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CHAPTER 1

Basic Concepts

Question 1 **[Tax Calculation as per Normal Prov.]**

Mr. X has a total income of ₹ 12,00,000 for P.Y.2025-26, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2026-27 assuming his age is—

(a) 45 years

(b) 63 years

(c) 82 years

Assume that Mr. X exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Question 2 **[Marginal Relief]**

Compute the tax liability of Mr. A (aged 42), having total income of ₹ 51 lakhs for the Assessment Year 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. A exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Question 3 **[Marginal Relief]**

Compute the tax liability of Mr. B (aged 51), having total income of ₹ 1,01,00,000 for the Assessment Year 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. **[SM Q.]**

Question 4 **[Rebate u/s 87A as per Normal Provisions]**

Mr. Raghav aged 26 years and a resident in India, has a total income of ₹ 4,40,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2026-27. Assume assessee exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 4

Computation of tax liability of Mr. Raghav for A.Y. 2026-27

Particulars	₹
Tax on total income of ₹ 4,40,000	
Tax@5%of ₹ 1,90,000 (₹ 4,40,000 – ₹ 2,50,000)	9,500
Less: Rebate u/s 87A (Lower of tax payable or ₹ 12,500)	9,500
Tax Liability	Nil

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[Rebate u/s 87A as per Normal Provisions]

Question 5

Mr. Dinesh aged 35 years and a resident in India, has a total income of ₹ 4,80,000, comprising of long-term capital gains taxable u/s 112 arise on 10/07/2025. Compute his tax liability for A.Y.2026-27. Assume assessee exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). [SM Q.]

Answer 5

Computation of tax liability of Mr. Dinesh for A.Y. 2026-27

Particulars	₹
Tax on total income of ₹ 4,80,000	
Tax@12.5% of ₹ 2,30,000 (₹ 4,80,000 – ₹ 2,50,000, being unexhausted basic exemption limit)	28,750
Less: Rebate u/s 87A (Lower of ₹ 28,750 or ₹ 12,500)	12,500
	16,250
Add: Health and education cess @4%	650
Tax Liability	16,900

[Rebate u/s 87A as per Sec 115BAC]

Question 6

Mr. Pawan aged 35 years and a resident in India, has a total income of ₹ 12,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2026-27 under default tax regime u/s 115BAC.

Answer 6

Computation of tax liability of Mr. Pawan for A.Y. 2026-27

Particulars	₹
Tax on Total Income as per section 115BAC	62,250
Less: Rebate u/s 87A [not available as income > 12 lakhs]	N/A
	62250
Above amount restricted to	
Tax on 12,00,000 + (NTI – 12,00,000)	15,000
[Nil + 15,000]	
	15,000
Add: HEC@4%	600
Tax Liability	**15,600**

[Definition of Assessee]

Question 7

Who is an "Assessee"? [SM Q.]

Answer 7

As per section 2(7), assessee means a person by whom any tax or any other sum of money is payable under the Income-tax Act, 1961.

In addition, the term includes –

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- Every person in respect of whom any proceeding under the Act has been taken for the assessment of –
  - his income; or
  - the income of any other person in respect of which he is assessable; or
  - the loss sustained by him or by such other person; or
  - the amount of refund due to him or to such other person.
- Every person who is deemed to be an assessee under any provision of the Act;
- Every person who is deemed to be an assessee in default under any provision of the Act.

Question 8

[HUF School of laws]

What are the two schools of Hindu law and where are they prevalent? Explain. Also, mention the difference between the two schools of Hindu Law. **[SM Q.]**

Answer 8

The two schools of Hindu law are Dayabaga school, prevalent in West Bengal and Assam, and Mitakshara school, prevalent in rest of India. Under the Dayabaga school of Hindu Law, nobody acquires the right, share in the property by birth as long as the head of family is living. Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property. Hence, the father and his brothers would be the coparceners of the HUF.

Under the Mitakshara school of Hindu Law, one acquires the right to the family property by his birth and not by succession irrespective of the fact that his elders are living. Thus, every child born in the family acquires a right/share in the family property.

Question 9

[HUF School of laws]

The Jain HUF in Assam comprises of Mr. Suresh Jain, his wife Mrs. Sapna Jain, his son Mr. Sarthak Jain, his daughter-in-law Mrs. Preeti Jain, his daughter Miss Seema Jain and his unmarried brother Mr. Pritam Jain. Which of the members of the HUF are eligible for coparcenary rights? **[SM Q.]**

Answer 9

Dayabaga school of Hindu law is prevalent in Assam. In Dayabaga school of Hindu law, nobody acquires the right, share in the property by birth as long as the head of family is living. Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property.

Hence, Mr. Suresh Jain and his brother, Mr. Pritam Jain would be the coparceners of the Jain HUF and are eligible for coparcenary rights.

Question 10

[AOP/BOI Deference]

What is the difference between an Association of Persons and Body of Individuals? **[SM Q.]**

Answer 10

In order to constitute an Association of Persons (AOP), persons must join for a common purpose or action and their object must be to produce income; it is not enough that the persons receive the income jointly.

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Body of Individuals denotes the status of persons like executors or trustees who merely receive the income jointly and who may be assessable in like manner and to the same extent as the beneficiaries individually. Thus, coexecutors or co-trustees are assessable as a BOI as their title and interest are indivisible.

The difference between an AOP and BOI is that in case of a BOI, only individuals can be the members, whereas in case of AOP, any person can be its member i.e. entities like company, firm etc. can be the member of AOP but not of BOI.

In case of an AOP, members voluntarily come together with a common will for a common intention or purpose, whereas in case of BOI, such common will may or may not be present.

Question 11 [Income of PY Taxable in PY only]

State any four instances where the income of the previous year is assessable in the previous year itself instead of the assessment year. [SM Q.]

Answer 11

The income of an assessee for a previous year is charged to income-tax in the assessment year following the previous year. However, in a few cases, the income is taxed in the previous year in which it is earned. These exceptions have been made to protect the interests of revenue. The exceptions are as follows:

(i) Where a ship, belonging to or chartered by a non-resident, 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 or satisfactory arrangement has been made for payment thereof. 7.5% of the freight paid or payable to the owner or the charterer or to any person on his behalf, whether in India or outside India on account of such carriage is deemed to be his income which is charged to tax in the same year in which it is earned.

(ii) Where it appears to the Assessing Officer that any individual may leave India during the current assessment year or shortly after its expiry and he has no present intention of returning to India, the total income of such individual for the period from the expiry of the respective previous year up to the probable date of his departure from India is chargeable to tax in that assessment year.

(iii) If an AOP/BOI etc. is formed or established for a particular event or purpose and the Assessing Officer apprehends that the AOP/BOI is likely to be dissolved in the same year or in the next year, he can make assessment of the income up to the date of dissolution as income of the relevant assessment year.

(iv) During the current assessment year, if it appears to the Assessing Officer that a person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets to avoid payment of any liability under this Act, the total income of such person for the period from the expiry of the previous year to the date, when the Assessing Officer commences proceedings under this section is chargeable to tax in that assessment year.

(v) Where any business or profession is discontinued in any assessment year, the income of the period from the expiry of the previous year up to the date of such discontinuance may, at the discretion of the Assessing Officer, be charged to tax in that assessment year.

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Question 12 [Tax Calculation with Special Income]

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

Question 13 (Same as above) [Tax Calculation with Special Income]

Mr. Sharma aged 62 years and a resident in India, has a total income of ₹ 2,30,00,000, comprising long term capital gain taxable @12.5% u/s 112 of ₹ 52,00,000, short term capital gain taxable @20% u/s 111A of ₹ 64,00,000 and other income of ₹ 1,14,00,000. Compute his tax liability for A.Y.2026-27 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes.

New Tax (Default) = 5896280
Old Tax = 6171360

Question 14 [Bifurcation of Business & Agriculture Income]

Mr. B grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for ₹ 10 lacs, and the cost of cultivation of such sugarcane is ₹ 5 lacs. The cost of cultivation of the balance sugarcane (70%) is ₹ 14 lacs and the market value of the same is ₹ 22 lacs. After incurring ₹ 1.5 lacs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25 lacs. Compute B's business income and agricultural income. **[SM Q.]**

Answer 14

Computation of Business Income and Agriculture Income of Mr. B

Particulars	Business Income	Agricultural Income	
	(₹)	(₹)	(₹)
Sale of Sugar			
Business income			
Sale Proceeds of sugar	25,00,000		
Less: Market value of sugarcane (70%)	22,00,000		
Less: Manufacturing exp.	1,50,000		
PGBP	**1,50,000**		
Agricultural income			
Market value of sugarcane (70%)		22,00,000	
Less: Cost of cultivation		14,00,000	
			8,00,000
Sale of sugarcane			
Agricultural Income			
Sale proceeds of sugarcane (30%)		10,00,000	
Less: Cost of cultivation		5,00,000	5,00,000
Agriculture Income			**13,00,000**

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Question 15

[Agriculture Income]

Explain with brief reasons, whether the following income can be regarded as agricultural income, as per the provisions of the Income-tax Act, 1961:

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

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

[SM Q.]

Answer 15

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

As per section 2(1A), "agricultural income" means, inter alia,

- any rent or revenue derived from land
- which is situated in India and is used for agricultural purposes.

In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose and hence, it does not constitute agricultural income.

(ii) Income from sale of seedlings in a nursery:

As per Explanation 3 to section 2(1A), income derived from saplings or seedlings grown in a nursery is deemed to be agricultural income, whether or not the basic operations were carried out on land.

Therefore, the amount received from sale of seedlings in a nursery adjacent to the agricultural lands owned by the assessee constitutes agricultural income.

Question 16

[Bifurcation of Business & Agriculture Income]

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

[SM Q.]

Answer 16

In case of income derived from the sale of coffee grown and cured by the seller in India, 25% income on such sale is taxable as business income. In case of income derived from the sale of coffee grown, cured, roasted and grounded by the seller in India, 40% income on such sale is taxable as business income.

Business income of Mr. Raja = 25% of ₹ 10 lakhs = ₹ 2.5 lakhs

Business income of Mr. Shyam = 40% of ₹ 20 lakhs = ₹ 8 lakhs

Question 17

[Bifurcation of Business & Agriculture Income]

Miss Vivitha, a resident and ordinarily resident in India, has derived the following income from various operations (relating to plantations and estates owned by her) during the year ended 31-3-2026:

S. No.	Particulars	₹
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	3,00,000
(ii)	Income from sale of coffee grown and cured in Yercaud, Tamil Nadu.	1,00,000
(iii)	Income from sale of coffee grown, cured, roasted and grounded, in Colombo. Sale consideration was received at Chennai.	2,50,000
(iv)	Income from sale of tea grown and manufactured in Shimla.	4,00,000

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(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	80,000

You are required to compute the business income and agricultural income of Miss Vivitha for the A.Y. 2026-27. **[SM Q.]**

Answer 17

Computation of business income and agricultural income of Ms. Vivitha for the A.Y.2026-27

Sr. No.	Source of income	Gross (₹)	Business income		Agricultural income
			%	₹	₹
(i)	Sale of centrifuged latex from rubber plants grown in India.	3,00,000	35%	1,05,000	1,95,000
(ii)	Sale of coffee grown and cured in India.	1,00,000	25%	25,000	75,000
(iii)	Sale of coffee grown, cured, roasted and grounded outside India. **(See Note 1 below)**	2,50,000	100%	2,50,000	-
(iv)	Sale of tea grown and manufactured in India	4,00,000	40%	1,60,000	2,40,000
(v)	Saplings and seedlings grown in nursery in India **(See Note 2 below)**	80,000		Nil	80,000
	Total			**5,40,000**	**5,90,000**

Notes:

1. Where income is derived from sale of coffee grown, cured, roasted and grounded by the seller in India, 40% of such income is taken as business income and the balance as agricultural income. However, in this question, these operations are done in Colombo, Sri lanka. Hence, there is no question of such apportionment and the whole income is taxable as business income. Receipt of sale proceeds in India does not make this agricultural income. In the case of an assessee, being a resident and ordinarily resident, the income arising outside India is also chargeable to tax.
2. Explanation 3 to section 2(1A) provides that the income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income whether or not the basic operations were carried out on land.

Question 18 **[Tax calculation and Partial integration in case of Agriculture Income]**

Mr. X, a resident, has provided the following particulars of his income for the P.Y. 2025-26.

(i)	Income from salary (computed)	- ₹ 10,80,000
(ii)	Income from house property (computed)	- ₹ 2,50,000
(iii)	Agricultural income from a land in Jaipur	- ₹ 4,80,000
(iv)	Expenses incurred for earning agricultural income	- ₹ 1,70,000

Compute his tax liability for A.Y. 2026-27 assuming his age is -

(a) 45 years

(b) 70 years

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Question 19 [Agriculture Income]

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

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

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

Answer 19

(i) The rent or revenue derived from land situated in India and used for agricultural purposes would be agricultural income u/s 2(1A)(a). Therefore, rent received from sub-letting of the land used for grazing of cattle required for agriculture activities is agricultural income. The rent can either be received by the owner of the land or by the original tenant from the sub-tenant.

Accordingly, rent received by Mr. Rajpal from Mr. Manish for using land for grazing of cattle required for agricultural activities is agricultural income exempt u/s 10(1). As per section 14A, no deduction is allowable in respect of exempt income.

(ii) The income from the process ordinarily employed to render the produce fit to be taken to the market would be agricultural income u/s 2(1A)(b)(ii). The process of making the rice ready from paddy for the market may involve manual operations or mechanical operations, both of which constitute processes ordinarily employed to make the product fit for the market. Accordingly, the entire income earned by Mr. Netram from sale of rice is agricultural income.

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CHAPTER 2

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Residence and Scope of Total Income

Question 1 Pg 122 Illustration 1 [Residential Status of Crew Member]

Mr. Anand is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in carriage of passengers in international traffic departing from Chennai port on 6th June, 2025. From the following details for the P.Y. 2025-26, determine the residential status of Mr. Anand for A.Y. 2026-27, assuming that his stay in India in the last 4 previous years (preceding P.Y. 2025-26) is 400 days: [SM Q.]

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Anand	6th June, 2025
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Anand	9th December, 2025

Answer 1

In this case, since Mr. Anand is an Indian citizen and leaving India during P.Y. 2025-26 as a member of the crew of the Indian ship, he would be resident in India if he stayed in India for 182 days or more.

The voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Chennai port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage for the purposes of section 6(1).

Therefore, the period beginning from 6th June, 2025 and ending on 9th December, 2025, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Anand, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 187 days [25 + 31 + 31 + 30 + 31 + 30 + 9] have to be excluded from the period of his stay in India. Consequently, Mr. Anand's period of stay in India during the P.Y. 2025-26 would be 178 days [i.e., 365 days – 187 days]. Since his period of stay in India during the P.Y. 2025-26 is less than 182 days, he is a non-resident for A.Y. 2026-27.

Question 2 [Residential Status of Crew Member]

You are required to determine the residential status of Mr. Dinesh, a citizen of India, for the previous year 2025-26.

Mr. Dinesh is a member of crew of a Singapore bound Indian ship, carrying passengers in the international waters, which left Kochi port in Kerala, on 16th August, 2025.

Following details are made available to you for the previous year 2025-26:

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Dinesh	16th August, 2025
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Dinesh	21st January, 2026

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In June, 2025, he had gone out of India to Dubai on a private tour for a continuous period of 27 days.

During the last four years preceding the PY 2025-26, he was present in India for 425 days. During the last seven PY's preceding the PY 2025-26, he was present in India for 830 days.

[RTP NOV-20 Q.]

Answer 2

Determination of residential status of Mr. Dinesh for the P.Y. 2025-26

As per Explanation 1 to section 6(1), where an Indian citizen leaves India as a member of crew of an Indian ship, he will be resident in India only if he stayed in India for 182 days during the relevant previous year.

As per Explanation 2 to section 6(1)1, in case of an individual, being a citizen of India and a member of the crew of a foreign bound ship leaving India, the period or periods of stay in India shall, in respect of an eligible voyage, not include the period commencing from the date entered into the Continuous Discharge Certificate in respect of joining of ship by the said individual for the eligible voyage and ending on the date entered into the Continuous Discharge Certificate in respect of signing off by that individual from the ship in respect of such voyage.

Eligible voyage includes a voyage undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from any port in India and having its destination at a port outside India.

In this case, voyage is undertaken by a foreign bound Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Kochi port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage.

Therefore, the period from 16th August, 2025 and ending on 21st January, 2026 has to be excluded for computing the period of stay of Mr. Dinesh in India. Accordingly, the period of 159 days [16+30+31+30+31+21] has to be excluded for computing the period of his stay in India during the P.Y.2025-26.

