 31/3] then Advance tax shall be paid upto 31/3 of P.Y.
   In case of above income interest u/s 234C applicable only from the quarter in which income is received.

➢ Sec 234E: Fee for default in furnishing TDS/TCS Statements (Return)
For delayed filing quarterly statement, assessee shall be liable to a mandatory fees of ₹200 per day during which default continues. The fees cannot exceed the amount of TDS deductible. The fees shall be paid before filing of quarterly statement.

➢ Sec 234F: Fee for default in furnishing return of income
Where a person, who is required to furnish a ROI u/s 139, fails to do so within the prescribed time limit u/s 139(1), he shall pay, by way of fee, a sum of ₹ 5000.
However, if total income of the person does not exceeds ₹ 5 lakhs, the fees payable shall not exceed ₹ 1,000.

➢ Sec 234H : Fees for default in Linking Aadhar with PAN
If assessee link Aadhar with PAN on or after 01/04/2022 then he is required to pay following fees-

- Link between 01/04/22 till 30/06/22 - ₹ 500
- Link on or after 01/07/22 - ₹ 1,000

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Tax Deducted at Source (TDS)

1. TDS requirement arise :
   (i) at the time of payment, OR
   (ii) at the time crediting the A/c of payee, whichever is earlier
   But in following cases TDS deducted only at the time of payments:
   (i) Salary - Sec 192
   (ii) EPF Payment - Sec 192A
   (iii) Dividend - Sec 194
   (iv) Winnings - Sec 194B, 194BB, 194BA
   (v) Maturity of life insurance policy - Sec 194DA
   (vi) Compensation on compulsory acquisition of property - Sec 194LA
   (vii) Cash withdraw from bank - Sec 194N

2. All TDS rates are Fixed rates i.e. 1%,2%,5%,10% etc. but if payment made to NR / Foreign Co. or payment of salary then surcharge & HEC shall be considered.

3. Sec 206AA: If payee does not furnish his PAN to the payer, the TDS rate shall be;-
   (i) Rate as per respective section, OR
   (ii) Rate @ 20%*
   Whichever is higher
   *For sec 194-Q rate is 5% instead of 20%

4. If the payment is made by payer without TDS, then payee shall be responsible to make payment of tax directly. However, if the tax has been deducted by payer, but not deposited with Government, then payee cannot be called upon to pay that much tax.

Section	Nature of Payment	Payer	Payee	Rate
192	Salary	Any Person	Employee (R/NR)	Slab Rate

Additional Points

1. Employer required to deduct TDS only at the time of Payment.
2. If employee intend to opt out from default taxation u/s 115BAC & submitted declaration to employer then employer shall deduct TDS as per normal rates, otherwise as per Sec 115BAC.
3. Employer shall consider details of other income, deduction & TDS/TCS of employee if furnished by Employee. Employee has to submit evidences of such deductions, exemptions & losses.
4. Employer shall not consider losses of employee except loss under the head house property.
5. If employer bear the tax on non-monetary perquisites, then this need not be deducted from the salary of the employee. Amount borne shall not be allowed to employer u/s 40(a)(v) and the same

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will be exempted in the hands of employee u/s 10(10CC). Also, the tax so borne will be treated as TDS in the hands of employee and credit of the same can be availed by employee.

6. Where the employee has worked with more than 1 employer during the year or employee changed the job during the year, he may furnish the details of his salary & TDS deducted by one employer to other/current employer.
7. Where firm pays salary to partner, section 192 is not attracted as it is taxable in hands of partner under PGBP but from 1st April 25 TDS applicable u/s 194T if remuneration or interest more than 20,000 in a F.Y.

Section	Nature of Payment	Payer	Payee	Rate
192A	Accumulated balance of PF	Any Person	Employee (R/NR)	10%

Additional Points

1. TDS required to be deducted only at the time of Payment.
2. No need to deduct TDS if aggregate amount of payment is less than ₹ 50,000.

Section	Nature of Payment	Payer	Payee	Rate
193	Interest on Securities	Any Person	Resident Person	10%

Additional Points

No TDS if interest is paid:

- No TDS if amount or aggregate amount is upto ₹ 10,000 during the F.Y.
- For Debenture issued by a public company to Individual/HUF if interest does not exceed ₹ 5,000 during the PY and the same is paid by a/c payee cheque.
- To LIC, GIC or other insurers.
- Sec 54EC CG Bonds issued by Power Finance Corp. Ltd. or Indian Railway Finance Corp. Ltd.
- On Govt. Security [Exception - interest on 8% Savings (Taxable) Bonds, 2003 or 7.75% Savings (Taxable) Bonds, 2018 or Floating Rate Savings Bonds, 2020 or any other notified security, if interest is more than ₹ 10,000 during the PY then TDS applicable]

Section	Nature of Payment	Payer	Payee	Rate
194	Dividend	Domestic Company	Resident Person	10%

Additional Points

1. TDS required to be deducted only at the time of Payment.
2. No TDS if payment made to Individual by any mode other than cash and payment is upto ₹ 10,000 in a PY.
3. TDS also required to be deducted on deemed dividend u/s 2(22)(a) to 2(22)(f). [2(22)(f) w.e.f. 1/10/24]
4. No TDS if dividend to LIC, GIC or any other insurer provided the shares are owned by them, or they have full beneficial interest in such shares.

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Section	Nature of Payment	Payer	Payee	Rate
194A	Interest other than Security interest	Any Person other than Individual & HUF [Ind/HUF required to deduct TDS, if last year T/O > ₹ 1 Cr in case of business or G/R > ₹ 50 Lakhs in case of profession]	Resident Person	10%

Additional Points

No TDS in following cases

1. Interest by Bank/Co. Op. Bank/Post office on time deposit upto ₹ 50,000 (₹ 1,00,000 for Resident senior citizen).
2. Interest by any other person upto ₹ 10,000.
3. Interest on Saving Bank Account.
4. Interest by Firm to Partners.
5. Interest on Income Tax Refund.
6. Interest on "Mahila Samman Savings Certificate, 2023".
7. Interest to Banks, Co-op. banks, Financial Corporations, LIC, Insurance Co., UTI, National Skill Development Fund, Housing and Urban Development Corporation. [Remember - NBFC not covered]
8. Interest by a Co-operative Society (other than Co. op. Bank) to another Co-operative Society or to any of its Members.
9. Interest by a Co-operative Society being bank to another co-op. society.
10. Interest on deposits with a primary agricultural credit society or a primary credit society or a co-operative land mortgage bank or a co-operative land development bank

Note: In case of point 8 to 10 TDS required to be deducted if T/O or G/R of Co-op. Society in last year more than ₹ 50 Crores and interest paid/credited is more than ₹ 50,000 or in case of senior citizen ₹ 1,00,000.

11. Interest Credited on the compensation amount awarded by the Motor Accidents Claims Tribunal (MACT).
12. Interest on the compensation amount awarded by the MACT paid during the FY does not exceed ₹ 50,000.
13. In case of banks following CBS Software, NO TDS should be made on Interest which is credited to a provision account on a daily or monthly basis only for the purpose of macro monitoring by CBS software since no amount is actually credited to depositor's a/c. Thus, TDS is to be made at the time of actual credit given to depositor's a/c and Further, the limit of ~~₹ 40,000~~ ₹50,000 / ₹1,00,000 shall be check bank-wise not branch-wise.