Further, since Mr. Dinesh had also gone out of India to Dubai on a private tour for a continuous period of 27 days in June, 2025, such period has also to be excluded for computing his period of stay in India during the P.Y.2025-26.

Consequently, the period of stay in India during the P.Y. 2025-26 would be 179 days [i.e., 365 days – 159 days – 27 days], which is less than 182 days.

Thus, Mr. Dinesh would be a non-resident for A.Y. 2026-27.

Since the residential status of Mr. Dinesh is "non-resident" for A.Y. 2026-27 consequent to his number of days of stay in India in P.Y. 2025-26, being less than 182 days, his period of stay in India in the earlier previous years become irrelevant.

Question 3 Pg 114 Illustration 2 **[Residential Status of Individual]**

Brett Lee, an Australian cricket player visits India for 100 days in every financial year. This has been his practice for the past 10 financial years.

(a) Find out his residential status for the assessment year 2026-27.

(i) What will be your answer if he stays 90 days instead of 100 days.

(ii) What will be your answer if he stays 110 days instead of 100 days.

(b) Would your answer change if the above facts relate to Srinath, an Indian citizen who resides in Australia and represents the Australian cricket team?

(c) What would be your answer if Srinath had visited India for 120 days instead of 100 days every year, including P.Y.2025-26? **[SM Q.]**

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Question 4 Pg 118 I11.3 **[Residential Status of Individual]**

Mr. B, a Canadian citizen, comes to India for the first time during the P.Y. 2021-22. During the financial years 2021-22, 2022-23, 2023-24, 2024-25 and 2025-26, he was in India for 55 days, 60 days, 90 days, 150 days and 70 days, respectively. Determine his residential status for the A.Y. 2026-27. **[SM Q.]**

Question 5 Prac.Q.1. **[Residential Status of Individual]**

Mr. Ram, an Indian citizen, left India on 22.09.2025 for the first time to work as an officer of a company in Germany. Determine the residential status of Ram for the assessment year 2026-27. **[SM Q.]**

Answer 5

U/s 6(1), an individual is said to be resident in India in any previous year if he satisfies any one of the following conditions –

(i) He has been in India during the previous year for a total period of 182 days or more, or

(ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

In the case of Indian citizens leaving India for employment, the period of stay during the previous year must be 182 days instead of 60 days given in (ii) above.

During the previous year 2025-26, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e., 30+31+30+31+31+22 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days stay in India during the relevant previous year, he is a non-resident for the A.Y. 2026-27.

Question 6 Prac.Q.2. **[Residential Status of Individual]**

Mr. Dey, a non-resident, residing in US since 1990, came back to India on 1.4.2024 for permanent settlement. What will be his residential status for assessment year 2026-27?

[SM Q.]

Answer 6

Mr. Dey is a resident in A.Y. 2026-27 since he has stayed in India for a period of 365 days (more than 182 days) during the P.Y. 2025-26.

As per section 6(6), a person will be "Not ordinarily Resident" in India in any previous year, if such person, inter alia,:

(a) has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or

(b) has during the 7 previous years immediately preceding the relevant previous year been in India for 729 days or less.

If he does not satisfy either of these conditions, he would be a resident and ordinarily resident.

For the previous year 2025-26 (A.Y. 2026-27), his status would be "Resident but not ordinarily resident" since he was non-resident in 9 out of 10 previous years immediately preceding the P.Y. 2025-26. He can be resident but not ordinarily resident also due to the fact that he has stayed in India only for 365 days (i.e., less than 730 days) in 7 previous years immediately preceding the P.Y. 2025-26.

Question 7 Pg 131 **[Residential Status of Individual & Total Income]**

Mr. Dhruv, a person of Indian origin and citizen of Country X, got married to Ms. Deepa, an Indian citizen residing in Country X, on 4th February, 2025 and came to India for the first time on 20-02-2025. He left for Country X on 12th August, 2025. He returned to India again on 20-01-2026 with his wife to spend some time with his parents-in law for 30 days and thereafter returned to Country X on 18.02.2026.

He received the following gifts from his relatives and friends of her wife during 01-04-2025 to

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31-03-2026 in India:

- From parents of wife ₹ 1,01,000
- From married sister of wife ₹ 11,000
- From very close friends of his wife ₹ 2,82,000

(a) Determine his residential status and compute the total income chargeable to tax along with the amount of tax payable on such income for the Assessment Year 2026-27.

(b) Will your answer change if he has received ₹ 16,00,000 instead of ₹ 2,82,000 from very close friends of his wife during the previous year 2025-26 and he stayed in India for 400 days during the 4 years preceding the previous year 2025-26? **[MTP Q.]**

Answer 7

(a) Determination of residential status and computation of total income and tax payable of Mr. Dhruv

U/s 6(1), an individual, being a person of Indian origin and who comes on a visit to India during the previous year and his total income other than the income from foreign source exceeds ₹ 15,00,000, is said to be resident in India, if he stayed in India for a total period of 120 days or more during that previous year and for 365 days or more during the 4 years immediately preceding the relevant previous year.

However, in case, the total income other than the income from foreign source does not exceed ₹ 15,00,000, the said individual is said to be resident in India, only if he stayed in India for a total period of 182 days or more during that previous year.

Since in the present case, total income other than from foreign source, of Mr. Dhruv, a person of Indian origin does not exceed ₹ 15,00,000, he would be said to be resident in India, only if he stayed in India for 182 days or more during the previous year 2025-26 relevant to A.Y. 2026-27.

His stay in India during the previous year 2025-26 is as under:

01.04.2025 to 12.08.2025	-	134 days
20.01.2026 to 18.02.2026	-	30 days
Total		**164 days**

Since Mr. Dhruv has stayed in India during the previous year for less than 182 days, he is said to be non-resident. Accordingly, his total income and tax payable would be computed in the following manner:

Computation of total income and tax payable of Mr. Dhruv for the A.Y. 2026-27

Particulars	₹
Income from other sources	
Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x) if the aggregate value of such gifts exceeds ₹ 50,000.	
- ₹ 1,01,000 received from parents of wife would be exempt, since parents of wife fall within the definition of 'relatives' and gifts from a relative are not chargeable to tax.	Nil
- ₹ 11,000 received from married sister-in-law is exempt, since sister of wife falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil
- Gift received from close friends of his wife of ₹ 2,82,000 is taxable u/s 56(2)(x) since the said sum exceeds ₹ 50,000.	2,82,000
Total Income	**2,82,000**
Tax on total income of ₹ 2,82,000 as per default tax regime u/s 115BAC is Nil due to basic exemption of ₹ 4,00,000	Nil
Tax on total income of ₹ 2,82,000 as per normal provisions [5% of ₹ 32,000 in excess	1,600

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Particulars	₹
of₹ 2,50,000, being the basic exemption limit]	
Add: Health and Education cess@4%	64
Total tax payable	**1,664**
Total tax payable (rounded off)	**1,660**

(b) Determination of residential status and computation of total income and tax payable of Mr. Dhruv (if he has received cash gifts from non-relative for₹ 16,00,000):

Where an individual, being a person of Indian origin comes on visit to India and he is having total income other than income from foreign sources exceeding ₹ 15 lakhs during the previous year, such individual is said to be resident in India, if he stays in India during the previous year for 120 days or more and for 365 days or more during the 4 years immediately preceding the relevant previous year. As per section 6(6),such individual whose stay in India is for 120 days or more but less than 182 days in the P.Y. 2025-26 would be resident but not ordinarily resident irrespective of his residential status or no. of days of stay in India in the immediately preceding PYs.

Mr. Dhruv, is a person of India origin who has come on a visit to India during the previous year. Since his total income other than income from foreign sources exceeds₹ 15,00,000; and his stay in India is for 164 days during the P.Y. 2025-26 and for 400 days during the 4 years immediately preceding the P.Y. 2025-26, he is resident but not ordinarily resident in India for the P.Y. 2025-26.

In such case, his total income and tax payable would be computed in the following manner:

Computation of total income and tax payable of Mr. Dhruv for the A.Y. 2026-27

Particulars	₹
Income from other sources	
Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x) if the aggregate value of such gifts exceeds₹ 50,000.	
- ₹ 1,01,000 received from parents of wife would be exempt, since parents of wife fall within the definition of 'relatives' and gifts from a relative are not chargeable to tax.	Nil
- ₹ 11,000 received from married sister-in-law is exempt, since sister of wife falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil
- Gift received from close friends of his wife of ₹ 16,00,000 is taxable u/s 56(2)(x) since the amount of cash gifts exceeds ₹ 50,000.	16,00,000
Total Income	**16,00,000**
Tax on total income of ₹ 16,00,000 as per default tax regime u/s 115BAC	
Upto₹ 4,00,000 Nil	
₹ 4,00,001 – ₹ 8,00,000 @5% 20,000	
₹ 8,00,001 – ₹ 12,00,000 @ 10% 40,000	
₹ 12,00,001 – ₹ 16,00,000 @ 15% 60,000	1,20,000
Add: Health and Education cess@4%	4,800
Total tax payable	**1,24,800**

TELEGRAM: CA NOTE HUB

Note – Since his tax payable as per normal provisions is ₹ 3,04,200 [₹ 2,92,500 (₹ 1,12,500 plus 30% on ₹ 6,00,000 income exceeding ₹ 10,00,000) plus ₹ 11,700, being health and education cess @4%], which is higher than the tax payable computed as per concessional tax rates available u/s 115BAC, it is beneficial for him to opt for section 115BAC.

Question 8 Pg 134 [Residential Status of Individual & Total Income]

Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 2.03.2025 and came to India for the first time on 16.03.2025. She left for USA on 19.9.2025. She returned to India again on 27.03.2026. While in India, she had purchased a show room in Mumbai on 30.04.2025, which was leased out to a company on a rent of ₹ 25,000 p.m. from 1.05.2025. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹ 97,500 upto 31.03.2026. She had received the following cash gifts from her relatives and friends during 1.4.2025 to 31.3.2026:

- From parents of husband ₹ 51,000
- From married sister of husband ₹ 11,000
- From two very close friends of her husband (₹ 1,51,000 and ₹ 21,000) ₹ 1,72,000

(a) Determine her residential status and compute the total income chargeable to tax along with the amount of tax liability on such income for the Assessment Year 2026-27 if she opts out of the default tax regime u/s 115BAC.

(a) Would her residential status undergo any change, assuming that she is a person of Indian origin and her total income from Indian sources is ₹18,00,000 and she is not liable to tax in USA? **[SM Q.]**

Answer 8

I. U/s 6(1), an individual is said to be resident in India in any previous year, if he/she satisfies any one of the following conditions:

(i) He/she has been in India during the previous year for a total period of 182 days or more, or

(ii) He/she has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If an individual satisfies any one of the conditions mentioned above, he/she is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Therefore, the residential status of Miss Charlie, an American National, for A.Y.2026-27 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2026-27 i.e., P.Y.2025-26 and in the preceding four assessment years.

Her stay in India during the previous year 2025-26 and in the preceding four years are as under:

P.Y. 2025-26

01.04.2025 to 19.09.2025	-	172 days
27.03.2026 to 31.03.2026	-	5 days
Total		177 days

Four preceding previous years

P.Y. 2024-25 [1.4.2024 to 31.3.2025]	-	16 days
P.Y.2023-24 [1.4.2023 to 31.3.2024]	-	Nil
P.Y.2022-23 [1.4.2022 to 31.3.2023]	-	Nil
P.Y.2021-22 [1.4.2021 to 31.3.2022]	-	Nil
Total		16 days

The total stay of the assessee during the previous year in India was less than 182 days and during

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the four years preceding this year was for 16 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2026-27.

Computation of total income of Miss Charlie for the A.Y. 2026-27

Particulars		₹	₹
Income from house property			
Show room located in Mumbai remained on rent from 01.05.2025 to 31.03.2026 @ ₹ 25,000/- p.m.		2,75,000	
Gross Annual Value [₹ 25,000 x 11] **(See Note 1 below)**			
Less: Municipal taxes		Nil	
Net Annual Value (NAV)		2,75,000	
Less: Deduction u/s 24			
30% of NAV	82,500		
Interest on loan	97,500	1,80,000	95,000
Income from other sources			
Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x), if the aggregate value of such gifts exceeds ₹ 50,000.			
- ₹50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relative' and gifts from a relative are not chargeable to tax.		Nil	
- ₹11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax.		Nil	
- Gift received from two friends of husband ₹ 1,51,000 and ₹ 21,000 aggregating to ₹ 1,72,000 is taxable u/s 56(2)(x) since the aggregate of ₹ 1,72,000 exceeds ₹ 50,000. **(See Note 2 below)**		1,72,000	1,72,000
Total income			**2,67,000**

Computation of tax liability by Miss Charlie for the A.Y. 2026-27

Particulars	₹
Tax on total income of ₹ 2,67,000	850
Add: Health and Education cess@4%	34
Total tax liability	**884**
Total tax liability (rounded off)	**880**

Notes:

1. Actual rent received has been taken as the gross annual value in the absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.
2. If the aggregate value of taxable gifts received from non-relatives exceed ₹ 50,000 during the year, the entire amount received (i.e. the aggregate value of taxable gifts received) is taxable. Therefore, the entire amount of ₹ 1,72,000 is taxable u/s 56(2)(x).
3. Since Miss Charlie is a non-resident for the A.Y. 2026-27, rebate u/s 87A would not be available to her, even though her total income does not exceed ₹ 5 lacs.
4. The tax liability of Miss Charlie would be the same even if she opts to pay tax as per section

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115BAC, since she would be eligible for deduction u/s 24(b), for interest on housing loan in respect of let out property under regular provisions as well as u/s 115BAC of the Income-tax Act, 1961.

II. Residential status of Miss Charlie in case she is a person of Indian origin and her total income from Indian sources exceeds ₹ 18,00,000

If she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 (₹ 18,00,000, in her case), the condition of stay in India for a period exceeding 120 days during the previous year and 365 days during the four immediately preceding previous years would be applicable for being treated as a resident. Since her stay in India exceeds 120 days in the P.Y.2025-26 but the period of her stay in India during the four immediately preceding previous years is less than 365 days (only 16 days), her residential status as per section 6(1) would continue to be same i.e., non-resident in India.

Further, since she is not a citizen of India, the provisions of section 6(1A) deeming an individual to be a citizen of India would not get attracted in her case, even though she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 and she is not liable to pay tax in USA.

Therefore, her residential status would be non-resident in India for the previous year 2025-26.

Question 9 Pg 137 [Residential Status of Individual & Total Income]

Determine the residential status and total income of Mr. Raghu for the assessment year 2026-27 from the information given below. Assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

Mr. Raghu (age 62 years), an American citizen, is employed with a multinational company in Gurugram. Mr. Raghu holds a senior level position as researcher in the company, since 2009. To share his knowledge and finding in research, company gave him an opportunity to travel to other group companies outside India while continuing to be based at the Gurugram office.

The details of his travel outside India for the financial year 2025-26 are as under:

Country	Period of stay
USA	25 August, 2025 to 10 November, 2025
UK	20 November, 2025 to 23 December, 2025
Germany	10 January, 2026 to 24 March, 2026

During the last four years preceding the previous year 2025-26, he was present in India for 380 days. During the last seven previous years preceding the previous year 2025-26, he was present in India for 700 days. During the P.Y. 2025-26, he earned the following incomes:

(1) Salary ₹ 15,00,000. The entire salary is paid by the Indian company in his Indian bank account.

(2) Dividend amounting to ₹ 48,000 received from Treat Ltd., a Singapore based company, which was transferred to his bank account in Singapore.

(3) Interest on fixed deposit with Punjab National Bank (Delhi) amounting to ₹ 10,500 was credited to his saving account.

[MTP Q.]

Answer 9

Determination of residential status

Mr. Raghu would be a resident in India in P.Y. 2025-26, if he satisfies any one of the following conditions:

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(i) He has been in India during the previous year for a total period of 182 days or more, or

(ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If he satisfies any one of the mentioned above, he is a resident. If both the above conditions are not satisfied, he would be a non-resident.

During the P.Y. 2025-26 Mr. Raghu stayed in India for 179 days i.e., 365 days – 186 days [78 days + 34 days + 74 days] and 380 days i.e., more than 365 days during the 4 preceding previous years. He satisfies the second basic condition for being a resident. Hence, he is a resident in India for A.Y.2026-27.

A person would be "Not ordinarily Resident" in India in any previous year, if such person, inter alia:

(a) has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or

(b) has during the 7 previous years immediately preceding the relevant previous year been in India for 729 days or less.

For the previous year 2025-26, Mr. Raghu would be "Resident but not ordinarily resident" since he stayed for less than 729 days during the 7 previous years immediately preceding P.Y. 2025-26.

Computation of total income of Mr. Raghu for A.Y.2026-27

Particulars			Amount (₹)
(1)	Salary from Indian company received in a bank account in India	15,00,000	
	Less: Standard deduction u/s 16(ia)	50,000	14,50,000
(2)	Dividend of ₹ 48,000 received from Singapore based company transferred to his bank account in Singapore is not taxable in the hands of the resident but not ordinarily resident since the income has neither accrued or arisen in India nor has it been received in India.		Nil
(3)	Interest on fixed deposit with PNB credited to his savings bank account is taxable in the hands of Mr. Raghu as Income from other sources, since it has accrued and arisen in India and is also received in India.		10,500
Gross Total Income			**14,60,500**
Less: Deduction u/s 80TTB			10,500
Total Income			**14,50,000**

Question 10 [Residential Status of Individual & Total Income]

Miss Bhanushali, an American National, got married to Mr. Vikas of India in New York on 3rd February, 2025 and came to India for the first time on 14-02-2025. She left for New York on 11-08-2025. She returned to India again on 20-02-2026.

She received the following gifts from her relatives and friends during 01-04-2025 to 31-03-2026 in India:

- From parents of husband ₹ 71,000
- From married sister of husband ₹ 21,000
- From two very close friends of her husband ₹ 1,41,000 and ₹ 1,21,000 ₹ 2,62,000

(i) Determine her residential status and compute the total income chargeable to tax for the Assessment Year 2026-27. Assuming that she has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

(ii) Will the residential status change if she had returned to India again on 20-01-2026

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instead of 20-02-2026? [MTP Q.]

Answer 10

(i) Determination of residential status and computation of total income of Miss Bhanushali (if she returned to India on 20.2.2026)

Particulars			₹
U/s 6(1), an individual is said to be resident in India in any previous year, if he/she satisfies any one of the following conditions:			
(i) He/she has been in India during the previous year for a total period of 182 days or more, or			
(ii) He/she has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.			
If an individual satisfies any one of the conditions mentioned above, he/she is a resident. If both the above conditions are not satisfied, the individual is a non-resident.			
Therefore, the residential status of Miss Bhanushali, an American National, for A.Y.2026-27 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2026-27 i.e. P.Y.2025-26 and in the preceding four assessment years.			
Her stay in India during the previous year 2025-26 and in the preceding four years are as under:			
P.Y. 2025-26			
01.04.2025 to 11.08.2025	-	133 days	
20.02.2026 to 31.03.2026	-	41 days	
Total		**174 days**	
Four preceding previous years			
P.Y.2024-25 [14.2.2024 to 31.3.2025]	-	47 days	
P.Y.2023-24	-	Nil	
P.Y.2022-23	-	Nil	
P.Y.2021-22	-	Nil	
Total		**47 days**	
The total stay of Miss Bhanushali during the previous year in India was less than 182 days and during the four years preceding this year was for 47 days.			
Therefore, due to non-fulfilment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2026-27.			
Computation of total income of Miss Bhanushali for the A.Y. 2026-27			
Income from other sources			
Gifts received from non-relatives is chargeable to tax as per section 56(2) (x) if the aggregate value of such gifts exceeds ₹ 50,000.			
- ₹ 71,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relatives' and gifts from a relative are not chargeable to tax.			Nil
- ₹ 21,000 received from married sister-in-law is exempt, since sister of husband falls within the definition of relative and gifts from a relative are not chargeable to tax.			Nil

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Particulars	₹
- Gift received from two friends of her husband ₹ 1,41,000 and ₹ 1,21,000 aggregating to ₹ 2,62,000 is taxable u/s 56(2)(x) since the aggregate of ₹ 2,62,000 exceeds ₹ 50,000.	262000
Total Income	**262000**

(ii) Determination of residential status of Miss Bhanushali (if she returned to India on 20.1.2026)

Particulars	₹
Yes, the answer would change, if she had returned to India again on 20.1.2026 instead of 20.2.2026.	
In such case, her stay in India during the previous year 2025-26 would be:	
01.04.2025 to 11.08.2025 - 133 days	
20.01.2026 to 31.03.2026 - 72 days	
Total **205 days**	
Since she satisfies the condition of stay in India for more than 182 days during the previous year 2025-26, she would become resident in India. She would be a resident but not ordinarily resident in India for A.Y. 2026-27, since her stay in India in the preceding seven years is less than 730 days (it is only 47 days)1	

1 In the alternative, an individual can be treated as not ordinarily resident if she is non-resident in any 9 out of 10 preceding assessment years. In this case, Miss Bhanushali is a non-resident in all 10 preceding assessment years. She was in India for only 47 days in A.Y.2026-27 and never visited India earlier.

Question 11 [Residential Status of Individual & Total Income]

Ms. Rita, an Indian citizen and an MBA from Howard University, was employed in AFL LLP of Country A since June, 2017. She came to India on 15.11.2025 and joined as CEO of Autofit Ltd. Ms. Rita was in India before she left for overseas education in May, 2013 and was subsequently employed outside India and never visited India thereafter. There is no income-tax in Country A. She has earned interest income of ₹ 2,40,000 (net) in Country A and salary income from AFL LLP of ₹ 15 lakhs up to the date of her return to India in the financial year 2025-26.

Salary income (computed) of Ms. Rita from Autofit Ltd. up to 31.03.2026 is ₹ 13,50,000 and she earned dividend of ₹ 3,00,000 from shares of an Indian company.

What would be the residential status of Ms. Rita and her total income for the A.Y. 2026-27?

Answer 11

Determination of residential status of Ms. Rita for the A.Y. 2026 -27

As per section 6(1), in order to be a resident of India in the P.Y.2025 -26, Ms. Rita should satisfy either of the following two conditions -

(1) Her stay in India should be for a period of 182 days or more in the P.Y.2025-26; or

(2) Her stay in India should be for a period of 60 days or more in the P.Y.2025-26 and for a period of 365 days or more in the four immediately preceding previous years.

Ms. Rita's stay in India in the P.Y.2025-26 is 137 days (i.e., 16 days + 31 days +31 days + 28 days + 31 days). She left India in May, 2013 and never visited India thereafter. Her stay in India in the four immediately preceding previous years would be Nil.

Therefore, she does not satisfy either condition (1) or condition (2) for being a resident.

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As per section 6(1A), an individual who is a citizen of India would be deemed to be a resident of India if his total income, other than income from foreign sources, exceed ₹ 15 lakh during the relevant previous year and he is not liable to tax in any other country by reason of his domicile or residence or any other criteria of similar nature.

Ms. Rita's total income, other than income from foreign sources, would be ₹ 16,50,000 for A.Y.2026-27 as shown below –

Particulars	₹
Salary income from Autofit Ltd. [Computed] [Accrues or arises in India]	13,50,000
Dividend from shares of an Indian company [Accrues or arises in India]	3,00,000
	16,50,000

Since Ms. Rita is a citizen of India who is not liable to pay income-tax in Country A and her total income, other than income from foreign sources, exceed ₹ 15 lakhs, she would be deemed resident in India u/s 6(1A) for A.Y.2026-27. A deemed resident is, by default, a resident but not ordinarily resident.

In case of a resident but not ordinarily resident, income accrues or arises, deemed to accrue or arise and received or deemed to be received in India, is taxable. In addition, Income which accrues or arises outside India would also be taxable if it is derived from a business controlled in or a profession set up in India.

Ms. Rita's total income for A.Y. 2026-27

Particulars	₹
Salary income from AFL LLP [Not taxable since it accrues or arises outside India]	-
Salary income from Autofit Ltd. [Computed]	13,50,000
Interest income in Country A [Not taxable since it accrues or arises outside India]	-
Dividend from shares of an Indian company	3,00,000
Total Income	**16,50,000**

Question 12 Pg 125 Q11.4 **[Residential Status of HUF]**

The business of a HUF is transacted from Australia and all the policy decisions are taken there. Mr. E, the Karta of the HUF, who was born in Kolkata, visits India during the P.Y. 2025-26 after 15 years. He comes to India on 1.4.2025 and leaves for Australia on 1.12.2025. Determine the residential status of Mr. E and the HUF for A.Y. 2026-27. **[SM Q.]**

Question 13 Q11.6 **[Total Income with 10(7) exemption]**

Mr. David, an Indian citizen aged 40 years, a Government employee serving in the Ministry of External Affairs, left India for the first time on 31.03.2025 due to his transfer to High Commission of Canada. He did not visit India any time during the previous year 2025-26. He has received the following income for the Financial Year 2025-26:

S. No.	Particulars	₹
(i)	Salary (Computed)	5,00,000
(ii)	Foreign Allowance [not included in (i) above]	4,00,000
(iii)	Interest on fixed deposit from bank in India	1,00,000
(iv)	Income from agriculture in Nepal	2,00,000
(v)	Income from house property in Nepal	2,50,000

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Compute his Gross Total Income for Assessment Year 2026-27. **[SM Q.]**

Answer 13

As per section 6(1), Mr. David is a non-resident for the A.Y. 2026-27, since he was not present in India at any time during the previous year 2025-26.

As per section 5(2), a non-resident is chargeable to tax in India only in respect of following incomes:

(i) Income received or deemed to be received in India; and

(ii) Income accruing or arising or deemed to accrue or arise in India.

In view of the above provisions, income from agriculture in Nepal and income from house property in Nepal would not be chargeable to tax in the hands of David, assuming that the same were received in Nepal. Income from 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per section 9(1)(iii). Hence, such income is taxable in the hands of Mr. David, even though he is a non-resident.

However, allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt u/s 10(7). Hence, foreign allowance of ₹ 4,00,000 is exempt u/s 10(7) in the hands of Mr. David.

Gross Total Income of Mr. David for A.Y. 2026-27

Particulars	₹
Salaries (computed)	5,00,000
Income from other sources (Interest on fixed deposit in India)	1,00,000
Gross Total Income	**6,00,000**

Question 14 **[Total Income with 10(7) exemption]**

Mr. Shridhar (age 45 years), a citizen of India, serving in the Ministry of Finance in India, was transferred to Indian Embassy in Australia on 15th March 2025. His income during the financial year 2025-26 is given hereunder:

Particulars	₹
Rent from a house situated at Australia, received in Australia. Thereafter, remitted to Indian bank account.	5,25,000
Interest on Post office savings bank account in India	4,500
Salary from Government of India	9,25,000
Foreign Allowances from Government of India	8,00,000

Mr. Shridhar did not come to India during the financial year 2025-26. Compute his Gross Total Income for the Assessment year 2026-27. Assume he opted out from section 115BAC. **[MTP Q.]**

Answer 14

Mr. Shridhar is a non-resident for the A.Y.2026-27, since he was not present in India at any time during the previous year 2025-26 [Section 6(1)].

As per section 5(2), a non-resident is chargeable to tax in India only in respect of following incomes:

(i) Income received or deemed to be received in India; and

(ii) Income accruing or arising or income deemed to accrue or arise in India.

Computation of Gross Total Income of Mr. Shridhar for A.Y. 2026-27

Particulars	₹
Salaries Salary from Government of India	9,25,000

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Particulars	₹
(Income chargeable under the head 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India u/s 9(1)(iii). Hence, such income is taxable in the hands of Mr. Shridhar, a citizen of India, even though he is a non-resident and rendering services outside India)	
Foreign Allowance from Government of India [Any allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt u/s 10(7)].	Nil
Gross Salary	**9,25,000**
Less: Standard Deduction u/s 16(ia) of ₹ 50,000, being lower of gross salary or ₹ 50,000	50,000
	8,75,000
Income from House Property	Nil
Rent from a house situated at Australia, received in Australia (Income from property situated outside India would not be taxable in India in the hands of a non-resident, since it neither accrues or arises in India nor is it deemed to accrue or arise in India nor is it received in India)	
Income from Other Sources	
Interest on Post office savings bank account – exempt upto₹ 3,500	1,000
Gross Total Income	**8,76,000**

Note – Interest on Post office saving bank account of ₹ 1,000 would be allowed as deduction u/s 80TTA.

Question 15 I11.8 Pg129 **[Scope of Total income in case of ROR, R but NOR & NR]**

Compute the total income in the hands of an individual aged 35 years, being a resident and ordinarily resident, resident but not ordinarily resident, and non- resident for the A.Y. 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) – **[SM Q.]**

Particulars	Amount (₹)
Interest on UK Development Bonds, 50% of interest received in India	10,000
Income from a business in Chennai (50% is received in India)	20,000
Short term capital gains on sale of shares of an Indian company received in London	20,000
Dividend from British company received in London	5,000
Long term capital gains on sale of plant at Germany, 50% of profits are received in India	40,000
Income earned from business in Germany which is controlled from Delhi (₹ 40,000 is received in India)	70,000
Profits from a business in Delhi but managed entirely from London	15,000

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Particulars	Amount (₹)
Income from house property in London deposited in a Bank at London, brought to India (Computed)	50,000
Interest on debentures in an Indian company received in London	12,000
Fees for technical services rendered in India but received in London	8,000
Profits from a business in Mumbai managed from London	26,000
Income from property situated in Nepal received there (Computed)	16,000
Past foreign untaxed income brought to India during the previous year	5,000
Income from agricultural land in Nepal, received there and then brought to India	18,000
Income from profession in Kenya which was set up in India, received there but spent in India	5,000
Gift received on the occasion of his wedding	20,000
Interest on savings bank deposit in State Bank of India	12,000
Income from a business in Russia, controlled from Russia	20,000
Dividend from Reliance Petroleum Limited, an Indian Company	5,000
Agricultural income from a land in Rajasthan Exempt	15,000

Question 16 Prac·Q·3. **[Scope of Total income in case of ROR & NR]**

Mr. Ramesh & Mr. Suresh are brothers and they earned the following incomes during the financial year 2025-26. Mr. Ramesh settled in Canada in the year 1996 and Mr. Suresh settled in Delhi. Compute the total income for the A.Y. 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) –

[SM Q.]

Sr. No.	Particulars	Mr. Ramesh (₹)	Mr. Suresh (₹)
1.	Interest on Canada Development Bonds (only 50% of interest received in India)	35,000	40,000
2.	Dividend from British company received in London	28,000	20,000
3.	Profits from a business in Nagpur, but managed directly from London	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company received in India	60,000	90,000
5.	Income from a business in Chennai	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada	1,00,000	----
7.	Interest on savings bank deposit in UCO Bank, Delhi	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh	55,000	45,000
9.	Rent received in respect of house property at	1,00,000	60,000

TELEGRAM: CA NOTE HUB

Sr. No.	Particulars	Mr. Ramesh (₹)	Mr. Suresh (₹)
	Bhopal		
10.	Life insurance premium paid	---	30,000

Answer 16

Computation of total income of Mr. Ramesh & Mr. Suresh for the A.Y. 2026-27

S. No.	Particulars	Mr. Ramesh (Non- Resident) (₹)	Mr. Suresh (Resident) (₹)
1.	Interest on Canada Development Bond **(See Note 2)**	17,500	40,000
2.	Dividend from British Company received in London **(See Note 3)**	-	20,000
3.	Profits from a business in Nagpur but managed directly from London **(See Note 2)**	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company received in India **(See Note 2)**	60,000	90,000
5.	Income from a business in Chennai **(See Note 2)**	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada **(See Note 2)**	1,00,000	-
7.	Interest on savings bank deposit in UCO Bank, Delhi **(See Note 2)**	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh **(See Note 4)**	-	-
9.	Income from house property at Bhopal **(See Note 5)**	70,000	42,000
	Gross Total income	**4,34,500**	**4,14,000**
	Less: Deduction under Chapter VI-A		
	Section 80C - Life insurance premium	-	**30,000**
	Section 80TTA **(See Note 6)**	7,000	10,000
	Total Income	**4,27,500**	**3,74,000**

Notes:

1. Mr. Ramesh is a non-resident since he has been living in Canada since 1996. Mr. Suresh, is settled in Delhi, and thus, assumed as a resident and ordinarily resident.
2. In case of a resident and ordinarily resident, his global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:

   (i) Income received or deemed to be received in India; and

   (ii) Income accruing or arising or deemed to accrue or arise in India.

   Therefore, fees for technical services rendered in India would be taxable in the hands of Mr. Ramesh, even though he is a non-resident.

   The income referred to in Sl. No. 3,4,5 and 7 are taxable in the hands of both Mr. Ramesh and Mr. Suresh since they accrue or arise/ deemed to accrue or arise in India.

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Interest on Canada Development Bond would be fully taxable in the hands of Mr. Suresh, whereas only 50%, which is received in India, is taxable in the hands of Mr. Ramesh.