Section	Nature of Payment	Payer	Payee	Rate
194B	Winnings from lotteries, crossword puzzles etc.	Any Person	Any Person	30%
194BB	Winnings from Horse Races	Any Person	Any Person	30%

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Additional Points

1. TDS required to be deducted only at the time of Payment.
2. No TDS if winning is upto ₹ 10,000 in respect of single transaction.
3. If the winning is wholly in kind or it is partly in kind & partly in cash and the cash balance is not sufficient enough to meet the TDS liabilities, then Payer shall release the prize only after ensuring that tax on such wining is paid to Govt.
4. In cases where the book-maker paying the winnings, credits such winnings and debits the losses to the punter, tax has to be deducted @30% on winnings before set-off of losses. Thereafter, the net amount, after deduction of tax and losses, has to be paid to the winner.

Section	Nature of Payment	Payer	Payee	Rate
194BA	Winnings from Online Games	Any Person	Any Person	30%

Additional Points

1. TDS required to be deducted at the time of withdrawal during the PY from user account as well as at the end of Financial Year.
2. Computation of Net Winning for the purpose of Sec 115BBJ: (A+D) - (B+C)

A	Aggregate amount withdrawn from user account during the FY
D	Closing balance of user account at the end of the FY
B	Aggregate amount of non-taxable deposit made in user account by the assessee during the FY
C	Opening balance of user account at the beginning of the FY

Example

Mr. Tararam Dewasi is online fantasy game addict. He's having user account with My11circle App.
Opening Balance as on 01/04/25: ₹ 60,000
Amount deposited during PY 25-26 in user account: ₹ 1,50,000
Amount withdraw during PY 25-26 from user account: ₹ 3,37,000
Closing Balance as on 31/03/26: ₹ 72,000
In this case for the purpose of sec. 115BBJ taxable new winning is (3,37,000 + 72,000) - (1,50,000 + 60,000): 1,99,000 taxable @30%



➢ In order to remove difficulty in deducting TDS for insignificant withdrawal, it is clarified that tax may not be deducted on withdrawal on satisfaction of all of the following conditions:-
(i) Net winnings comprised in the amount withdrawn does not exceed ₹ 100 in a month;
(ii) tax not deducted on account of this concession is deducted at a time when the net winnings comprised in withdrawal exceeds ₹ 100 in the same month or subsequent month or if there is no such withdrawal, at the end of the FY; and
(iii) the deductor undertakes responsibility of paying the difference if the balance in the user account at the time of tax deduction u/s 194BA is not sufficient to discharge the tax deduction liability calculated.

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➢ Payment in cash or kind: Whenever there is payment to the user in kind or in cash, or partly in kind and partly in cash, which is not from the user account, the provisions shall apply to calculate net winnings by deeming that the money equivalent to such payment has been deposited as taxable deposit in the user account and the equivalent amount has been withdrawn from the user account at the same time and shall accordingly be included in amount A.

Mr. Chetan won Mahindra Thar on My11circle. FMV of car is ₹ 12,00,000. In this case ₹ 12 lakhs treated as taxable deposit in user account and same time it is treated as withdrawal. TDS @30% applicable on ₹ 12,00,000 u/s 194BA.

In this case My11circle will release the car only after ensuring that tax on such winning is paid to Govt



Section	Nature of Payment	Payer	Payee	Rate
194C	Contracts & sub-contracts [carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract]	Any Person other than Individual, HUF, AOP, BOI [Ind/HUF/AOP/BOI required to deduct TDS, if last year T/O > ₹ 1 Cr in case of business or G/R > ₹ 50 Lakhs in case of profession]	Resident Person	Payee:- Ind/HUF 1% Others 2%

Additional Points

1. No TDS if :-
   - Single contract is upto ₹ 30,000 or
   - Aggregate of contract in PY is upto ₹ 1,00,000.
2. No TDS if contract is for personal purpose of Individual/HUF.
3. Work includes:
   - Advertising, Broadcasting, Telecasting (including production of programmes),
   - Carriage of goods or passengers by any mode other than by railways,
   - Catering,
   - Manufacturing or supplying a product as per specification of customer using material supply/sale by such customer or its associate of customer covered u/s 40A(2) (Job Work).
4. Work excludes:
   - Manufacturing or supplying a product as per specification of customer using material purchased from any person, other than customer or its associate, or
   - Any sum already covered u/s 194J.

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5. No TDS if payment made to transporter owning not more than 10 vehicles at any time in the Py and who furnishes a declaration to this effect along with his PAN.
6. In case of Job Work, TDS shall be applied on the invoice value excluding the value of material purchased from the customer/associate, provided bifurcation is given in the invoice. If no bifurcation is give, then TDS shall be applied on the entire amount.
7. Payments by client to Advt. agency - It is treated as work and TDS applicable u/s 194C.

Client → (BB Virtuals) Payment to Ad. Agency TDS u/s 194C apply	Ad. Agency → (Global Advertiser) Payment of collection from Ad. After retaining say 15% No TDS u/s 194C No TDS u/s 194H	TV Channel आज तक

8. Cold Storage charges, which involves providing of refrigeration facility as well as storage facility, shall also be subject to TDS u/s 194C as a contract charge only and not u/s 194-I (Rent).

Section	Nature of Payment	Payer	Payee	Rate
194D	Insurance Commission	Any Person	Resident Person	~~5%~~ 2% (10% if payee Dom. Co.)
194G	Commission on sale of lottery tickets	Any Person	Any Person	2%
194H	Commission and Brokerage	Any Person other than Individual & HUF [Ind/HUF required to deduct TDS, if last year T/O > ₹ 1 Cr in case of business or G/R > ₹ 50 Lakhs in case of profession]	Resident Person	2%

Additional Points

1. No TDS in above sections if Commission or Brokerage is upto ₹ 20,000.
2. No TDS u/s 194H on Payments by BSNL or MTNL to their public call office franchises.
3. No TDS u/s 194H if commission or brokerage related to security like commission to underwriter, brokerage on public issue etc.

Section	Nature of Payment	Payer	Payee	Rate
194DA	Maturity of Life Insurance Policy	Any Person	Resident Person	2%

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Additional Points

1. TDS required to be deducted only at the time of Payment.
2. No TDS if maturity amount is less than ₹ 1,00,000.
3. No TDS if maturity amount exempted u/s 10(10D). [In case of LIP maturity amount taxable in case of Keyman Ins. or LIP taken on or after 1.4.23 & premium paid > ₹5,00,000 in a year or Premium more than limit of 10%, 15%, 20% of policy value prescribed u/s 80C]
4. In this section TDS applicable on income component i.e. maturity amount minus premium paid.

Section	Nature of Payment	Payer	Payee	Rate
194-I	Rent of P&M, Equipment's, Building, Furniture & Land	Any Person other than Individual & HUF [Ind/HUF required to deduct TDS, if last year T/O > ₹ 1 Cr in case of business or G/R > ₹ 50 Lakhs in case of profession]	Resident Person	P&M, Equipment's -2% Land, Building & Furniture - 10%

Additional Points

1. No TDS if rent is upto ₹ 50,000 to a person per month or part of the month.
2. No TDS on 'Refundable Deposits'. However, 'Non-Refundable Deposits' shall attract TDS under this section.
3. Arrears of Rent received during the current year shall also be considered for the purpose of deducting TDS u/s 194I.
4. Even Advance Rent shall also be subject to TDS in the year of payment.
5. Warehousing charges shall also be subjected to TDS under this section.
6. It is not necessary that the Payee must be the owner of any of the above-mentioned assets.
7. CBDT circular-Lumpsum lease premium or onetime upfront lease charges which are not adjustable against periodic rent and which are paid for acquisition of long term lease rights - are not in the nature of rent within the meaning of sec 194-I, therefore NO TDS.
8. Passenger Service fees (PSF) paid by Airline's Company to Airport Operator is not treated as rent so TDS not applicable u/s 194-I [Circular No. 21/2017].

Section	Nature of Payment	Payer	Payee	Rate
194-IA	Transfer of Immovable property (other than rural agriculture land)	Any Person (Buyer)	Resident Person (Seller)	1 % of Consideration or SDV, whichever is higher

Additional Points

1. TDS is applicable only if Consideration or SDV is ₹ 50,00,000 or more.

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2. Where there is more than one transferor or transferee in respect of any immovable property, then the consideration shall be the aggregate of the amounts paid or payable by all the transferees to the transferor or all the transferors for transfer of such immovable property.

3. Consideration for transfer of immovable property includes club membership fees, car parking fees, electricity or water facility fees, maintenance fees, advance fees or any other similar charges incidental to transfer of immovable property.

Section	Nature of Payment	Payer	Payee	Rate
194-IB	Rent of Immovable property	Individual/HUF (Not covered u/ s 194-I)	Resident Person	2%

Additional Points

1. No TDS if rent is upto ₹ 50,000 per month or part of the month.
2. In this section TDS required to be deducted only at the time of credit or actual payment of the last month rent, whichever is earlier. [Here last month of year or tenancy as the case may be]
3. Where the payee fails to furnish his PAN, TDS shall be deducted at the rate of 20%. However, in any case, such deduction cannot exceed the rent of the last month.

Section	Nature of Payment	Payer	Payee	Rate
194J	a) Fees for professional Service (FPS) b) Fees for Technical Services (FTS) c) Remuneration to directors d) Royalty e) Non-compete fees (NCF)	Any Person other than Individual & HUF [Ind/HUF required to deduct TDS, if last year T/O > ₹ 1 Cr in case of business or G/R > ₹ 50 Lakhs in case of profession]	Resident Person	10%

Additional Points

1. In following cases TDS rate is 2% instead of 10% :-
   - ✓ Payment to any call centre.
   - ✓ Fees for Technical service (not being professional service).
   - ✓ Royalty paid for sale distribution or exhibition of cinematographic film.
2. No TDS if amount is upto ₹ 50,000 p.a., limit of ₹ 50,000 p.a. is applicable separately for each nature of payment (i.e. ₹ 50,000 each for FPS, FTS, Royalty, Non-compete). No limit for director fees (TDS to be deducted mandatorily).
3. No TDS on FPS by Individual/HUF if made exclusively for personal purposes.

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4. Individual/HUF, if last year T/O > ₹ 1 Cr or GR > ₹ 50 Lakhs, are required to deduct TDS only from FPS and FTS. No need to deduct TDS on royalty or NCF even last year TO/GR more than prescribed limit.
5. CBDT Notification: Payments made to Sportsperson, Sports Columnist, Umpire, Commentator, Referee, Physiotherapist, Team Physician, Anchor, Event Manager will also be regarded as FPS and accordingly be liable to TDS u/s 194J.
6. Consideration paid for acquisition of software falls within the definition of royalty and hence, would be liable for TDS u/s 194J. However, no TDS would be attracted in cases of subsequent transfers if the transfer is made without any modification and TDS has already been deducted u/s 194J in the earlier transfers & transferor submit declaration along with PAN for same.
7. CBDT Circular: Third Party Administrators (TPA) making payments on behalf of insurance companies to hospitals for settlement of medical/insurance claims etc. are liable to deduct TDS u/s 194J.

Section	Nature of Payment	Payer	Payee	Rate
194K	Income from UTI or Mutual Fund Units	Any Person (UTI/MF)	Resident Person	10%

Additional Points

No TDS if payment is upto ₹ 10,000 in a P.Y.

Section	Nature of Payment	Payer	Payee	Rate
194LA	Compensation on compulsory acquisition of Immovable Property	Any Person	Resident Person	10%

Additional Points

1. TDS required to deduct only at the time of payment.
2. No TDS if payment is upto ₹ 5,00,000 in a P.Y.
3. No TDS if the Immovable Property is an ' Urban or Rural Agricultural Land' in India.

Section	Nature of Payment	Payer	Payee	Rate
194M	Work pursuance contract, Commission / Brokerage, Fees for Professional service	Individual/HUF (other than required to deduct TDS u/s 194C, 194H, 194J)	Resident Person	2%

Additional Points

1. No TDS if amount is upto ₹ 50,00,000.

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2. TDS u/s 194C, 194H & 194J in case of Ind/HUF payer applicable only if last year TO/GR more than prescribed Limit and u/s 194C & 194J TDS not applicable in case of personal nature contract or FPS so in those cases TDS required to be deducted u/s 194M if amount more than ₹50 lakhs.
3. Note for Sec 194-IA, 194-IB, 194M: In these sections payer not required to opt TAN numbers and TDS required to deposit online to Govt. along with TDS return in Form 26QB, 26QC and 26QD within 30 days from the end of the month in which TDS was deducted.

Section	Nature of Payment	Payer	Payee	Rate
194N	Cash withdraw from Bank, Co.op. Bank, Post office	Bank, Co.op. Bank, Post office	Any Person	2% (refer point 3)

Additional Points

1. TDS is required to be deducted only at the time of payment.
2. No TDS if cash withdraw is upto ₹ 1 Crore in a PY. If cash withdraw more than ₹ 1 crore than TDS applicable only on excess amount over ₹ 1 crore. Where the recipient is a co-operative society, limit of ₹ 3 crores is applicable for cash withdrawals.
3. If payee has not filed return for all 3 preceding PY's for which due date u/s 139(1) already expired then TDS shall be deducted as follows:
   - 2% on cash withdraw in excess of ₹ 20 lakhs upto ₹ 1 crore and
   - 5% on cash withdraw in excess of ₹ 1 crore.

   Note: Here we will check ROI of PY21-22, PY22-23 & PY23-24 for the TDS liability in PY 25-26.
4. No TDS if cash withdrawal by :
   - Government (SG/CG),
   - Banks, Co-op. Bank, Post office and their business correspondent,
   - White label ATM operator of Banks or Co-op. Bank.