3. Dividend received from British company in London by Mr Ramesh, a non- resident, is not taxable since it accrued and is received outside India. However, such dividend received by Mr. Suresh is taxable, since he is a resident and ordinarily resident.
4. Agricultural income from a land situated in India is exempt u/s 10(1) in the case of both non-residents and residents.
5. Income from house property-

	Mr. Ramesh (₹)	Mr. Suresh (₹)
Rent received	1,00,000	60,000
Less: Deduction u/s 24(a) @30%	30,000	18,000
Net income from house property	**70,000**	**42,000**

The net income from house property in India would be taxable in the hands of both Mr. Ramesh and Mr. Suresh, since the accrual and receipt of the same are in India.

6. In case of an individual, interest upto ₹ 10,000 from savings account with, inter alia, a bank is allowable as deduction u/s 80TTA.

Question 17 Prac Q.4. **[Income deemed to accrued or arise in India]**

Examine the correctness or otherwise of the statement - "Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fees for technical services is to be taxed irrespective of territorial nexus". **[SM Q.]**

Answer 17

This statement is correct.

As per Explanation to section 9, income by way of interest, royalty or fees for technical services which is deemed to accrue or arise in India by virtue of clauses (v), (vi) and (vii) of section 9(1), shall be included in the total income of the non- resident, whether or not -

(i) non-resident has a residence or place of business or business connection in India; or

(ii) the non-resident has rendered services in India.

In effect, the income by way of fees for technical services, interest or royalty from services utilised in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India and irrespective of whether the non-resident has a residence or place of business or business connection in India.

Question 18 III.7 **[Income deemed to accrued or arise in India]**

Miss Vivitha paid a sum of 5000 USD to Mr. Kulasekhara, a management consultant practising in Colombo, specializing in project financing. The payment was made in Colombo. Mr. Kulasekhara is a non-resident. The consultancy is related to a project in India with possible Ceylonese collaboration. Is this payment chargeable to tax in India in the hands of Mr. Kulasekhara, since the services were used in India? **[SM Q.]**

Answer 18

A non-resident is chargeable to tax in respect of income received outside India only if such income accrues or arises or is deemed to accrue or arise to him in India.

The income deemed to accrue or arise in India u/s 9 comprises, inter alia, income by way of fees for technical services, which includes any consideration for rendering of any managerial, technical or consultancy services. Therefore, payment to a management consultant relating to project financing is

TELEGRAM: CA NOTE HUB

covered within the scope of "fees for technical services".

The Explanation below section 9(2) clarifies that income by way of, inter alia, fees for technical services, from services utilized in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India or whether or not the non- resident has a residence or place of business or business connection in India.

In the instant case, since the services were utilized in India, the payment received by Mr. Kulasekhara, a non-resident, in Colombo is chargeable to tax in his hands in India, as it is deemed to accrue or arise in India.

Question 19 Prac·Q·5· **[Misc. Concepts]**

Examine with reasons whether the following transactions attract income-tax in India in the hands of recipients:

(i) Salary paid by Central Government to Mr. John, a citizen of India ₹ 7,00,000 for the services rendered outside India.

(ii) Interest on moneys borrowed from outside India ₹ 5,00,000 by a non-resident for the purpose of business within India say, at Mumbai.

(iii) Post office savings bank interest of ₹ 19,000 received by a resident assessee, Mr. Ram, aged 46 years.

(iv) Royalty paid by a resident to a non-resident in respect of a business carried on outside India.

(v) Legal charges of ₹ 5,00,000 paid in Delhi to a lawyer of United Kingdom who visited India to represent a case at the Delhi High Court. **[SM Q.]**

Answer 19

	Taxable/Not Taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	6,50,000	As per section 9(1)(iii), salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India. Therefore, salary paid by Central Government to Mr. John for services rendered outside India would be deemed to accrue or arise in India since he is a citizen of India. He would be entitled to standard deduction of ₹ 50,000 u/s 16(ia).
(ii)	Taxable	5,00,000	As per section 9(1)(v)(c), interest payable by a non-resident on moneys borrowed and used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient.
(iii)	Partly Taxable	5,500	The interest on Post Office Savings Bank a/c, would be exempt u/s 10(15)(i), only to the extent of ₹ 3,500 in case of an individual a/c. Further, interest upto ₹ 10,000, would be allowed as deduction u/s 80TTA from Gross Total Income. Balance ₹ 5,500 i.e., ₹ 19,000 - ₹ 3,500 - ₹ 10,000 would be taxable in the hands of Mr. Ram, a resident.
(iv)	Not Taxable	-	Royalty paid by a resident to a non-resident in respect of a business carried outside India would not be taxable in the hands of the non-resident provided the same is not received in India. This has been provided as an exception to deemed accrual mentioned in section 9(1)(vi)(b).
(v)	Taxable	5,00,000	In case of a non-resident, any income which accrues or

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	Taxable/Not Taxable	Amount liable to tax (₹)	Reason
			arises in India or which is deemed to accrue or arise in India or which is received in India or is deemed to be received in India is taxable in India. Therefore, legal charges paid in India to a non- resident lawyer of UK, who visited India to represent a case at the Delhi High Court would be taxable in India.

SM Que. not included here :

Illustration 5

Prac. Q. 6.

Prac. Q. 7.

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Notebook Page No. 1 (3)

CHAPTER

Total = 29 Questions

Income from Salary

3

Question 1 Pg 20(3) [HRA Exemptions]

Mr. Raj Kumar has the following receipts from his employer:

(1) Basic pay	₹ 40,000 p.m.
(2) Dearness allowance (D.A.)	₹ 6,000 p.m.
(3) Commission	₹50,000 p.a.
(4) Motor car for personal use (expenses met by the employer)	₹ 1,500 p.m.
(5) House rent allowance	₹ 15,000 p.m.

40%

Find out the amount of HRA eligible for exemption to Mr. Raj Kumar assuming that he paid a rent of ₹ 16,000 p.m. for his accommodation at Kanpur. DA forms part of salary for retirement benefits. Mr. Raj Kumar exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). [SM Q.]

In terms

Question 2 [Allowances Taxability]

Mr. Srikant has two sons. He is in receipt of children education allowance of ₹ 150 p.m. for his elder son and ₹ 70 p.m. for his younger son. Both his sons are going to school. He also receives the following allowances:

Transport allowance : ₹ 1,800 p.m.

Tribal area allowance : ₹ 500 p.m.

Compute his taxable allowances

Answer 2

Taxable allowance in the hands of Mr. Srikant is computed as under -

If Mr. Srikant exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)

Children Education Allowance:

Elder son [(₹ 150 – ₹ 100) p.m. × 12 months]	= ₹ 600
Younger son [(₹ 70 – ₹ 70) p.m. × 12 months]	= Nil ₹ 600
Transport allowance (₹ 1,800 p.m. × 12 months)	₹ 21,600
Tribal area allowance [(₹ 500 – ₹ 200) p.m. × 12 months]	₹ 3,600
Taxable allowances	**₹ 25,800**

If Mr. Srikant pays tax under default tax regime u/s 115BAC

Children Education Allowance [(₹ 150 + ₹ 70) p.m. × 12 months]	₹ 2,640
Transport allowance (₹ 1,800 p.m. × 12 months)	₹ 21,600
Tribal area allowance (₹ 500 p.m. × 12 months)	₹ 6,000
Taxable allowances	**₹ 30,240**

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Out of the amount received from the unrecognised provident fund, the employer's contribution was ₹ 2,20,000 and the interest thereon ₹ 50,000. The employee's contribution was ₹ 2,70,000 and the interest thereon ₹ 60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the assessment year 2026-27?

Will your answer be any different if the fund mentioned above was a recognised provident fund? **[SM Q.]**

Answer 6

(i) Taxable portion of the amount received from the URPF in the hands of Mr. A for the A.Y. 2026-27 is computed hereunder:

Particulars	₹
Amount taxable under the head "Salaries":	
Employer's share in the payment received from the URPF	2,20,000
Interest on the employer's share	50,000
Total	2,70,000
Amount taxable under the head "Income from Other Sources":	
Interest on the employee's share	60,000
Total amount taxable from the amount received from the fund	**3,30,000**

Note: Since the employee is not eligible for deduction u/s 80C for contribution to URPF at the time of such contribution, the employee's share received from the URPF is not taxable at the time of withdrawal as this amount has already been taxed as his salary income.

(ii) Since the fund is a recognised one, and the maturity is taking place after a service of 25 years, the entire amount received on the maturity of the RPF will be fully exempt from tax.

Question 7 [Taxability of Provident Fund]

Mr. B is working in XYZ Ltd. and has given the details of his income for the P.Y. 2025-26. You are required to compute his gross salary from the details given below: **[SM Q.]**

Basic Salary	₹ 10,000 p.m.
D.A. (50% is for retirement benefits)	₹ 8,000 p.m.
Commission as a percentage of turnover	0.1%
Turnover during the year	₹ 50,00,000
Bonus	₹ 40,000
Gratuity	₹ 25,000
His own contribution in the RPF	₹ 20,000
Employer's contribution to RPF	20% of his basic salary
Interest accrued in the RPF @ 13% p.a.	₹ 13,000

Question 8 [Taxability of VRS]

Mr. Dutta received voluntary retirement compensation of ₹ 7,00,000 after 30 years 4 months of service. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary ₹ 20,000 p.m.; Dearness allowance (which forms part of pay) ₹ 5,000 p.m. Compute his taxable voluntary retirement compensation, assuming that he does not claim any relief u/s 89. **[SM Q.]**

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Question 3 Pg 12(3) **[Pension Exemptions]**

Mr. Sagar who retired on 1.10.2025 is receiving ₹ 5,000 p.m. as pension. On 1.2.2026, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

(a) He is a government employee.

(b) He is a private sector employee and received gratuity of ₹ 5,00,000 at the time of retirement.

(c) He is a private sector employee and did not receive any gratuity at the time of retirement. **[SM Q.]**

Question 4 Pg 8(3) **[Gratuity Exemptions]**

Mr. Ravi retired on 15.6.2025 after completion of 26 years 8 months of service and received gratuity of ₹ 15,00,000. At the time of retirement, his salary was:

Basic Salary	:	₹ 50,000 p.m.
Dearness Allowance	:	₹ 10,000 p.m. (60% of which is for retirement benefits)
Commission	:	1% of turnover (turnover in the last 12 months was ₹ 1,20,00,000)
Bonus	:	₹ 25,000 p.a.

Compute his taxable gratuity assuming:

(a) He is private sector employee and covered by the Payment of Gratuity Act, 1972.

(b) He is private sector employee and **not** covered by Payment of Gratuity Act, 1972.

(c) He is a Government employee. **[SM Q.]**

Question 5 Pg 15(3) **[Leave Salary Exemptions]**

Mr. Gupta retired on 1.12.2025 after 20 years of service and received leave salary of ₹ 5,00,000. Other details of his salary income are:

Basic Salary	:	₹ 5,000 p.m. (₹ 1,000 was increased w.e.f. 1.4.2025)
Dearness Allowance	:	₹ 3,000 p.m. (60% of which is for retirement benefits)
Commission	:	₹ 500 p.m.
Bonus	:	₹ 1,000 p.m.
Leave availed during service	:	480 days

20 yrs × 30 days leave = 600

He was entitled to 30 days leave every year.

You are required to compute his taxable leave salary assuming:

(a) He is a government employee.

(b) He is a non government employee. **[SM Q.]**

Question 6 **[Taxability of Provident Fund]**

Mr. A retires from service on December 31, 2025, after 25 years of service. Following are the particulars of his income/investments for the previous year 2025-26:

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

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Question 9 Pg 71(3) LDR **[Taxability of ER contribution to RPF > 7.5 Lakhs]**

Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 1.9.2023. His basic salary is ₹ 6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2024, 31.3.2025 and 31.3.2026 is ₹ 9,81,137, ₹ 27,43,048 and ₹ 46,48,555, respectively. Compute the perquisite value chargeable to tax in the hands of Mr. X u/s 17(2)(vii) and 17(2)(viia) for the A.Y. 2025-26 and A.Y. 2026-27. Prior to 1.9.2023, he was a consultant, whose professional fees was taxable under the head "Profits and gains of business or profession".

Question 10 **[Taxability of LTC Perks]**

A. Mr. D went on a holiday on 25.12.2025 to Delhi with his wife and three children (one son – age 5 years; twin daughters – age 3 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was ₹ 60,000 (₹ 45,000 for adults and ₹ 15,000 for the three minor children). Compute the amount of LTC exempt if Mr. D exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).

B. In the above point A, will there be any difference if among his three children the twins were 5 years old and the son 3 years old? Discuss. **[SM Q.]**

Answer 10

A. Since the son's age is more than the twin daughters, Mr. D can avail exemption for all his three children. The restriction of two children is not applicable to multiple births after one child. The holiday being in India and the journey being performed by air (economy class), the entire reimbursement met by the employer is fully exempt.

B. Since the twins' age is more than the son, Mr. D cannot avail for exemption for all his three children. LTC exemption can be availed in respect of only two children. Taxable

$$\text{LTC} = 15,000 \times \frac{1}{3} = ₹\,5,000$$

LTC exempt would be only ₹ 55,000 (i.e. ₹ 60,000 – ₹ 5,000)

Question 11 **[Taxability of Medical Perks]**

Compute the taxable value of the perquisite in respect of medical facilities received by Mr. G from his employer during the P.Y. 2025-26: **[SM Q.]**

Medical premium paid for insuring health of Mr. G	E ₹ 7,000
Treatment of Mr. G by his family doctor	T ₹ 5,000
Treatment of M₹ G in a Government hospital	E ₹ 25,000
Treatment of Mr. G's grandfather in a private clinic	T ₹ 12,000
Treatment of Mr. G's mother (68 years and dependant) by family doctor	T ₹ 8,000
Treatment of Mr. G's sister (dependant) in a nursing home	T ₹ 3,000
Treatment of Mr. G's brother (independent)	T ₹ 6,000
Treatment of Mr. G's father (75 years and dependent) abroad	E ₹ 50,000
Expenses of staying abroad of the patient and attendant	E ₹ 30,000
Limit specified by RBI	₹ 75,000

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Answer 11

Computation of taxable value of perquisite in the hands of Mr. G

Particulars	₹	₹
Treatment of Mrs. G in a Government hospital		-
Treatment of Mr. G's father (75 years and dependent) abroad	50,000	
Expenses of staying abroad of the patient and attendant	30,000	
	80,000	
Less: Exempt up to limit specified by RBI	75,000	5,000
Medical premium paid for insuring health of Mr. G		-
Treatment of Mr. G by his family doctor		5,000
Treatment of Mr. G's mother (dependent) by family doctor		8,000
Treatment of Mr. G's sister (dependent) in a nursing home		3,000
Treatment of Mr. G's grandfather in a private clinic		12,000
Treatment of Mr. G's brother (independent)		6,000
Taxable value of perquisite		**39,000**

Question 12

[Taxability of Medical Perks]

Ms. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the previous year 2025-26:

	Particulars	₹
1	Reimbursement of following medical expenses incurred by Ms. Rakhi	
	(A) On treatment of her self-employed daughter in a private clinic	4,000
	(B) On treatment of herself by family doctor	8,000
	(C) On treatment of her mother-in-law dependent on her, in a nursing home	5,000
2	Payment of premium on Mediclaim Policy taken on her health	7,500
3	Medical Allowance	2,000 p.m.
4	Medical expenses reimbursed on her son's treatment in a government hospital	5,000
5	Expenses incurred by company on the treatment of her minor son abroad including stay expenses	1,05,000
6	Expenses in relation to foreign travel of Rakhi and her son for medical treatment	1,20,000
	Note-Limit prescribed by RBI for expenditure on medical treatment and stay abroad is USD 2,50,000 per financial year under liberalized remittance scheme.	

Examine the taxability of the above benefits and allowances in the hands of Rakhi. **[SM Q.]**

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Answer 12

Tax treatment of medical benefits, allowances and Mediclaim premium in the hands of Ms. Rakhi for A.Y. 2026-27

	Particulars
1.	**Reimbursement of medical expenses incurred by Ms. Rakhi**
	(A) The amount of ₹ 4,000 reimbursed by her employer for treatment of her self-employed daughter in a private clinic is taxable perquisite. (B) The amount of ₹ 8,000 reimbursed by the employer for treatment of Ms. Rakhi by family doctor is taxable perquisite. (C) The amount of ₹ 5,000 reimbursed by her employer for treatment of her dependant mother-in-law in a nursing home is taxable perquisite. The aggregate sum of ₹ 17,000, specified in (A), (B) and (C) above, reimbursed by the employer is taxable perquisite
2.	Medical insurance premium of ₹ 7,500 paid by the employer for insuring health of Ms. Rakhi is a tax free perquisite as per clause (iii) of the first proviso to section 17(2).
3.	Medical allowance of ₹ 2,000 per month i.e., ₹ 24,000 p.a. is a fully taxable allowance.
4.	As per clause (ii)(a) of the first proviso to section 17(2), reimbursement of medical expenses of ₹ 5,000 on her son's treatment in a hospital maintained by the Government is a tax free perquisite.
5.& 6.	As per clause (vi) of the first proviso to section 17(2), the following expenditure incurred by the employer would be excluded from perquisite subject to certain conditions – (i) Expenditure on medical treatment of the employee, or any member of the family of such employee, outside India **[₹ 1,05,000, in this case];** (ii) Expenditure on travel and stay abroad of the employee or any member of the family of such employee for medical treatment and one attendant who accompanies the patient in connection with such treatment **[₹ 1,20,000, in this case].** The conditions subject to which the above expenditure would be exempt are as follows– (i) The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent permitted by Reserve Bank of India; (ii) The expenditure on travel would be excluded from perquisite only in the case of an employee whose gross total income, as computed before including the said expenditure, does not exceed ~~₹ 2 lakh~~. ₹ 8 lakh Since the expenditure on medical treatment and stay abroad does not exceed the limit permitted by RBI, they would be fully exempt. However, the foreign travel expenditure of Ms. Rakhi and her minor son borne by the employer would be excluded from perquisite only if the gross total income of Ms. Rakhi, as computed before including the said expenditure, does not exceed the amount ~~as may be preseribed.~~ ₹ 8 lakh

Question 13 Pg 49(3) **[Taxability of House Perks]**

Mr. C is a Finance Manager in ABC Ltd. The company has provided him with rent- free unfurnished accommodation in Mumbai. He gives you the following particulars:

Basic salary	₹ 12,500 p.m.
Dearness Allowance	₹ 2,000 p.m. (30% is for retirement benefits)
Bonus	₹ 1,500 p.m.

Even though the company allotted the house to him on 1.4.2025, he occupied the same only from 1.11.2025. 5 months

(a) Calculate the taxable value of the perquisite for A.Y.2026-27.

(b) Compute the value of the perquisite if Mr. C is required to pay a rent of ₹ 1,000 p.m. to

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the company, for the use of this accommodation.

(c) Compute the value of the perquisite if ABC Ltd. has taken this accommodation on a lease rent of ₹ 1,050 p.m. and Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this accommodation.

(d) Compute the value of the perquisite if ABC Ltd. has provided a television (WDV ₹ 10,000; Cost ₹ 25,000) and two air conditioners. The rent paid by the company for the air conditioners is ₹ 400 p.m. each. The television was provided on 1.1.2026. However, Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this furnished accommodation.

(e) Compute the value of the perquisite if Mr. C is a government employee. The licence fees determined by the Government for this accommodation was ₹ 700 p.m. **[SM Q.]**

Question 14

[Taxability of Servant Perks]

Mr. X and Mr. Y are working for M/s. Gama Ltd. As per salary fixation norms, the following perquisites were offered:

(i) For Mr. X, who engaged a domestic servant for ₹ 500 per month, his employer reimbursed the entire salary paid to the domestic servant i.e. ₹ 500 per month.

(ii) For Mr. Y, he was provided with a domestic servant @ ₹ 500 per month as part of remuneration package.

You are required to comment on the taxability of the above in the hands of Mr. X and Mr. Y, who are not specified employees. **[SM Q.]**

Answer 14

In the case of Mr. X, it becomes an obligation which the employee would have discharged even if the employer did not reimburse the same. Hence, the perquisite will be covered u/s 17(2)(iv) and will be taxable in the hands of Mr. X. This is taxable in the case of all employees.

In the case of Mr. Y, it cannot be considered as an obligation which the employee would meet. The employee might choose not to have a domestic servant. This is taxable only in the case of specified employees covered by section 17(2)(iii). Hence, there is no perquisite element in the hands of Mr. Y.

Question 15 LDR Pg 41(3)

[Misc Provisions related to retirement benefits]

Mr. X retired from the services of M/s Y Ltd. on 31.01.2026, after completing service of 30 years and one month. He had joined the company on 1.1.1996 at the age of 30 years and received the following on his retirement:

(i) Gratuity ₹ 6,00,000. He was covered under the Payment of Gratuity Act, 1972. POG A Ee

(ii) Leave encashment of ₹ 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.

(iii) As per the scheme of the company, he was offered a car which was purchased on 30.01.2023 by the company for ₹ 5,00,000. Company has recovered ₹ 2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method. No use. WDV method follow hoga.

(iv) An amount of ₹ 3,00,000 as commutation of pension for 2/3 of his pension commutation.

(v) Company presented him a gift voucher worth ₹ 6,000 on his retirement.

(vi) His colleagues also gifted him a Television (LCD) worth ₹ 50,000 from their own contribution.

Following are the other particulars:

(i) He has drawn a basic salary of ₹ 20,000 and 50% dearness allowance per month for the period from 01.04.2025 to 31.01.2026.

(ii) Received pension of ₹ 5,000 per month for the period 01.02.2026 to 31.03.2026 after commutation of pension.

TELEGRAM: CA NOTE HUB

Compute his gross total income from the above for Assessment Year 2026-27 assuming he has not opted for the provisions of section 115BAC. **[SM Q.]**

Question 16 **[Misc Provisions related to Perks]**

Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire financial year 2025-26:

(i) Domestic servant was provided at the residence of Bala. Salary of domestic servant is ₹ 1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer).

In case the company has employed the domestic servant, what is the value of perquisite?

(ii) Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at ₹ 900 per month and for Ashok at ₹ 1,200 per month. No amount was recovered by the company for such education facility from Bala.

(iii) The employer has provided movable assets such as television, refrigerator and air-conditioner at the residence of Bala. The actual cost of such assets provided to the employee is ₹ 1,10,000.

(iv) A gift voucher worth ₹ 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.

(v) Telephone provided at the residence of Shri Bala and the bill aggregating to ₹ 25,000 paid by the employer.

(vi) Housing loan @ 6% per annum. Amount outstanding on 1.4.2025 is ₹ 6,00,000. Shri Bala pays ₹ 12,000 per month towards principal, on 5th of each month.

Compute the chargeable perquisite in the hands of Mr. Bala for the A.Y. 2026-27.

The lending rate of State Bank of India as on 1.4.2025 for housing loan may be taken as 10%. **[SM Q.]**

Answer 16

Taxability of perquisites provided by ABC Co. Ltd. to Shri Bala

(i) Domestic servant was employed by the employee and the salary of such domestic servant was paid/reimbursed by the employer. It is taxable as perquisite for all categories of employees.

Taxable perquisite value = ₹ 1,500 × 12 = ₹ 18,000.

If the company had employed the domestic servant and the facility of such servant is given to the employee, then the perquisite is taxable only in the case of specified employees. The value of the taxable perquisite in such a case also would be ₹ 18,000.

(ii) Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution in or near the locality. However, there would be no perquisite if the cost of such education per child does not exceed ₹ 1,000 per month.

Therefore, there would be no perquisite in respect of cost of free education provided to his child Arthy, since the cost does not exceed ₹ 1,000 per month.

However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds ₹ 1,000 per month. The taxable perquisite value would be ₹ 14,400 (₹ 1,200 × 12).

Note – An alternate view possible is that only the sum in excess of ₹ 1,000 per month is taxable. In such a case, the value of perquisite would be ₹ 2,400.

(iii) Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of perquisite. However, this will not apply to laptops and computers. In this case, the movable assets are television, refrigerator and air conditioner and actual cost of such assets is ₹ 1,10,000.

TELEGRAM: CA NOTE HUB

The perquisite value would be 10% of the actual cost i.e., ₹ 11,000, being 10% of ₹ 1,10,000.

(iv) The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000.

Therefore, the entire amount of ₹ 10,000 is liable to tax as perquisite.

Note- An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000

(v) Telephone provided at the residence of the employee and payment of bill by the employer is a tax free perquisite.

(vi) The value of the benefit to the assessee resulting from the provision of interest-free or concessional loan made available to the employee or any member of his household during the relevant previous year by the employer or any person on his behalf shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India (SBI) as on the 1st day of the relevant previous year in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him.

"Maximum outstanding monthly balance" means the aggregate outstanding balance for loan as on the last day of each month.

The perquisite value for computation is 10% - 6% = 4%

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 4% for the month (₹)
April, 2025	5,88,000	1,960
May, 2025	5,76,000	1,920
June, 2025	5,64,000	1,880
July, 2025	5,52,000	1,840
August, 2025	5,40,000	1,800
September, 2025	5,28,000	1,760
October, 2025	5,16,000	1,720
November, 2025	5,04,000	1,680
December, 2025	4,92,000	1,640
January, 2026	4,80,000	1,600
February, 2026	4,68,000	1,560
March, 2026	4,56,000	1,520
Total value of this perquisite		**20,880**

Total value of taxable perquisite = ₹ 74,280 [i.e. ₹ 18,000 + ₹ 14,400 + ₹ 11,000 + ₹ 10,000 + ₹ 20,880].

Note - In case the alternate views are taken for items (ii) & (iv), the total value of taxable perquisite would be ₹ 57,280 [i.e., ₹ 18,000 +₹ 2,400 + ₹ 11,000 +₹ 5,000 +₹ 20,880].

TELEGRAM: CA NOTE HUB

Question 17 [ESOPS Perks]

AB Co. Ltd. allotted 1000 sweat equity shares to Sri Chand in June 2025. The shares were allotted at ₹ 200 per share as against the fair market value of ₹ 300 per share on the date of exercise of option by the allottee viz. Sri Chand. The fair market value was computed in accordance with the method prescribed under the Act.

(i) What is the perquisite value of sweat equity shares allotted to Sri Chand?

(ii) In the case of subsequent sale of those shares by Sri Chand, what would be the cost of acquisition of those sweat equity shares? **[SM Q.]**

Answer 17

(i) As per section 17(2)(vi), the value of sweat equity shares chargeable to tax as perquisite shall be the fair market value of such shares on the date on which the option is exercised by the assessee as reduced by the amount actually paid by, or recovered from, the assessee in respect of such shares.

Particulars	₹
Fair market value of 1000 sweat equity shares @ ₹ 300 each	3,00,000
Less: Amount recovered from Sri Chand 1000 shares @ ₹ 200 each	2,00,000
Value of perquisite of sweat equity shares allotted to Sri Chand	**1,00,000**

(ii) As per section 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation u/s 17(2)(vi).

Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, the cost of acquisition would be ₹ 3,00,000.

Question 18 [Misc Provisions related to Perks]

X Ltd. provided the following perquisites to its employee Mr. Y for the P.Y. 2025-26 –

(1) Accommodation taken on lease by X Ltd. for ₹ 15,000 p.m. ₹ 5,000 p.m. is recovered from the salary of Mr. Y.

(2) Furniture, for which the hire charges paid by X Ltd. is ₹ 3,000 p.m. No amount is recovered from the employee in respect of the same.

(3) A car of 1,200 cc which is owned by X Ltd. and given to Mr. Y to be used both for official and personal purposes. All running and maintenance expenses are fully met by the employer. He is also provided with a chauffeur. (1800 + 900) × 12 = 32400 ↳ driver

(4) A gift voucher of ₹ 10,000 on his birthday.

Compute the value of perquisites chargeable to tax for the A.Y.2026-27, assuming his salary for perquisite valuation to be ₹ 10 lakh.

Answer 18

Computation of the value of perquisites chargeable to tax in the hands of Mr. Y for the A.Y.2026-27

	Particulars	Amount in ₹		
(1)	**Value of accommodation at concessional rate**			
	Actual amount of lease rental paid by X Ltd.	1,80,000		
	10% of salary i.e., 10% of ₹ 10,00,000	1,00,000		
	Lower of the above		1,00,000	
	***Less:* Rent paid by Mr. Y (₹ 5,000 × 12)**		**60,000**	

TELEGRAM: CA NOTE HUB

			40,000	
	Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y (₹ 3,000 × 12)		36,000	76,000
(2)	Perquisite value of Santro car owned by X Ltd. and provided to Mr. Y for his personal and official use [(₹ 1,800 + ₹ 900) × 12]			32,400
(3)	Value of gift voucher*			10,000
	Value of perquisites chargeable to tax			**1,18,400**

** An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000.*

Question 19 [Provisions related to Entertainment allowance]

Mr. Goyal receives the following emoluments during the previous year ending 31.03.2026.

Basic pay	₹ 4,00,000
Dearness Allowance	₹ 1,50,000
Commission	₹ 1,00,000
Entertainment allowance	₹ 40,000
Medical expenses reimbursed	₹ 25,000
Professional tax paid	₹ 2,000 (₹ 1,000 was paid by his employer)

Mr. Goyal contributes ₹ 5,000 towards recognized provident fund. He has no other income. Determine the income from salary for A.Y. 2026-27, if Mr. Goyal is a State Government employee.

Answer 19

Computation of salary of Mr. Goyal for the A.Y.2026-27 under default tax regime u/s 115BAC

Particulars	₹
Basic Salary	4,00,000
Dearness Allowance	1,50,000
Commission	1,00,000
Entertainment Allowance received	40,000
Employee's contribution to RPF **[Note]**	-
Medical expenses reimbursed	25,000
Professional tax paid by the employer	1,000
Gross Salary	**7,16,000**
Less: Deductions u/s 16(ia) - Standard deduction of upto ₹ 75,000	75,000
Income from Salary	**6,41,000**

Note: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C. However, such deduction shall not be available under the default tax regime u/s 115BAC.

Computation of salary of Mr. Goyal for the A.Y.2026-27 under the optional tax regime (normal provisions of the Act)

Particulars	₹	₹

TELEGRAM: CA NOTE HUB

Basic Salary		4,00,000
Dearness Allowance		1,50,000
Commission		1,00,000
Entertainment Allowance received		40,000
Employee's contribution to RPF **[Note]**		-
Medical expenses reimbursed		25,000
Professional tax paid by the employer		1,000
Gross Salary		**7,16,000**
Less: Deductions u/s 16		
u/s 16(ia) - Standard deduction of upto ₹ 50,000		50,000
u/s 16(ii) - Entertainment allowance being lowest of :		
(a) Allowance received	40,000	
(b) One fifth of basic salary [1/5 × ₹ 4,00,000]	80,000	
(c) Statutory amount	5,000	5,000
u/s 16(iii) - Professional tax paid		2,000
Income from Salary		**6,59,000**

Note: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C.