Section	Nature of Payment	Payer	Payee	Rate
194P	TD S by Bank in case of senior citizen	Specified Bank	Resident Individual age 75 Years or more in PY	Slab Rate

Additional Points

1. This section apply only if individual having income in the nature of pension and no other income except the income in the nature of interest from any account maintained in the same specified bank in which he is receiving his pension and has furnished a declaration to the specified bank containing such particulars, in paper FORM 12BBA and duly verified.
2. Once the declaration is furnished by senior citizen, the bank would be required to compute the income of such senior citizen. For computing total income deduction u/s 80C to 80U should be

Rahul5209



given (if assessee opted out from 115BAC) along with rebate u/s 87A. The bank shall deduct tax on such total income on the basis of slab rate after considering any TDS deducted on pension.

3. "Specified bank" means a schedule bank which has been appointed as agent of RBI u/s 45 of RBI Act, 1934.

Section	Nature of Payment	Payer	Payee	Rate
194-Q	Purchase of Goods more than ₹ 50 Lakhs in a PY	Any Person (Buyer) whose last year T/O more than ₹ 10 Crore	Resident Person (Seller)	0.1% of sum in excess of ₹ 50 Lakhs

Additional Points

1. In this section TDS required to deduct only on excess amount over ₹ 50 lakhs.
2. TDS is not required to be deducted under this section, if -
   - ✓ TDS is deductible under any other section;
   - ✓ TCS is collectible u/s 206C.
3. In case of a transaction to which both sec. 206C(1)/(1F)/(1G) and 194Q applies, TCS to be collected u/s 206C(1)/(1F)/(1G).
4. If PAN of payee is not available, tax will be deducted u/s 194Q at the rate of 5%.
5. CBDT Clarifications:

✓ GST/VAT/Sales tax/CST/Excise Duty (IDT): TDS u/s 194Q NOT applicable on IDT amount if it is separately indicated in invoice but if advance payment is made then TDS should be deducted on total advance payment as we are not aware that what will be IDT amount in invoice.

✓ Purchase Return: TDS deducted at the time of crediting the party or payment, whichever is earlier, so at the time of purchased TDS already deducted by Buyer. In case of purchase return there is no need to return TDS amount and it can be adjusted against future purchase from same seller. In case of replacement of Goods, no adjustment required.

✓ First year of Incorporation: TDS required to be deducted only if buyer's last year T/O more than ₹ 10 Crores. Since in case of first year of incorporation last year T/O is nil so this section NOT applicable in first year of Incorporation.

✓ Last Year T/O: While checking last year T/O of buyer it should include only Business T/O or G/R and it should be more than ₹ 10 Crores. Non-Business T/O not to be counted.

Section	Nature of Payment	Payer	Payee	Rate
194R	Any benefit or perquisite, whether converted into money or not, arising from business or profession	Any Person other than Individual & HUF [Ind/HUF required to deduct TDS, if last year T/O > ₹ 1 Cr in case of business or G/R > ₹ 50 Lakhs in case of profession]	Resident Person	10%

Rahul5209

Additional Points

1. No TDS if amount of benefit or perquisite provided to a person is upto ₹ 20,000 in PY.
2. If the benefit or perquisite is wholly in kind or it is partly in kind & partly in cash and the cash balance is not sufficient enough to meet the TDS liabilities, then Payer shall release the benefit or perquisite only after ensuring that tax is paid on such benefit or perquisite by way of
   (a) He has collected the amount equivalent to TDS amount from the Payee, or
   (b) He paid TDS from his own pocket, or
   (c) He insists the Payee to make the payment of TDS on his own by way of advance tax & submit the proof to the Payer.

Section	Nature of Payment	Payer	Payee	Rate
194T	Any salary, remuneration, commission, bonus or interest to a partner of the firm	Firm (Including LLP)	Partner	10%

Additional Points

No TDS if aggregate of amount to a person is upto ₹ 20,000 in PY.

Miscellaneous Provisions

- Sec 196: TDS not applicable if payee is Government, RBI, Statutory Corporation, Mutual Fund, New Pension Trust.

- CBDT Circular: TDS NOT applicable in case of "GST on services" separately indicated in Invoice.

- Sec 197 - Lower Deduction Certificate: Where assesses Total Income or receipts of income is not liable to tax or taxable at lower rate in current year (it may be due to b/f losses) then assessee can apply to AO for issue of certificate for No Deduction or Low deduction of TDS. If AO satisfied with application of assessee then he may issue such certificate. In this case assessee 's TDS will be deducted as per rate given in certificate.

- 197A: Declaration in Form 15G/15H: Where the total income of the Resident (other than company & firm) is below basic exemption limit during the year, no TDS shall be deducted u/s 192A,193,194, 194A,194D,194DA,194-I, 194K if Assessee furnishes a self-declaration to the payer in Form 15G.

  Exception: Benefit will not be available, if the incomes referred to in the above sections itself is beyond basic exemption limit.

  However, in case of Resident Senior Citizen, he may furnish Form-15H requesting for non-deduction as long the tax payable during the year is NIL (even by way of rebate u/s 87A).

Rahul5209

Interest



Example: ~~Rent~~ received by Mr Kunal is ₹ 3,60,000 and he has invested ₹ 1,20,000 u/s 80C. Now his NTI is less than basic exemption then also Kunal can't furnish 15G but suppose he is Senior Citizen then he can furnish 15H.

☞ Sec 198: TDS shall also be deemed to be the income of the Payee, except TDS paid by Employer on Non-monetary perquisite or TDS deducted u/s 194N.

☞ Sec 199: TDS credit available to a person from whose income deduction is made except;-

- ✓ In case of clubbing credit available to a person in whose hands the income is ultimately taxable.
- ✓ In case of tax paid by employer from own pocket on Non-monetary perquisite employee can take credit.

☞ Due date of payment of TDS and TCS

TDS deducted/ TCS collected month	TDS Due date	TCS Due date
During April to February months	7th of Next month	7th of Next month
March month	30th April of next FY	7th April of next FY
Note: If TDS deducted u/s 194-IA, 194-IB or 194M then it should be deposited to Govt. withing 30 days from end of the month in which deducted along with return in Form 26QB, 26QC, 26QD.		

☞ Due date of TDS/TCS Returns/Statements

Quarter Ended	TDS Return	TCS Return
30th June	31st July	15th July
30th September	31st October	15th October
31st December	31st January	15th January
31st March	31st May	15th May

Notes:Fees of ₹ 200 per day of default u/s 234E applicable if TDS/TCS return after due dates.

☞ Sec 200A/206CB: Processing of TDS/TCS Returns (Intimation by CPC)

1. TDS/TCS returns filed shall be processed electronically and the following adjustment can be made:
   (a) Rectification of any Arithmetical errors;
   (b) Incorrect claim apparent on record.
2. An Intimation will be prepared specifying the amount of demand/refund along with interest, fees (if any) and sent to the deduction/collector within 1 year from the end of the FY in which return was filed.

Rahul5209

Sec 201 - Assessee in default: If payer not deducted TDS or after deduction not paid to Govt. then such person is treated as assessee in default and required to pay penalty u/s 221 and that can be maximum 100% of TDS amount.

Exception: Payer shall not be treated as assessee in default if payments made / credited to Payee without TDS, if such Payee fulfils all the following 4 conditions:

- ✓ He has furnished his ROI u/s 139;
- ✓ Such sum has been taken into account by him, in such ROI;
- ✓ He has paid the tax due on income declared by him in his ROI; and
- ✓ Payer has furnished a Certificate in this regard from a CA in Form 26A.

Sec 201(1A): Interest on Late deduction or Late payment of TDS

- ✓ Late Deduction: Interest @ 1 % per month or part of the month on amount of TDS from the date on which TDS was deductible till the date on which TDS actually deducted.
- ✓ Late Payment: Interest @1.5% per month or part of the month on amount of TDS from the date on which TDS actually deducted till the date on which such tax actually paid.

Rahul5209



Tax Collection at Sources (TCS)

Section	Nature of Transaction	Rate	Collector (Seller)	Collectee (Buyer)
206C(1)	Sale of Goods ➢ Tendu Leaves ➢ Timber & other forest products ➢ Alcoholic liquor for human consumption ➢ Scrap ➢ Minerals being Coal, Lignite, Iron ore	 5% 2% 1% 1% 1%	Any Person other than Individual and HUF [Ind/HUF required to collect TCS, if last year T/O > ₹ 1 Cr in case of business or G/R > ₹ 50 Lakhs in case of profession]	Any person other than: 1. Buyer who buys such goods for his personal consumption; 2. Public sector Co; 3. CG, SG, Embassy, High comm., legation, consulate, trade representation and clubs.

Additional Points

1. No TCS if resident buyer furnishes a declaration to the seller that "goods" are to be utilized in manufacturing/production of any article or for the purpose of generation of power. If buyer T/o of last year more than ₹ 10 crores then Buyer required to deduct TDS u/s 194Q.

2. Scrap means waste from the manufacture or mechanical working of materials & which is definitely not usable as such because of breakage, cutting up, wear and other reasons.

Section	Nature of Transaction	Rate	Collector (Licensor)	Collectee (Licensee)
206C(1C)	Leasing or licensing or transferring any right or interest in any- ✓ Parking lot or ✓ Toll plaza or ✓ Mine or quarry for the purpose of business	2%	Same as section 206C(1)	Any person other than public sector company

Note: For the purpose of this section "mining and quarrying" shall not include mining and quarrying of "mineral oil" includes petroleum and natural gas.

Rahul5209

Section	Nature of Transaction	Rate	Collector (Seller)	Collectee (Buyer)
206C(1F)	Sale of a motor vehicle or any other goods may be notified, of the value exceeding ₹10 lakhs	1 %	Same as section 206C(1)	Any person other than mentioned in Note-1

Notified Goods:

(a) Any wrist watch (b) Any art piece such as antiques, painting, sculpture (c) Any collectibles such as coin, stamp (d) Any yacht, rowing boat, canoe, helicopter (e) Any pair of sunglasses (f) Any bag such as handbag, purse (g) Any pair of shoes (h) Any sportswear and equipment such as golf kit, ski-wear (i) Any home theatre system (j) Any horse for horse racing in race clubs and horse for polo.

Notes:

1. Public Sector Co engaged in the business of carrying passengers, CG, SG, Embassy, High comm, legation, consulate, trade representation, Local authority.
2. TCS will apply only in case of sale of motor vehicle at retail level. No TCS under this section on sale by manufacturers to dealers/distributors.
3. Threshold limit of ₹10 lakhs has to be looked at on each individual purchase and not on aggregate purchases made during the year.

Section	Nature of Transaction	Purpose	Rate	Collector (Seller)
206C(1G)	Remittance of money more than ~~₹ 7 lakhs~~ ₹ 10 lakhs under Liberalised Remittance Scheme (LRS) of RBI	Education or Medical	5% of amount in excess of ₹ 10 lakhs (Note: 2)	Authorized dealer
		Other Purpose	20% of amount in excess of ₹ 10 lakhs	
	Sale of overseas tour program package (OTPP)	5% of sale value upto ₹ 10 lakhs and 20% above ₹ 10 lakhs.		Seller of OTPP

Additional Points

1. No TCS if buyer is :
   - Deducted TDS under any section;
   - CG, SG, Embassy, High comm., legation, consulate and trade representation, Local authority;
   - Non Resident Visiting India.
2. In case of LRS if remitted amount is out of Educational Loan (referred u/s 80E) taken from Financial Institution then TCS not apply.
3. "OTPP" means any tour package which offers visit to a country or countries or territory or territories outside India and includes expenses for travel or hotel stay or boarding or lodging or any other expenditure of similar nature or in relation thereto.
4. Authorised dealer shall not collect TCS on an amount in respect of which TCS has been collected by the seller.

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5. CBDT Clarifications

- ✓ Payment through overseas credit card not counted in LRS. No TCS applicable on expenditure through international credit card while being overseas till further order.
- ✓ Threshold of ₹ 10 lakh, for LRS is combined threshold for applicability of the TCS on LRS irrespective of the purpose of the remittance. (like education, medical or others)
- ✓ Medical treatment shall include remittance for purchase of tickets of patient and his attendant, his medical expense and other day to day expenses required for such purpose.
- ✓ Education purpose shall include remittance for purchase of tickets, tuition and other fees to be paid to educational institute and other day to day expenses required for undertaking such study.
- ✓ Only overseas flight ticket is booked or only hotel booked not covered in "OTPP".

Examples

1. Mr. BB wants to transfer ₹ 15 lakhs on 15/9/25 & ₹ 12 lakhs on 14/2/26 to USA for buying property through AB Ltd. (an authorized dealer) under LRS scheme of RBI.
   Sol.- In this case AB Ltd require to collect TCS from Mr. BB @ 20% of ₹ 5 lakhs i.e. ₹ 1,00,000 on 15/9/25 & @20% of 12 lakhs i.e. 2.4 lakhs on 14/2/26.
2. Suppose in Q 1, Mr. BB wants to transfer only ₹ 5 lakhs instead of ₹ 27 lakhs.
   Sol.- In this case TCS NOT applicable as it applies only if amount is more than ₹ 10 lakhs.
3. Suppose in Q 1, Mr. BB wants to transfer for the purpose of Education or Medical treatment.
   Sol.- In this case AB Ltd require to collect TCS from Mr. BB @ 5% of ₹ 5 lakhs i.e. ₹ 25,000 on 15/9/25 & @ 5% of ₹ 12 lakhs i.e. ₹ 60,000 on 14/2/26.
4. Suppose in Q 1, Mr. BB wants to transfer for the purpose of Education and this amounts is out of educational loan taken from IDFC First Bank.
   Sol.- In this case AB Ltd not require to collect TCS.
5. Suppose in Q 1, Mr. BB remitted ₹ 15 lakhs through AB Ltd. (dealer) and ₹ 12 lakhs through JJ Ltd (dealer).
   Sol.- As per CBDT clarification limit of ₹ 10,00,000 applicable on total LRS remittance made by any person in a PY. In this case TCS applicable as per answer given in point 1. In this case JJ Ltd. will take self-declaration from Mr. BB about his earlier remittance through AB Ltd.
6. Mr. Devam purchased Singapore tour package from Thomas Cook for ₹ 2,50,000 on 16/6/25.
   Sol.- In this case Thomas cook required to collect TCS@ 5% of ₹ 2,50,000 i.e. ₹ 12,500.
7. Suppose in above example Devam deducted TDS of Thomas Cook u/s 194C.
   Sol.- If TDS deducted under any provisions of IT then TCS not apply u/s 206C(1G).
8. Mr. SS purchased Thailand tour package from MMT for ₹ 15,00,000 on 10/12/25.
   Sol.- In this case MMT required to collect TCS@ 5% of ₹ 10,00,000 i.e. ₹ 50,000 & 20% of ₹ 5,00,000 i.e. ₹ 1,00,000. Total TCS amount is ₹ 1,50,000

Rahul5209

Miscellaneous Provisions

- Time of Collection TCS: TCS has to be collect at the time of debiting the party or receiving the consideration, whichever is earlier but in case of section 206C(1F) it has to collected only at the time of receive the consideration.