Question 20 Pg 64(3) **[Provisions related to Arrears Salary & Rebate u/s 89]**

In the case of Mr. Hari, who turned 73 years on 28.3.2026, you are informed that the salary (computed) for the previous year 2025-26 is ₹ 10,20,000 and arrears of salary received is ₹ 3,45,000. Further, you are given the following details relating to the earlier years to which the arrears of salary received is attributable to:

Previous year	Taxable Salary(₹)	Arrears now received (₹)
2010 – 2011	7,10,000	1,03,000
2011 – 2012	8,25,000	1,17,000
2012 – 2013	9,50,000	1,25,000

Compute the relief available u/s 89 and the tax payable for the A.Y. 2026-27. Assume that Mr. Hari exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Note: Rates of Taxes:

Assessment Year	Slab rates of income-tax			
	For resident individuals of the age of 60 years or more at any time during the previous year		For other resident individuals	
	Slabs	**Rate**	**Slabs**	**Rate**
2011–12	Upto ₹ 2,40,000	Nil	Upto ₹ 1,60,000	Nil
	₹ 2,40,001 - ₹ 5,00,000	10%	₹ 1,60,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 8,00,000	20%	₹ 5,00,001 - ₹ 8,00,000	20%

TELEGRAM: CA NOTE HUB

	Above ₹ 8,00,000	30%	Above ₹ 8,00,000	30%
	Slabs	**Rate**	**Slabs**	**Rate**
2012–13	Upto ₹ 2,50,000	Nil	Upto ₹ 1,80,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	10%	₹ 1,80,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 8,00,000	20%	₹ 5,00,001 - ₹ 8,00,000	20%
	Above ₹ 8,00,000	30%	Above ₹ 8,00,000	30%
2013–14	Upto ₹ 2,50,000	Nil	Upto ₹ 2,00,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	10%	₹ 2,00,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 10,00,000	20%	₹ 5,00,001 - ₹ 10,00,000	20%
	Above ₹ 10,00,000	30%	Above ₹ 10,00,000	30%

Note – Education cess@2% and secondary and higher education cess@1% was attracted on the income-tax for all above preceding years. **[SM Q.]**

Question 21

[HRA Exemption]

Mr. Mohit is employed with XY Ltd. on a basic salary of ₹ 10,000 p.m. He is also entitled to dearness allowance @100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of ₹ 6,000 p.m. which was increased to ₹ 7,000 p.m. with effect from 01.01.2026. He also got an increment of ₹ 1,000 p.m. in his basic salary with effect from 01.02.2026. Rent paid by him during the previous year 2025-26 is as under:

April and May, 2025 - Nil, as he stayed with his parents

June to October, 2025 - ₹ 6,000 p.m. for an accommodation in Ghaziabad

November, 2025 to March, 2026 - ₹ 8,000 p.m. for an accommodation in Delhi

Compute his gross salary for assessment year 2026-27 assuming he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 21

Computation of gross salary of Mr. Mohit for A.Y. 2026-27

Particulars	₹
Basic salary [(₹ 10,000 × 10) + (₹ 11,000 × 2)]	1,22,000
Dearness Allowance (100% of basic salary)	1,22,000
House Rent Allowance **(See Note below)**	21,300
Gross Salary	**2,65,300**

Note: Computation of Taxable House Rent Allowance (HRA)

Particulars	April-May (₹)	June-Oct (₹)	Nov-Dec (₹)	Jan (₹)	Feb-March (₹)
Basic salary per month	10,000	10,000	10,000	10,000	11,000
Dearness allowance (included in salary as per terms of employment) (50% of basic salary)	5,000	5,000	5,000	5,000	5,500
Salary per month for the purpose of computation of house rent allowance	15,000	15,000	15,000	15,000	16,500

TELEGRAM: CA NOTE HUB

Particulars	April-May (₹)	June-Oct (₹)	Nov-Dec (₹)	Jan (₹)	Feb-March (₹)
Relevant period (in months	2	5	2	1	2
Salary for the relevant period (Salary per month × relevant period)	30,000	75,000	30,000	15,000	33,000
Rent paid for the relevant period	Nil	30,000 (₹ 6,000×5)	16,000 (₹ 8,000×2	8,000 (₹ 8,000×1)	16,000 (₹ 8,000×2)
House rent allowance (HRA) received during the relevant period **(A)**	12,000 (₹ 6,000×2)	30,000 (₹ 6,000×5)	12,000 (₹ 6,000×2)	7,000 (₹ 7,000×1)	14,000 (₹ 7,000×2)
Least of the following is exempt [u/s 10(13A)]	N.A.				
1. Actual HRA received	-	30,000	12,000	7,000	14,000
2. Rent paid (–) 10% of salary	-	22,500	13,000	6,500	12,700
3. 40% of salary (Residence at Ghaziabad – June to Oct, 2025) 50% of salary (Residence at Delhi– Nov, 25 - March, 26)	-	30,000 (40% × ₹ 75,000	15,000 (50% × ₹ 30,000)	7,500 (50% × ₹ 15,000)	16,500 (50% × ₹ 33,000)
Exempt HRA (B)	**Nil**	**22,500**	**12,000**	**6,500**	**12,700**
Taxable HRA [Actual HRA (–) Exempt HRA] **(A-B)**	12,000	7,500	Nil	500	1,300

Taxable HRA (total) = ₹ 12,000 + ₹ 7,500 + ₹ 500 + ₹ 1,300 = ₹ 21,300

Question 22 [Misc Provisions related to Perks]

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

(i) A company owned accommodation is provided to him in Delhi. Furniture costing ₹ 2,40,000 was provided on 1.8.2025.

(ii) A personal loan of ₹ 5,00,000 on 1.7.2025 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding (Assume SBI rate of interest on 1.4.2025 was 12.75% p.a.)

(iii) His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for ₹ 60,000 on 1.5.2022. The motor cycle was finally sold to him on 1.8.2025 for ₹ 30,000.

(iv) Professional tax paid by Mr. X is ₹ 2,000.

Compute the income from salary of Mr. X for the A.Y. 2026-27 assuming Mr. X exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).

60000 (10% SLM) − 18000 = 42000

60000 × 10% × 4 / 12 = 2000
WDV - const = WDV - 30000 = 42000 - 30000 = 12000

TELEGRAM: CA NOTE HUB

Answer 22

1. Computation of Income from Salary of Mr. X for the A.Y. 2026-27

Particulars	₹	₹
Basic salary [₹ 25,000 × 12]		3,00,000
Commission [₹ 1,000 × 12]		12,000
Entertainment allowance [₹ 1,000 × 12]		12,000
Rent free accommodation **[Note 1]**	32,400	
Add : Value of furniture [₹ 2,40,000 × 10% p.a. for 8 months]	16,000	48,400
Interest on personal loan **[Note 2]**		22,500
Use of motor cycle [₹ 60,000 × 10% p.a. for 4 months]		2,000
Transfer of motor cycle **[Note 3]**		12,000
Gross Salary		**4,08,900**
Less : Deduction u/s 16		
U/s 16(ia) – Standard deduction	50,000	
U/s 16(iii) - Professional tax paid	2,000	52,000
Income from Salary		**3,56,900**

Notes:

1. **Value of rent-free unfurnished accommodation**
   = 10% of salary for the relevant period
   = 10% of (₹ 3,00,000 + ₹ 12,000 + ₹ 12,000) = ₹ 32,400
2. **Value of perquisite for interest on personal loan**
   = [₹ 5,00,000 × (12.75% - 6.75%) for 9 months] = ₹ 22,500
3. **Depreciated value of the motor cycle**
   = Original cost – Depreciation @ 10% p.a. for 3 completed years.
   = ₹ 60,000 – (₹ 60,000 × 10% p.a. × 3 years) = ₹ 42,000.
   Perquisite = ₹ 42,000 – ₹ 30,000 = ₹ 12,000.

Question 23 Pg 57 (3) **[Misc Provisions related to Perks]**

Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2026:

(i) Basic salary upto 31.10.2025 7m ₹ 50,000 p.m. 350000
Basic salary from 01.11.2025 5m ₹ 60,000 p.m. 300000 } 650000
Note: Salary is due and paid on the last day of every month.

(ii) Dearness allowance @ 40% of basic salary. 650000 X 40% = 260000

(iii) Bonus equal to one month salary. Paid in October 2025 on basic salary plus dearness allowance applicable for that month. 50000 + 40% = 70000

(iv) Contribution of employer to recognized provident fund account of the employee@16% of basic salary. 650000 X 16% = 104000 (-) Exempt 12% of Salary

(v) Professional tax paid ₹ 2,500 of which ₹ 2,000 was paid by the employer. 2000 (+) 2500 (-)

(vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2025. Exempt

(vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres)

650000 X 12% = 78000 Exempt
26000

TELEGRAM: CA NOTE HUB

provided to the employee from 01.11.2025 meant for both official and personal use. Repair and running expenses of ₹ 45,000 from 01.11.2025 to 31.03.2026, were fully met by the employer. The motor car was self-driven by the employee. 2400 X5 = 12000

(viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class) reimbursed by the employer ₹ 30,000 for adults and ₹ 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law. exempt

Compute the salary income chargeable to tax in the hands of Mr. Balaji for the assessment year 2026-27 assuming he has shifted out for the provisions of section 115BAC. **[SM Q.]**

Question 24 Pg 62 (3)

[Misc Provisions related to Perks]

From the following details, find out the salary chargeable to tax for the A.Y.2026-27 assuming he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A) -

01.01.25 to 31.12.25 = 20,000

01.01.26 to 31.12.26 = 21,000

Mr. X is a regular employee of Rama & Co., in Gurgaon. He was appointed on 1.1.2025 in the scale of ₹ 20,000 - ₹ 1,000 - ₹ 30,000. He is paid 10% D.A. & Bonus equivalent to one month pay based on salary of March every year. He contributes 15% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. DA forms part of pay for retirement benefits.

He is provided free housing facility which has been taken on rent by the company at ₹ 10,000 per month. He is also provided with following facilities:

10,000 x 9 = 180000

(i) Facility of laptop costing ₹ 50,000.

21,000 x 3 = 63,000

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

Total = 243000

(iii) The monthly salary of ₹ 1,000 of a house keeper is reimbursed by the company.

(iv) A gift voucher of ₹ 10,000 on the occasion of his marriage anniversary.

(v) Conveyance allowance of ₹ 1,000 per month is given by the company towards actual reimbursement of conveyance spent on official duty.

(vi) He is provided personal accident policy for which premium of ₹ 5,000 is paid by the company.

(vii) He is getting telephone allowance @₹ 500 per month.

Question 25

[Misc Provisions related to Perks]

Mr. Neeraj, a salaried employee, furnishes the following details for the financial year 2025-26:

Particulars	₹
Basic salary	5,40,000
Dearness allowance	3,60,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	21,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	12,000
Life insurance premium of Neeraj paid by employer	34,000

TELEGRAM: CA NOTE HUB

Particulars	₹
Laptop provided for use at home. Actual cost of Laptop to employer Children of the assessee are also using the Laptop at home]	30,000
Employer company owns a Maruti Suzuki Swift car (Engine cubic capacity more than 1.6 litres), which was provided to the assessee, both for official and personal use. No driver was provided. All expenses are met by the employer	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	5,000

You are required to compute the income chargeable under the head Salaries for the assessment year .2026-27. Assume he has shifted out of default taxation regime u/s 115BAC

[RTP NOV-20 Q.]

Answer 25

Computation of income chargeable under the head "Salaries"of Mr. Neeraj for A.Y.2026-27

Particulars	₹
Basic Salary	5,40,000
Dearness allowance	3,60,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer is fully taxable	21,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹ 9,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Mr. Neeraj birthday [entire amount is taxable since the perquisite value exceeds ₹ 5,000, as per Rule 3(7)(iv)]	12,000
Life insurance premium of Mr. Neeraj paid by employer is a taxable perquisite as per section 17(2)(v)	34,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer provided to employee, the perquisite value would be₹ 28,800 [₹ 2,400 ×12] as per Rule 3(2)	28,800
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	5,000
Gross Salary	**10,60,300**
Less: Deductions u/s 16	
- Standard Deduction as per section 16(ia), lower of gross salary and ₹ 50,000	50,000
- Entertainment allowance (deduction not allowable since Mr. Neeraj is not a Government employee)	Nil
- Professional tax paid allowable as deduction as per section 16(iii)	4,000
Income chargeable under the head "Salaries"	**10,06,300**

TELEGRAM: CA NOTE HUB

Note: As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 12,000 was received by Mr. Neeraj from his employer on the occasion of his birthday. Since the value of the gift voucher exceeds the limit of₹ 5,000, the entire amount of ₹ 12,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 7,000. Accordingly, the gross salary and net salary would be 10,55,300 and 10,01,300, respectively.

Question 26 [Misc Provisions related to Perks]

Mr. Samaksh is a Marketing Manager in Smile Ltd. From the following information, you are required to compute his income chargeable under the head salary for assessment year 2026-27. Assume he has shifted out of default taxation regime u/s 115BAC

(i) Basic salary is ₹ 70,000 per month.

(ii) Dearness allowance @ 40% of basic salary

(iii) He is provided health insurance scheme approved by IRDA for which ₹ 20,000 incurred by Smile Ltd.

(iv) Received ₹ 10,000 as gift voucher on the occasion of his marriage anniversary from Smile Ltd.

(v) Smile Ltd. allotted 800 sweat equity shares in August 2025. The shares were allotted at ₹ 450 per share and the fair market value on the date of exercising the option by Mr. Samaksh was ₹ 700 per share.

(vi) He was provided with furniture during September 2021. The furniture is used at his residence for personal purpose. The actual cost of the furniture was ₹ 1,10,000. On 31st March, 2026, the company offered the furniture to him at free of cost. No amount was recovered from him towards the furniture till date.

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

(viii) Housing Loan@ 4.5% p.a. provided by Smile Ltd., amount outstanding as on 01.04.2025 is ₹ 15 Lakhs. ₹ 50,000 is paid by Mr. Samaksh every quarter towards principal starting from June ~~2024~~ 2025. The lending rate of SBI for similar loan as on 01.04.2025 was 8%.

(ix) Facility of laptop costing ₹ 50,000 **[MTP Q.]**

Answer 26

Computation of income under the head "Salaries" of Mr. Samaksh for the A.Y.2026-27

Particulars	₹	₹
Basic Salary [₹70,000 x 12 months]		8,40,000
Dearness allowance [40% of ₹8,40,000]		3,36,000
Entertainment allowance		10,000
Interest on housing loan given at concessional rate, would be perquisite, since the amount of loan exceeds ₹ 20,000, For computation, the lending rate of SBI on 1.4.2025 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%) **[See Working Note]**		49,291

TELEGRAM: CA NOTE HUB

Particulars	₹	₹
Health insurance premium paid by the employer [tax free perquisite]		Nil
Gift voucher on the occasion of his marriage anniversary [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household exceeding ₹ 5,000 in aggregate during the previous year is fully taxable] **(See note below)**		10,000
Allotment of sweat equity shares		
Fair market value of 800 sweat equity shares @ ₹ 700 each	5,60,000	
Less: Amount recovered @ ₹ 450 each	3,60,000	2,00,000
Use of furniture by employee		
10% p.a. of the actual cost of ₹ 1,10,000		11,000
Use of Laptop		
Facility of use of laptop is not a taxable perquisite		Nil
Transfer of asset to employee		
Value of furniture transferred to Mr. Samaksh	1,10,000	
Less: Normal wear and tear @10% for each completed year of usage on SLM basis [1,10,000 x 10% x 4 years (from September 2021 to September 2025)]	44,000	66,000
Gross Salary		**15,22,291**
Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]		50,000
Net Salary		**14,72,291**

Working Note:

Computation of perquisite value of loan given at concessional rate

For computation, the lending rate of SBI on 1.4.2025 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%)

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 3.5% for the month (₹)
April, 2025	15,00,000	4,375
May, 2025	15,00,000	4,375
June, 2025	14,50,000	4,229
July, 2025	14,50,000	4,229
August, 2025	14,50,000	4,229
September, 2025	14,00,000	4,083
October, 2025	14,00,000	4,083
November, 2025	14,00,000	4,083
December, 2025	13,50,000	3,937.50
January, 2026	13,50,000	3,937.50

TELEGRAM: CA NOTE HUB

February, 2026	13,50,000	3,937.50
March, 2026	13,00,000	3,792
Total value of this perquisite		**49,290.50**

Note: An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000 and gross salary and net salary would be ₹ 15,17,291 and ₹ 14,67,291, respectively.

Question 27

[Misc Provisions related to Retirement benefits]

You are required to compute the income from salary of Mr. Raja under default taxation regime from the following particulars for the year ended 31-03-2026:

(i) He retired on 31-12-2025 at the age of 60, after putting in 25 years and 9 months of service, from a private company at Delhi.

(ii) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹6,000 p.m. He paid rent of ₹ 6,500 p.m., during his tenure of service.

(iii) On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.

(iv) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.

(v) He is receiving ₹5,000 as pension. On 1.2.2026, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension.

(vi) The company presented him with a gift voucher of ₹ 5,000 on his retirement. His colleagues also gifted him a mobile phone worth ₹ 50,000 from their own contribution.

[MTP Q./SM]

Answer 27

Computation of income under the head "Salaries" of Mr. Raja under default tax regime for the A.Y.2026-27

Particulars	₹	₹
Basic Salary = ₹ 25,000 x 9 months		2,25,000
House Rent Allowance = ₹ 6,000 x 9 months		54,000
[Fully Taxable under default tax regime]		
Gratuity	3,50,000	
Less: Least of the following exempt u/s 10(10)(ii)		
	3,50,000	Nil
(i) Actual Gratuity received ₹ 3,50,000		
(ii) 15 days salary for every year of completed service [15/26 x₹ 25,000 x 26] = ₹ 3,75,000		
(iii) Notified limit = ₹ 20,00,000		
Leave encashment	3,15,000	
Less: Least of the following exempt u/s 10(10AA)	2,50,000	65,000
(i) ₹ 25,00,000		
(ii) Leave salary actually received ₹ 3,15,000		

TELEGRAM: CA NOTE HUB

Particulars	₹	₹
(iii) ₹ 2,50,000, being 10 months' salary x ₹ 25,000		
(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service) for every year of actual service rendered for the employer from whose service he has retired		
375/30 x ₹ 25,000 = ₹ 3,12,500		
[Leave Due = Leave allowed – Leave taken]		
= 750 (30 days per year × 25 years) – 375 days (15 days x 25)		
= 375 days]		
Uncommuted Pension received [₹ 5,000 x 1) + (₹ 5,000 x 2 x 40%)		9,000
Commuted Pension received	3,00,000	
Less: Exempt u/s 10(10A)		
1/3 x ₹ 3,00,000/60% x 100%)	1,66,667	1,33,333
Gift Voucher [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt]		Exempt
Mobile Phone received as gift from colleagues (Neither taxable under the head "Salaries" nor "Income from other sources", since taxability provisions u/s 56(2)(x) are not attracted in respect of mobile phone received from colleagues, as mobile phone is not included in the definition of "property" thereunder)		Nil
Gross Salary		**4,86,333**
Less: Standard deduction u/s 16 [Actual salary or ₹ 75,000, whichever is less]		75,000
Net Salary		**4,11,333**

Question 28 [Misc Provisions related to Perks]

Ms. Akansha, a salaried employee, furnishes the following details for the financial year 2025-26:

Particulars	₹
Basic salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer	18,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	8,000
Gift voucher given by employer on her birthday	10,000
Life insurance premium of Akansha paid by employer	26,000
Laptop provided for use at home. Actual cost of Laptop to employer	45,000
Children of the assessee are also using the Laptop at home]	

TELEGRAM: CA NOTE HUB

Employer company owns a Maruti Suzuki Swift car, which was provided to the assessee, both for official and personal use. Driver was also provided. (Engine cubic capacity more than 1.6 litres). All expenses are met by the employer	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are notavailable]	7,000

You are required to compute the income chargeable under the head Salaries for the assessment year 2026-27 if she pays tax under default tax regime.