- Sec 206C(7): Interest on late collection/deposit TCS:
  - ✓ Late Collection: Interest @ 1 % per month or part of the month on amount of TCS from the date on which TCS was collectible till the date on which TCS actually collected.
  - ✓ Late Payment: Interest @1.5% per month or part of the month on amount of TCS from the date on which TCS actually collected till the date on which such tax actually paid.

- Sec 206CC: If the collectee has not provided PAN or Aadhaar to the collector, then TCS rate shall be

(a) Twice of the rate or

(b) 5%

Whichever is higher

Note: From 1.7.23, the higher rate of TCS leviable for non-furnishing of PAN should not exceed 20%.

Rahul5209

12 Return Filing and Self Assessment



Sec 139(1): Filing of Return of Income (ROI) [Normal return]

A. For Company & Partnership Firm (including LLP) - Return filing is compulsory.

B. For other Assessee - If GTI (before claiming exemption u/s 54, 54B, 54D, 54EC, 54F) more than Basic exemption, then return filing is compulsory.

C. Following persons compulsory required to file the return.

1. Resident Individual - Resident (other than R but NOR)

A	B
☞ Beneficial owner of any asset (including financial interest)located outside India ☞ has signing authority in any Account outside India	☞ Beneficiary of any asset (including financial interest) located outside India

Note: If income already included in the income of person "A" then "B" not required to file ROI.

- ✓ Beneficial Owner - Individual providing consideration for the asset directly or indirectly for the immediate or future benefit for himself or any other person.
- ✓ Beneficiary - Individual deriving benefit from the asset, consideration for which has been provided by any other person.

2. Person (other than Company and Firm) not covered in above points required to file ROI, if

- ➢ Assessee has deposited an aggregate amount exceeding ₹ 1 crore rupees in one or more current accounts maintained with a bank or a co-operative bank or deposited ₹ 50 lakhs or more in one or more savings accounts.
- ➢ Assessee has incurred foreign travel expenditure of an aggregate amount exceeding ₹ 2 lakhs for himself or any other person.
- ➢ Assessee has incurred expenditure of an aggregate amount exceeding ₹ 1 lakh towards consumption of electricity.
- ➢ Assessee's total sales, turnover or gross receipts, as the case may be, in the business exceeds ₹ 60 lakhs during the PY or total gross receipts in profession exceeds ₹ 10 lakhs during the PY.
- ➢ Assessee' s aggregate of TDS and TCS during the PY, is ₹ 25,000 or more (in case of senior citizen ₹ 50,000).

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❖ Due Dates of Return Filing

Assessee	Due Dates
Person require to furnish Transfer Pricing Audit report u/s 92E including the partners* of the firm	30th Nov. of AY
☞ Company, other than above ☞ Person whose Books of Accounts are required to be audited under any law ☞ Partner* of a firm, where firm's Books of Accounts are required to be audited under any law	31st Oct. of AY
Person other than the above	31st July of AY

* or the spouse of such partner if the provisions of section 5A applies to such spouse.

Note: As per section 5A if individual govern by Portuguese Civil Code of 1860 in Goa, Dadra and Nagar Haveli and Daman and Diu then Income shall be equally distributed between husband and wife except Salary.

Sec 139(1C): Central Govt may exempt class of person to file ROI

Central Government may by notification specify such class or classes of persons who will be exempted from the requirement of filing of return.

Sec 139(3): Loss Return

As per sec 80, assessee required to file the return upto due date u/s 139(1) for carry forward of following losses:

- ✓ Business loss u/s 72(1)
- ✓ Speculation business loss u/s 73(2)
- ✓ Loss from specified business u/s 73A(2)
- ✓ Loss under the head "Capital Gains" u/s 74(1)
- ✓ Loss from the activity of owning and maintaining race horses u/s 74A(3)

Notes:

1. Loss can be set-off even if return filed after due date.
2. House property losses & unabsorbed depreciation can be Carry Forward even if return late filed.
3. The condition stipulated/ enumerated in sec. 80 applies only for the year in which the loss was sustained/incurred. It does not apply to the ROI of the year in which carry forward is claimed.

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Sec 139(4): Belated Return

If Assessee fails to File return within due date then he can file belated return with in following time limit:

- ✓ Before the three months prior to end the of the relevant AY (31st Dec. 26 for AY 26-27)

OR

- ✓ Before completion of Assessment

Whichever is earlier

❖ Consequences of belated return

- ⊗ No carry forward of specified loss as per sec 80.
- ⊗ No deduction of certain Income u/c VI-A (80JJAA, 80QQB & 80RRB) and u/s 10AA.
- ⊗ Interest u/s 234A i.e. 1% pm or part of the month.
- ⊗ Late filing fees u/s 234F i.e. ₹ 5,000/1000.

Sec 139(5): Revised Return

Any person filed return u/s 139(1) or 139(3) or 139(4), if discover any omission or wrong statement in such ROI Filed earlier, then such person can file revised return within following time limit :-

- ✓ Before the three months prior to end the of the relevant AY (31st Dec. 26 for AY 26-27)

OR

- ✓ Before completion of Assessment

Whichever is earlier

Notes:

1. Belated return filed u/s 139(4) can be revised u/s 139(5).
2. Revised return substitutes original return from the date the original return was filed.
3. Assessee can revise return any no. of times within time limit.

Sec 139(9): Defective Return

Return shall be considered as defective, if -

(a) Return not Filed in prescribed form,

(b) Proofs of tax not attached with return,

(c) Report u/s 44AB not submitted,

If return treated as defective, A.O. shall intimate the defect to assessee & give him an opportunity to rectify the defect within 15 days or extended time if assessee does not rectify the defect then return shall be treated as invalid return (void-ab-initio).

Rahul5209

Sec 139A: Permanent Account Number (PAN)

S.No.	Persons required to apply for PAN	Time limit for application
1.	Every person, if his total income or the total income of any other person in respect of which he is assessable exceeds Basic exemption.	upto 31st May of the AY
2.	Every person carrying on Business or Profession whose Turnover or Gross receipts are or is likely to exceed ₹ 5 lakhs in any PY	Upto end of PY
3.	Trust required u/s 139(4A)	Upto end of PY
4.	Resident, other than an individual, which enters into a financial transaction of an amount aggregating to ₹ 2,50,000 or more in a FY	upto 31st May of the AY
5.	MD, director, partner, trustee, author, founder, karta, CEO, principal officer or office bearer of person referred in (4)	upto 31st May of the AY
6.	Person intends to enter into following transactions	At least seven days before the date on which he intends to enter into the said transaction.
(a)	Cash deposits aggregating ₹ 20 lakhs or more in a FY, in one or more a/ c with a Bank or a co-op. bank	
(b)	Cash withdrawals aggregating ₹ 20 lakhs or more in a FY, in one or more account with a Bank or a co-op. bank	
(c)	Opening of a current a/c or cash credit a/c with a Bank /Co-op. bank	

Cases where PAN to be quoted in Transactions

S.No.	Nature of transaction	Value of transaction
1.	Sale or purchase of a motor vehicle, other than two-wheeler	All such transactions
2.	Opening an account [other than FD referred in 12 and a Basic Savings Bank Deposit Account] with a Bank or Co-Op. Bank	All such transactions
3.	Making an application to Bank or Co-Op. Bank or to any other company or institution, for issue of a Credit or Debit card	All such transactions
4.	Opening of a D-Mat account	All such transactions
5.	Payment to a hotel or restaurant against a bill or bills at any one time	Cash of > ₹ 50,000
6.	Payment in connection with travel to any foreign country or for purchase of any foreign currency at any one time	Cash of > ₹ 50,000
7.	Payment to a Mutual Fund for purchase of its units	Amount > ₹ 50,000
8.	Payment to Company or Institution for acquiring debentures or bonds issued by it	Amount > ₹ 50,000
9.	Payment to RBI for acquiring bonds issued by it	Amount > ₹ 50,000
10.	Deposit with Bank or Co-Op. Bank or post office	Cash deposit > ₹ 50,000 during any one day
11.	Purchase of bank drafts or pay orders or banker's cheques from a Bank or Co-Op. Bank	Cash payment > ₹ 50,000 during any one day

Rahul5209



12.	FD with Bank or Co-Op. Bank or post office or Nidhi or NBFC	Amount > ₹ 50,000 or aggregating to more than ₹ 5 lakhs during a FY
13.	Payment for one or more pre-paid payment instruments of Bank or Co-Op. Bank or to any other company or institution	Amount > ₹ 50,000
14.	Payment as life insurance premium to Insurer	Amount > ₹ 50,000 in FY
15.	A contract for sale or purchase of securities (other than shares)	Amount > ₹ 1 lakh per transaction
16.	Sale or purchase of Unlisted shares of a company	
17.	Sale or purchase of any immovable property	Amount or SDV > ₹ 10 lakhs
18.	Sale or purchase of any goods or services (other than covered above)	Amount > ₹ 2 lakhs per transaction

Person not required to obtain PAN: Minor not having any income taxable in his own hands, can enter into the above transactions by quoting the PAN of his parents or guardian.

➢ PAN & Aadhar Interchangeable

1. Every person who is required to intimate/quote his PAN may quote his Aadhaar if he:
   - ☞ has not been allotted a PAN but possesses the Aadhaar (PAN will be allotted automatically by dept. without any documents & Fees), or
   - ☞ has been allotted a PAN and has already linked Aadhar & PAN.
2. Every person entering into prescribed transaction (point 6 of sec.139A) shall be required to authenticate the PAN or Aadhaar quoted. Also, every person receiving such documents should ensure that PAN or Aadhaar is quoted on the documents and authenticated.

E.g. - Suppose Mr. BB deposited cash of ₹ 25 lakhs with HDFC Bank and BB submitted his PAN/ Aadhar then BB require to authenticate that PAN/Aadhar belongs to him. In this case HDFC Bank also require to authenticate that PAN/Aadhaar belongs to BB only.

Note: Provided that the provision of above point 2 shall not apply where the person, depositing or withdrawing money or opening a current a/c or cash credit a/c, is the CG, SG or the Consular Office.

➢ Sec. 272B: Penalty for failure to comply with section 139A

S.No.	Failure	Penalty ₹
1.	Fails to comply with provisions of sec 139A	10,000
2.	If a person requires to quote his PAN or Aadhar, in any document referred u/s 139A, quotes a false number	10,000 for each default
3.	Person entering into prescribed transactions fails to authentic PAN or Aadhar in documents	10,000 for each default
4.	Person receiving such documents fails to ensure that PAN or Aadhar quoted and fails to authentic	10,000 for each default

Sec 139AA: Aadhar Number

A. Every person who is eligible to obtain Aadhaar number shall, on or after the 1st, July, 2017, quote Aadhaar number -

(i) in the application form for allotment of PAN;

(ii) in the return of income

If Aadhar No not available then that person should quote application-id of Aadhar.

From 1/10/24 Enrolment ID option not available and if any person applied for PAN on the basis of Enrolment ID then he mandatorily required to intimate his Aadhar No. in prescribed manner.

B. Every person already holding PAN on 1st July 2017, shall link Aadhar with PAN till 31/03/2022 otherwise PAN shall be made inoperative.

Note: As per C.G Notification, Sec. 139AA not apply to an individual who does not possess the Aadhar number or Enrolment ID and is :

(i) Residing in the states of J&K, Meghalaya and Assam

(ii) NR as per IT Act, 1961

(iii) Age of 80 years or more at any time during the P.Y.

(iv) Not a citizen of India

➢ Where a person fails to link his Aadhaar No. with PAN upto 31/03/2022, the PAN shall become inoperative till the same is linked and until such date it shall be deemed that the person has not quoted his PAN in any transaction, thus becoming liable for penalty u/s 272B. Pan No. will be operative from the date on which its liked with Aadhar.

➢ If assessee link Aadhar with PAN on or after 01/04/2022 then he is required to pay fees as per sec. 234H (given in advance tax topic)

➢ If assessee fails to link till 31/03/22 then PAN will be inoperative but as per CBDT negative consequences of not quoting or not furnishing PAN shall be applicable from 01/07/23.

Rahul5209



Sec 139B: Tax Return Preparer (TRP)

(1) CBDT to frame a scheme whereby a specified class of persons can file their ROI through TRPs.

(2) A TRP means an Individual who is authorised to act as TRP by CBDT, other than following persons:
- A Chartered Accountant;
- A Legal Practitioner;
- An Officer of Scheduled Bank with which assessee maintains an account;
- Employee of specified class of person.

(3) Specified class of persons means any persons who is required to file ROI, other than :-
(a) A Company
(b) Person whose, BOA are required to be audited u/s 44AB or under any other law

(4) As per CBDT, scheme only Individual and HUF can file their return through TRP.

(5) Individual holding bachelor degree from recognised Indian university or passed inter exam of ICAI/ ICSI/ICAI(CMA) can become TRP.