Answer 28

Computation of income chargeable under the head "Salaries" of Ms. Akansha for A.Y.2026-27 under default tax regime

Particulars	₹
Basic Salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer is fully taxable	18,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligationof the employee which is paid by the employer	2,000
Health insurance premium of ₹ 8,000 paid by the employeris an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Ms. Akansha birthday (entire amount is taxable since the perquisite valueexceeds ₹5,000) as per Rule 3(7)(iv)	10,000
Life insurance premium of Ms. Akansha paid by employeris a taxable perquisite as per section 17(2)(v)	26,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by employer to employee, the perquisite value would be ₹ 39,600 [₹ (2,400+ 900) ×12]as per Rule 3(2)	39,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	7,000
Gross Salary	**12,26,600**
Less: **Deductions u/s 16**	
- Standard Deduction as per section 16(ia)	75,000
Income chargeable under the head "Salaries"	**11,51,600**

Note: As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received bythe employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 10,000 was received by Ms. Akansha from her employer on the occasion of her birthday.

Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 10,000 is liable to tax as perquisite. The above solution hasbeen worked out accordingly.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. Accordingly, the gross salary and net salary would be ₹ 12,21,600 and ₹ 11,71,600, respectively.

TELEGRAM: CA NOTE HUB

Question 29

[HRA or House Perks]

Mr. Kadam is entitled to a salary of ₹ 41,000 per month. He is given an option by his employer either to take house rent allowance or a rent free accommodation which is owned by the company. The HRA amount payable was ₹ 7,000 per month. The rent for the hired accommodation was ₹ 6,000 per month at New Delhi. Advice Mr. Kadam whether it would be beneficial for him to avail HRA or Rent Free Accommodation. Give your advice on the basis of "Net Take Home Cash benefits". Assume Mr. Kadam exercises the option to shift out of the default tax regime under section 115BAC.

Answer 29

Computation of tax liability of Kadam under both the options

Particulars			Option I – HRA (₹)	Option II – RFA (₹)
Basic Salary (₹ 41,000 x 12 Months)			4,92,000	4,92,000
Perquisite value of rent-free accommodation (10% of ₹ 4,92,000)			N.A.	49,200
House rent Allowance (₹ 7,000 x 12 Months) ₹ 84,000				
Less: Exempt u/s 10(13A) – least of the following -				
- 50% of Basic Salary	₹ 2,46,000			
- Actual HRA received	₹ 84,000			
- Rent paid *less* 10% of salary ₹ 22,800		₹ 22,800	61,200	
Gross Salary			5,53,200	5,41,200
Less: Standard deduction u/s 16(ia)			50,000	50,000
Net Salary			5,03,200	4,91,200
Less: Deduction under Chapter VI-A			-	-
Total Income			**5,03,200**	**4,91,200**
Tax on total income			13,140	12,060
Less: Rebate under section 87A - Lower of ₹ 12,500 or income-tax of ₹ 12,060, since total income does not exceed ₹ 5,00,000			Nil	12,060
Add: Health and Education cess@4%			13,140 526	Nil Nil
Tax liability			13,666	**Nil**
Tax liability (Rounded off)			13,670	**Nil**

Cash Flow Statement

Particulars	Option I – HRA	Option II – RFA
Inflow: Salary	5,76,000	4,92,000
Less: Outflow: Rent paid	(72,000)	-
Tax on total income	(13,670)	Nil
Net Inflow	**4,90,330**	**4,92,000**

Since the net cash inflow under option II (RFA) is higher than in Option I (HRA), it is beneficial for Mr. Kadam to avail Option II, i.e., Rent Free Accommodation.

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Total = 20 Questions

CHAPTER 4

Income from House Property

Question 1 (Pg 74) Illustration 1 **[NAV Calculation]**

Jayashree owns five houses in India, all of which are let-out. Compute the NAV of each house from the information given below – **[SM Q.]**

MV ↑ FR ↑ Higher SR ↓ ER ↑ AR ↑ GNV (-) MVT NAV

Particulars	House I (₹)	House II (₹)	House III (₹)	House IV (₹)	House V (₹)
Municipal Value	80,000	55,000	65,000	24,000	80,000
Fair Rent	90,000	60,000	65,000	25,000	75,000
Standard Rent	N.A.	75,000	58,000	N.A.	78,000
Actual rent received/ receivable	72,000	72,000	60,000	30,000	72,000
Municipal taxes	10%	12%	8%	10%	15%
NAV	82000	65400	54800	27600	66000

Question 2 Illustration 2 **[NAV Calculation]**

Rajesh, a British national, is a resident and ordinarily resident in India during the P.Y. 2025-26. He owns a house in London, which he has let out at £ 10,000 p.m. The municipal taxes paid to the Municipal Corporation of London is £ 8,000 during the P.Y. 2025-26. The value of one £ in Indian rupee to be taken at ₹ 95. Compute Rajesh's Net Annual Value of the property for the A.Y. 2026-27. **[SM Q.]**

Answer 2

For the P.Y. 2025-26, Mr. Rajesh, a British national, is resident and ordinarily resident in India. Therefore, income received by him by way of rent of the house property located in London is to be included in the total income in India. Municipal taxes paid in London is be to allowed as deduction from the gross annual value.

Computation of Net Annual Value of the property of Mr. Rajesh for A.Y. 2026-27

Particulars	₹
Gross Annual Value (£ 10,000 × 12 × 95)	1,14,00,000
Less: Municipal taxes paid (£ 8,000×95)	7,60,000
Net Annual Value (NAV)	→ **1,06,40,000**

Question 3 Illustration 3 **[Interest Calculation]**

Mr. Manas owns two house properties one at Bombay, wherein his family resides and the other at Delhi, which is unoccupied. He lives in Chandigarh for his employment purposes in a rented house. For acquisition of house property at Bombay, he has taken a loan of ₹ 30 lakh@10% p.a. on 1.4.2024. He has not repaid any amount so far. In respect of house property at Delhi, he has taken a loan of ₹ 5 lakh@11% p.a. on 1.10.2024 towards repairs. Compute the deduction which would be available to him u/s 24(b) for A.Y.2026-27 in respect

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of interest payable on such loan if he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 3

Mr. Manas can claim benefit of Nil Annual Value in respect of his house property at Bombay and Delhi, since no benefit is derived by him from such properties, and he cannot occupy such properties due to reason of his employment at Chandigarh, where he lives in a rented house.

Computation of deduction u/s 24(b) for A.Y.2026-27

Particulars	₹
I Interest on loan taken for acquisition of residential house property at Bombay 30,00,000 x 10% = ₹ 3,00,000 Restricted to ₹ 2,00,000	2,00,000
II Interest on loan taken for repair of residential house property at Delhi ₹ 5,00,000 x 11% = ₹ 55,000	
Restricted to ₹ 30,000	30,000
Total interest	2,30,000
Deduction u/s 24(b) in respect of (I) and (II) above to be restricted to	→ 2,00,000

Question 4 (Pg 77) Illustration 4 **[HP Income with Unrealized Rent]**

Anirudh has a property whose municipal valuation is ₹ 1,30,000 p.a. The fair rent is ₹ 1,10,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 1,20,000 p.a. The property was let out for a rent of ₹ 11,000 p.m. throughout the previous year.

Unrealized rent was ₹ 11,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @10% of municipal valuation. Interest on borrowed capital was ₹ 40,000 for the year. Compute his income from house property for A.Y.2026-27. 35,600 **[SM Q.]**

Question 5 (Pg 83) Illustration 5 **[HP Income with Unrealized Rent]**

And Vacancy

Ganesh has a property whose municipal valuation is ₹ 2,50,000 p.a. The fair rent is ₹ 2,00,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 2,10,000 p.a. The property was let out for a rent of ₹ 20,000 p.m. However, the tenant vacated the property on 31.1.2026. Unrealised rent was ₹ 20,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @8% of municipal valuation. Interest on borrowed capital was ₹ 65,000 for the year. Compute the income from house property of Ganesh for A.Y. 2026-27. 47,000 **[SM Q.]**

Question 6 (Pg 85) Illustration 6 **[SOP – Interest Deduction]**

Poorna has one house property at Indira Nagar in Bangalore. She stays with her family in the house. The rent of similar property in the neighbourhood is ₹ 25,000 p.m. The municipal valuation is ₹ 2,80,000 p.a.. Municipal taxes paid is ₹ 8,000. The house construction began in April 2019 with a loan of ₹ 20,00,000 taken from SBI Housing Finance Ltd. @9% p.a. on 1.4.2019. The construction was completed on 30.11.2021. The accumulated interest up to 31.3.2021 is ₹ 3,60,000. On 31.3.2026, Poorna paid ₹ 2,40,000 which included ₹ 1,80,000 as interest. There was no principal repayment prior to this date. Compute Poorna's income from house property for A.Y. 2026-27 assume she exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). (2,00,000) **[SM Q.]**

TELEGRAM: CA NOTE HUB

Question 7 (Pg 90) Illustration 7 **[Partly let-out & partly SOP timewise]** And Vacancy

Smt. Rajalakshmi owns a house property at Adyar in Chennai. The municipal value of the property is ₹ 5,00,000, fair rent is ₹ 4,20,000 and standard rent is ₹ 4,80,000. The property was let-out for ₹ 50,000 p.m. up to December 2025. Thereafter, the tenant vacated the property and Smt. Rajalakshmi used the house for self-occupation. Rent for the months of November and December 2025 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied. She paid municipal taxes @12% during the year. She had paid interest of ₹ 25,000 during the year for amount borrowed for repairs for the house property. Compute her income from house property for the A.Y. 2026-27. **[SM Q.]**

Question 8 (Pg 92) Illustration 8 **[More than 2 SOP's]**

Ganesh has three houses, all of which are self-occupied. The particulars of the houses for the P.Y.2025-26 are as under:

Particulars	House I	House II	House III
Municipal valuation p.a.	₹ 3,00,000	₹ 3,60,000	₹ 3,30,000
Fair rent p.a.	₹ 3,75,000	₹ 2,75,000	₹ 3,80,000
Standard rent p.a.	₹ 3,50,000	₹ 3,70,000	₹ 3,75,000
Date of completion/purchase	31.3.2000	31.3.2002	01.4.2016
Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year	-	₹ 55,000	
Interest for current year on money borrowed in April, 2016 for purchase of Property			₹ 1,75,000

Compute Ganesh's income from house property for A.Y.2026-27 and suggest which houses should be opted by Ganesh to be assessed as self-occupied so that his tax liability is minimum. [SMQ]

Question 9 **[more than 2 SOP's]**

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

	(Value in ₹)		
Particulars	House – I	House – II	House-III
Municipal Valuation per annum	1,30,000	1,20,000	1,20,000
Fair Rent per annum	1,10,000	1,85,000	1,45,000
Standard rent per annum	1,00,000	1,90,000	1,30,000
Date of completion	30-01-2005	31-07-2008	31.5.2011
Municipal taxes payable during the year (paid for House II & III only)	12%	9%	10%
Interest on money borrowed for repair of property during current year	-	75,000	-

You are required to compute Pihu's income from house property for the Assessment Year 2026-27 and suggest which houses should be opted by Pihu to be assessed as self-occupied so that her tax liability is minimum. Assume she exercise the option of shifting out

TELEGRAM: CA NOTE HUB

of the default tax regime provided u/s 115BAC(1A). [RTP N-20]

Answer 9

In this case, Pihu has more than two house properties for self-occupation. As per section 23(4), Pihu can avail the benefit of self-occupation (i.e., benefit of "Nil" Annual Value) only in respect of any two of the house properties, at her option. The other house property would be treated as "deemed let-out" property, in respect of which the Expected rent would be the gross annual value. Pihu should, therefore, consider the most beneficial option while deciding which house properties should be treated by her as self-occupied.

OPTION 1 [House I & II – Self-occupied and House III- Deemed to be let out]

If House I and II are opted to be self-occupied, Pihu's income from house property forA.Y.2026-27 would be –

Particulars	Amount in ₹
House I (Self-occupied) [Annual value is Nil]	Nil
House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of ₹ 30,000. In case of money borrowed for repair of self-occupied property, the interest deduction would be restricted to ₹30,000, irrespective of the date of borrowing].	(30,000)
House III (Deemed to be let-out) [See Working Note below]	82,600
Income from house property	**52,600**

OPTION 2 [House I & III – Self-occupied and House II- Deemed to be let out]

If House I and III are opted to be self-occupied, Pihu's income from house property forA.Y.2026-27 would be –

Particulars	Amount in ₹
House I (Self-occupied) [Annual value is Nil]	Nil
House II (Deemed to be let-out) [See Working Note below]	46,940
House III (Self-occupied) [Annual value is Nil]	Nil
Income from house property	**46,940**

OPTION 3 [House I – Deemed to be let out and House II & III – Self-occupied]

If House II and III are opted to be self-occupied, Pihu's income from house property for A.Y.2026-27 would be –

Particulars	Amount in ₹
House I (Deemed to be let-out) [See Working Note below]	70,000
House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of ₹ 30,000. In case of money borrowed for repair of self-occupied property, the interest deduction would be restricted to ₹30,000, irrespective of the date of borrowing].	(30,000)
House III (Self-occupied) [Annual value is Nil]	Nil
Income from house property	**40,000**

Since Option 3 is more beneficial, Pihu should opt to treat House – II & III as Self- occupied and House I as Deemed to be let out, in which case, her income from house property would be ₹ 40,000 for the A.Y. 2026-27.

Working Note:

Computation of income from House I, II and House III assuming that all are deemed to be let

TELEGRAM: CA NOTE HUB

out

Particulars	Amount in Rupees		
	House I	House II	House III
Gross Annual Value (GAV)			
Expected rent is the GAV of house property			
Expected rent= Higher of Municipal Value and Fair Rent but restricted to Standard Rent	1,00,000	1,85,000	1,30,000
Less: Municipal taxes (paid by the owner during the previous year)	Nil	10,800	12,000
Net Annual Value (NAV)	**1,00,000**	**1,74,200**	**1,18,000**
Less: Deductions u/s 24			
(a) 30% of NAV	30,000	52,260	35,400
(b) Interest on borrowed capital (allowed in full in case of deemed let out property)	-	75,000	-
Income from deemed to be let-out house property	**70,000**	**46,940**	**82,600**

Question 10 (Pg 86) Illustration 9 **[Partly let-out & partly SOP areawise]**

Prem owns a house in Madras. During the previous year 2025-26, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes at a rent of ₹ 8,000 p.m. Municipal value of the property is ₹ 3,00,000 p.a., fair rent is ₹ 2,70,000 p.a. and standard rent is ₹ 3,30,000 p.a. He paid municipal taxes @10% of municipal value during the year. A loan of ₹ 25,00,000 was taken by him during the year 2019 for acquiring the property. Interest on loan paid during the previous year 2025-26 was ₹ 1,20,000. Compute Prem's income from house property for the A.Y. 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

What would be Prem's income from house property under the default tax regime? **[SM Q.]**

Default: opt out SOP = (80,000), LOP = 23,000 · Default = SOP: Nil, LOP: 23,000

Question 11 Illustration 10 **[Recovery of Unrealized and arrears of Rent]**

Mr. Anand sold his residential house property in March, 2025.

In June, 2025, he recovered rent of ₹ 10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2019 to March 2021. He could not realize two months rent of ₹ 20,000 from him and to that extent his actual rent was reduced while computing income from house property for A.Y.2021-22.

Further, he had let out his property from April, 2021 to February, 2025 to Mr. Satish. In April, 2023, he had increased the rent from ₹ 12,000 to ₹ 15,000 per month and the same was a subject matter of dispute. In September, 2025, the matter was finally settled and Mr. Anand received ₹ 69,000 as arrears of rent for the period April 2023 to February, 2025. Would the recovery of unrealised rent and arrears of rent be taxable in the hands of Mr. Anand, and if so in which year? **[SM Q.]**

Answer 11

Since the unrealised rent was recovered in the P.Y. 2025-26, the same would be taxable in the A.Y. 2026-27 u/s 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year. Further, the arrears of rent was also received in the P.Y. 2025-26, and hence the same would be taxable in the

A.Y. 2026-27 u/s 25A, even though Mr. Anand was not the owner of the house in that year.