Sec 140: Verification of Return

S.No.	In case of	Verified by
1.	Individual ☞ Individual not present in India or Mentally incapacitated	Himself Competent to verify on behalf of Individual
2.	HUF ☞ Karta not present in India or karta mentally incapacitated	Karta Any adult member HUF
3.	Partnership Firm ☞ If there is no managing partner	Managing Partner Any adult Partner
4.	LLP ☞ If there is no designated partner	Designated Partner Any Partner or *any other person may be prescribed
5.	Company ☞ No MD ☞ Co. under liquidation ☞ Application for corporate insolvency resolution process has been admitted by the Adjudicating Authority under the IBC, 2016	MD Any other Director or *any other person may be prescribed Liquidator Insolvency professional appointed by such Adjudicating Authority
6.	Political Party	CEO
7.	Local Authority	Principal officer
8.	Any other person	Person competent to verify

*Person, appointed by the Adjudicating Authority for discharging the duties and functions of an interim resolution professional, a resolution professional, or a liquidator, as the case may be, under the IBC, 2016

Note: If return not verified then it is treated as return void-ab-initio (invalid return).

Sec 140A: Self-Assessment Tax (SAT)

Assessee is required to pay taxes before Filing of return [after considering advance tax, TDS, TCS, MAT, AMT credit, relief any tax,] along with interest & Fees.

If there is short payment then the amount so paid is first adjusted towards Fees, there after towards interest & balance towards taxes.

Sec 1398A: Updated Return (Added by FA 2022 w.e.f. 01/04/2022)

- Updated return: Any person may furnish an updated return of his income (or the income of any other person in respect of which he is assessable). This section applicable from 1st April, 2022.
- Time-limit: Updated return can be submitted within 48 months from the end of the relevant AY. E.g.:- Updated return for the AY 25-26 can be submitted on or before 31st March, 2030.
- Who can submit updated return: Updated return can be submitted by any person whether (or not) he has furnished a return u/s 139(1)/(4)/(5) for an AY.
- Other points: The following points should be noted: -

1. If a person has sustained a loss for any PY and he has already submitted return of loss for that year within due date u/s 139(1), he can furnish an updated return where such return is a return of income.
2. If as a result of submitting updated return, the quantum of carried forward loss (or unabsorbed depreciation or AMT credit) is to be reduced for any subsequent year, then an updated return shall be furnished for each such subsequent year.

- When updated return cannot be submitted;-

1. If updated return is a return of a loss.
2. Updated return has been already furnished by him u/s 139(8A) for the RAY
3. If updated return has the effect of decreasing the total tax liability determined on the basis of return furnished u/s 139(1)/(4)/(5) or results in refund or increases the refund due on the basis of return furnished u/s 139(1)/(4)/(5), of such person for the RAY.

- Updated return to be accompanied by proof of payment of tax and additional income-tax - updated return cannot be submitted unless it is accompanied by proof of payment of tax u/s 140B (ie, tax and additional income-tax).
- Computation of Additional Tax

Time limit of filing updated return from end of RAY	Additional Tax on tax computed above
after expiry of time u/s 139(4)/(5) but within 12 months	25% of (Tax + SC + HEC + Interest)
after expiry of 12 months but before 24 months	50% of (Tax + SC + HEC + Interest)
after expiry of 24 months but before 36 months	60% of (Tax + SC + HEC + Interest)
after expiry of 36 months but before 48 months	70% of (Tax + SC + HEC + Interest)

Rahul5209



Rishi, a 34 years resident individual, did not file his return of income for the A.Y. 2020-21, 2021-22 and 2022-23. For A.Y. 2023-24, he has filed his return of income on 31.07.23. He filed updated return u/s 139(8A) on 30.04.25 for A.Y. 2024-25. He gives the following information regarding each of the A.Y.:

Particulars	A.Y. 2020-21	A.Y. 2021-22	A.Y. 2022-23	A.Y. 2023-24	A.Y. 2024-25
Declared Income u/s 139(1)/139(8A)	-	-	-	(₹3,50,000)	₹7,50,000
Tax liability on total income before TDS/TCS/Interest /Self-Assessment tax	₹14,50,000	₹5,60,000	₹6,30,000	-	-
TDS deducted	₹5,00,000	₹10,00,000	₹2,00,000	-	-
Interest u/s 234A/B/C	₹2,90,000	-	₹90,000	-	-
Self-Assessment Tax Paid	-	-	₹1,00,000	-	-

In May 2025, Rishi came to know about loss from house property of ₹2,00,000 which he forgets to claim while filing the return of income for A.Y. 2023-24. Moreover, in A.Y. 2024-25, he has earned dividend income of ₹4,500 and ₹4,150 from A Ltd. & B Ltd., respectively, which he has not reported in his return of income u/s 139(8A). He approaches you on 16.5.2025 to file updated return for all the assessment years u/s 139(8A) in order to clear his income-tax records. You are required to prepare a suggestion for which of the assessment years Rishi can file an updated return and tax payable at the time of filing updated return.

Answer

An updated return can be furnished for the previous year relevant to the assessment year at any time within 48 months from the end of the relevant assessment year.

Accordingly, the following are the suggestions to Rishi with respect to updated return on 16.5.2025 for A.Y. 2020-21, A.Y. 2021-22, A.Y. 2022-23, A.Y. 2023-24 and A.Y. 2024-25 and tax payable at the time of filing updated return:

- A.Y. 2020-21: Since the period of 48 months from the end of A.Y. 2020-21 expired on 31.3.2025, updated return cannot be furnished on 16.5.2025 for A.Y. 2020-21.

- A.Y. 2021-22: Since the period of 48 months from the end of A.Y. 2021-22 expired on 31.3.2026, updated return can be furnished on 16.5.2025 for A.Y. 2021-22. However, the amount of tax payable of ` 5,60,000 is before adjusting TDS of ` 10,00,000. In such a case, since the refund of ` 4,40,000 would arise, an updated return cannot be furnished for A.Y. 2021-22.

- A.Y. 2022-23: Since the period of 48 months from the end of A.Y. 2022-23 expired on 31.3.2027, updated return can be furnished on 16.5.2025 for A.Y. 2022-23. Since updated return would be furnished after the expiry of 24 months from the end of the relevant assessment year but before completion of the period of 36 months from the end of the relevant assessment year, additional income tax would be payable @60% of aggregate of tax (after taking into consideration tax deducted at source and self-assessment tax paid) and interest payable u/s 234A/B/C. Rishi is required to pay additional income-tax of ₹2,52,000 i.e., 60% of ₹4,20,000 [₹3,30,000 (₹6,30,000 - ₹2,00,000 - ₹1,00,000) + ₹90,000] in addition to tax payable of ₹3,30,000, interest payable of ₹90,000 and late fees of ₹5,000.

- A.Y. 2023-24: Since the period of 48 months from the end of A.Y. 2023-24 expired on 31.3.2028, updated return can be furnished on 16.5.2025 for A.Y. 2023-24. However, Rishi has declared loss of ₹3,50,000 in his original return of income and he wishes to claim additional loss from house property of ₹2,00,000 which he forgot to claim while filing the return of income u/s 139(1). In such case, since his loss will increase from ₹3,50,000 to ₹5,50,000, an updated return cannot be furnished for A.Y. 2023-24.

- A.Y. 2024-25: Since Rishi has already furnished an updated return u/s 139(8A) for A.Y. 2024-25, he cannot again furnish an updated return u/s 139(8A) for A.Y. 2024-25.