TELEGRAM: CA NOTE HUB

A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Anand for A.Y. 2026-27.

Computation of income from house property of Mr. Anand for A.Y. 2026-27

Particulars	₹
(i) Unrealised rent recovered	10,000
(ii) Arrears of rent received	69,000
	79,000
Less: Deduction@30%	23,700
Income from house property	**55,300**

Question 12 Illustration 11 **[Co ownership of HP.]**

Ms. Aparna co-owns a residential house property in Calcutta along with her sister Ms. Dimple, where her sister's family resides. Both of them have equal share in the property and the same is used by them for self-occupation. Interest is payable in respect of loan of ₹ 50,00,000@10% taken on 1.4.2024 for acquisition of such property. In addition, Ms. Aparna owns a flat in Pune in which she and her parents reside. She has taken a loan of ₹ 3,00,000@12% on 1.10.2024 for repairs of this flat.

Compute the deduction which would be available to Ms. Aparna and Ms. Dimple u/s 24(b) for A.Y.2026-27 if both exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 12

Computation of deduction u/s 24(b) available to Ms. Aparna for A.Y.2026-27

	Particulars	₹
I	Interest on loan taken for acquisition of residential house property at Calcutta ₹ 50,00,000 x 10% = ₹ 5,00,000	
	Ms. Aparna's share = 50% of ₹ 5,00,000 = ₹ 2,50,000	
	Restricted to ₹ 2,00,000	2,00,000
II	Interest on loan taken for repair of flat at Pune ₹ 3,00,000 x 12% = ₹ 36,000	
	Restricted to ₹ 30,000	30,000
	Total interest	2,30,000
	Deduction u/s 24(b) in respect of (I) and (II) above to be restricted to	2,00,000

Computation of deduction u/s 24(b) available to Ms. Dimple for A.Y.2026-27

Particulars	₹
Interest on loan taken for acquisition of residential house property at Calcutta ₹ 50,00,000 x 10% = ₹ 5,00,000	
Ms. Dimple's share = 50% of ₹ 5,00,000 = ₹ 2,50,000	
Restricted to ₹ 2,00,000	2,00,000
Deduction u/s 24(b)	**2,00,000**

TELEGRAM: CA NOTE HUB

Question 13 (Pg 97) Practical Q.1. **[Co ownership of HP.]**

Mr. Raman is a co-owner of a house property along with his brother holding equal share in the property.

Particulars	₹
Municipal value of the property	1,60,000
Fair rent	1,50,000
Standard rent under the Rent Control Act	1,70,000
Rent received	15,000 p.m.

The loan for the construction of this property is jointly taken and the interest charged by the bank is ₹ 25,000, out of which ₹ 21,000 has been paid. Interest on the unpaid interest is ₹ 450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is ₹ 5,000.

The municipal taxes of ₹ 5,100 have been paid by the tenant.

Compute the income from this property chargeable in the hands of Mr. Raman for the A.Y. 2026-27. 96000 : 1/2 Raman = 48,000, 1/2 brother = 48,000. **[SM Q.]**

Question 14 (Pg 88) Practical Q.2. **[Partly let-out property areawise]**

Mr. X owns one residential house in Mumbai. The house is having two identical units. First unit of the house is self-occupied by Mr. X and another unit is rented for ₹ 8,000 p.m. The rented unit was vacant for 2 months during the year. And Vacancy The particulars of the house for the previous year 2025-26 are as under:

Standard rent	₹ 1,62,000 p.a. 81000
Municipal valuation	₹ 1,90,000 p.a. 95000
Fair rent	₹ 1,85,000 p. a 92500
Municipal tax (Paid by Mr. X)	15% of municipal valuation (5% in Module)
Light and water charges Ignore	₹ 500 p.m.
Interest on borrowed capital	₹ 1,500 p.m.
Lease money Ignore	₹ 1,200 p.a.
Insurance charges Ignore	₹ 3,000 p.a.
Repairs Ignore	₹ 12,000 p.a.

SOP = (9000)
LOP = 37025

Compute income from house property of Mr. X for the A.Y. 2026-27 if he exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Question 15 (Pg 89) Practical Q.3. **[Partly let-out property areawise]**

Mr. Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 96,000, ₹ 1,26,000 and ₹ 1,08,000 (per annum), respectively. 32000, 42000, 36000

During the Financial Year 2025-26, one-third of the portion of the house was let out for residential purpose at a monthly rent of ₹ 5,000. The remaining two-third portion was self-occupied by him. Municipal tax @ 11 % of municipal value was paid during the year.

The construction of the house began in June, 2018 and was completed on 31-5-2021. Vikas took a loan of ₹ 1,00,000 on 1-7-2018 for the construction of building.

He paid interest on loan @ 12% per annum and every month such interest was paid.

Compute income from house property of Mr. Vikas for the Assessment Year 2026-27 if he exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A).

SOP = (12400), LOP = 33,336

TELEGRAM: CA NOTE HUB

[SM Q.]

Question 16 (Pg 107) Practical Q.4. **[Computation of House Property]**

Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2025-26. She owns a house property at Los Angeles,

U.S.A., which is used as her residence. The annual value of the house is $ 20,000. The value of one USD ($) may be taken as ₹ 75.

She took ownership and possession of a flat in Chennai on 1.7.2025, which is used for self-occupation, while she is in India. The flat was used by her for 7 months only during the year ended 31.3.2026. The municipal valuation is ₹ 3,84,000 p.a. and the fair rent is ₹ 4,20,000 p.a. She paid the following to Corporation of Chennai:

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

She had taken a loan from Standard Chartered Bank in June, 2023 for purchasing this flat. Interest on loan was as under:

Particulars	₹
Period prior to 1.4.2025	49,200
1.4.2025 to 30.6.2025	50,800
1.7.2025 to 31.3.2026	1,31,300

She had a house property in Bangalore, which was sold in March, 2022. In respect of this house, she received arrears of rent of ₹ 60,000 in March, 2026. This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mrs. Rohini Ravi for the assessment year 2026-27 if she exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 16

Since the assessee is a resident and ordinarily resident in India, her global income would form part of her total income i.e., income earned in India as well as outside India will form part of her total income.

She possesses a self-occupied house at Los Angeles as well as at Chennai. She can take the benefit of "Nil" Annual Value in respect of both the house properties.

As regards the Bangalore house, arrears of rent will be chargeable to tax as income from house property in the year of receipt u/s 25A. It is not essential that the assessee should continue to be the owner. 30% of the arrears of rent shall be allowed as deduction.

Accordingly, the income from house property of Mrs. Rohini Ravi for A.Y.2026-27 will be calculated as under:

Particulars	₹	₹
1. Self-occupied house at Los Angeles		
Annual value		Nil
Less: Deduction u/s 24		Nil
Chargeable income from this house property		**Nil**
2. Self-occupied house property at Chennai		
Annual value		Nil
Less: Deduction u/s 24		1,91,940

TELEGRAM: CA NOTE HUB

Interest on borrowed capital (See Note below)		(1,91,940)
3. Arrears in respect of Bangalore property (Section 25A)		
Arrears of rent received	60,000	
Less: Deduction @ 30% u/s 25A(2)	18,000	42,000
Loss under the head "Income from house property"		**(1,49,940)**

Note: Interest on borrowed capital

Particulars	₹
Interest for the current year (₹ 50,800 + ₹ 1,31,300)	1,82,100
Add: 1/5th of pre-construction interest (₹ 49,200 x 1/5)	9,840
Interest deduction allowable u/s 24	**1,91,940**

Question 17 LDR Practical Q.5 [Partly let-out property areawise & Co ownership]

(Pg 100)

Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 2017-2018. The property consists of eight identical units and is situated at Cochin.

During the financial year 2025-26, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of ₹ 12,000 per month per unit. The municipal value of the house property is ₹ 9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

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

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

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

The other income of Mr. Arun and Mr. Bimal are ₹ 2,90,000 and ₹ 1,80,000, respectively, for the financial year 2025-26.

Compute the income under the head 'Income from House Property' and the total income of two brothers for the A.Y. 2026-27 if they pay tax under the default tax regime u/s 115BAC.

Also, show the computation of income under this head, if they both exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). [SM Q]

Question 18 [Partly let-out property timewise]

Mrs. Daya, a resident of India, owns a house property at Panipat in Haryana. The Municipal value of the property is ₹ 8,50,000, Fair Rent of the property is ₹ 7,30,000 and Standard Rent is ₹ 8,20,000 per annum. The property was let out for ₹ 85,000 per month for the period April 2025 to December 2025.

Thereafter, the tenant vacated the property and Mrs. Daya used the house for self-occupation. Rent for the months of November and December 2025 could not be realized from the tenant. Mrs. Daya has not instituted any legal proceedings for recovery of the unpaid rent.

She paid municipal taxes @ 12% during the year and paid interest of ₹ 50,000 during the year for amount borrowed towards repairs of the house property.

TELEGRAM: CA NOTE HUB

You are required to compute her income from house property for the A.Y. 2026-27.

[RTP M-20]

Answer 18

Computation of income from house property of Mrs. Daya for the A.Y.2026-27

Particulars	Amount in ₹	
Computation of Gross Annual Value		
Expected Rent for the whole year = Higher of Municipal Value of ₹ 8,50,000 and Fair Rent of ₹ 7,30,000, but restricted to Standard Rent of ₹ 8,20,000	8,20,000	
Actual rent receivable for the let-out period = ₹ 85,000 * 9	7,65,000	
[Unrealised rent is not deductible from actual rent in this case since Mrs. Daya has not instituted any legal proceedings for recovery of unpaid rent. Hence, one of the conditions laid out in Rule 4 has not been fulfilled]		
GAV is the higher of Expected Rent for the whole year and Actual rent received/receivable for the let-out period	8,20,000	
Gross Annual Value (GAV)		8,20,000
Less: Municipal taxes (paid by the owner during the previous year) = 12% of ₹ 8,50,000		1,02,000
Net Annual Value (NAV)		7,18,000
Less: Deductions u/s 24		
(a) 30% of NAV = 30% of ₹ 7,18,000	2,15,400	
(b) Interest on amount borrowed for repairs (Fully allowable as deduction, since it pertains to let- out property)	50,000	2,65,400
Income from house property		**4,52,600**

Question 19 LDR (Pg104) **[Party let-out property Areawise + Timewise + Interest Calculation]**

Mr. Naveen and Mr. Vikas constructed their houses on a piece of land purchased by them at Delhi. The built up area of each house was 1,800 sq. ft. ground floor and an equal area in the first floor. Naveen started construction on 1-04-2023 and completed on 1-04-2025. Vikas started the construction on 1-04-2023 and completed the construction on 30-09-2025. Naveen occupied the entire house on 01-04-2025. Vikas occupied the ground floor on 01-10-2025 and let out the first floor for a rent of ₹20,000 per month. However, the tenant vacated the house on 31-12-2025 and Vikas occupied the entire house during the period 01-01-2026 to 31-03-2026.

Following are the other information

(i) Fair rental value of each unit - ₹ 1,00,000 per annum (ground floor /first floor)

(ii) Municipal value of each unit (ground floor / first floor) - ₹ 72,000 per annum

(iii) Municipal taxes paid by

Naveen – ₹ 8,000

Vikas – ₹ 8,000

(iv) Repair and maintenance charges paid by

Naveen – ₹ 28,000

TELEGRAM: CA NOTE HUB

Vikas – ₹ 30,000

Naveen has availed a housing loan of ₹ 15 lakhs @ 12% p.a. on 01-04-2023. Vikas has availed a housing loan of ₹ 10 lakhs @ 10% p.a. on 01-07-2023. No repayment was made by either of them till 31-03-2026. Compute income from house property for Naveen and Vikas for the previous year 2025-26 if both exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[MTP Q.]**

Question 20

[Party let-out property Areawise]

Mr. Ramesh constructed a big house (construction completed in Previous Year 2008 -09) with 3 independent units. Unit - 1 (50% of floor area) is let out for residential purpose at monthly rent of ₹ 15,000. A sum of ₹ 3,000 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Mr. Ramesh is occupied by the tenant. Unit - 1 remains vacant for 2 months when it is not put to any use. Unit - 2 (25% of the floor area) is used by Mr. Ramesh for the purpose of his business, while Unit - 3 (the remaining 25%) is utilized for the purpose of his residence. Other particulars of the house are as follows:

Municipal valuation - ₹ 1,88,000

Fair rent - ₹ 2,48,000

Standard rent under the Rent Control Act - ₹ 2,28,000

Municipal taxes - ₹ 20,000 Repairs - ₹ 5,000

Interest on capital borrowed for the construction of the property - ₹ 60,000, ground rent ₹ 6,000 and fire insurance premium paid - ₹ 60,000.

Income of Ramesh from the business is ₹ 1,40,000 (without debiting house rent and other incidental expenditure).

Determine the taxable income of Mr. Ramesh for the assessment year 2026-27 if he opted out from default taxation regime u/s 115BAC.

Answer 20

Computation of Taxable Income of Mr. Ramesh for A.Y. 2026-27 under the regular provisions of the Act

Particulars	Amount (₹)	Amount (₹)
Income from house property		
Unit - 1 [50% of floor area - Let out]		
Gross Annual Value, higher of		
- **Expected rent ₹ 1,14,000** [Higher of Municipal Value of ₹ 94,000 p.a. and Fair Rent of ₹ 1,24,000 p.a., but restricted to Standard Rent of ₹ 1,14,000 p.a.]		
- Actual rent ₹ 1,47,000 [₹ 15,000 x 10] less unrealized rent[1] of ₹ 3,000		
Gross Annual Value		
(Alternatively, ₹ 1,50,000 can be shown as actual rent and gross annual value, and thereafter, deduct ₹ 3,000 unrealized rent therefrom)	1,47,000	
Less: Municipal taxes [50% of ₹20,000[2]]	10,000	
Net annual value	1,37,000	

1 *Since the conditions laid down under Rule 4 of Income-tax Rules, 1962, are satisfied.*
2 *Assumed to have been paid during the year by Mr. Ramesh.*

TELEGRAM: CA NOTE HUB

Particulars		Amount (₹)	Amount (₹)
Less: Deductions from Net Annual Value			
(a) 30% of Net Annual Value		41,100	
(b) Interest on loan [50% of ₹ 60,000]		30,000	65,900
Unit – 3 [25% of floor area – Self occupied]			
Net Annual Value		-	
Less: Interest on loan [25% of ₹ 60,000]		15,000	(15,000)
Income from house property			50,900
Profits and gains from business or profession			
Business Income [without deducting expenditure on Unit - 2 25% floor area used for business purposes]		1,40,000	
Less: Expenditure in respect of Unit -2			
- Municipal taxes [25% of ₹ 20,000[1]]	5,000		
- Repairs [25% of ₹ 5,000]	1,250		
- Interest on loan [25% of ₹ 60,000]	15,000		
- Ground rent [25% of ₹ 6,000]	1,500		
- Fire Insurance premium [25% of ₹ 60,000]	15,000		
		37,750	1,02,250
Taxable Income			**1,53,150**

1 *Assumed to have been paid on or before the due date u/s 139(1).*

Total TELEGRAM:CA_NOTE_HUB Schedule add ons

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CHAPTER

Profit & Gain from Business or Profession (PGBP)

5

Question 1 Pg 17(2) Illustration 1 **[Depreciation Calculation]**

Mr. X, a proprietor engaged in manufacturing business, furnishes the following particulars:

		Particulars	₹
15%	(1)	Opening balance of plant and machinery as on 1.4.2025 (i.e., WDV as on 31.3.2025 after reducing depreciation for P.Y. 2024-25)	30,00,000
15%	(2)	New plant and machinery purchased and put to use on 08.06.2025	20,00,000
15%	(3)	New plant and machinery acquired and put to use on 15.12.2025	8,00,000
40%	(4)	Computer acquired and installed in the office premises on 2.1.2026	3,00,000

Compute the amount of depreciation and additional depreciation as per the Income-tax Act, 1961 for the A.Y. 2026-27 if Mr. X has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). Assume that all the assets were purchased by way of account payee cheque. **[SM Q]**

Question 2 Illustration 2 **[Depreciation Calculation]**

A car purchased by Dr. Soman on 10.08.2022 for ₹ 5,25,000 for personal use is brought into professional use on 1.07.2025 by him, when its market value was ₹ 2,50,000.

Compute the actual cost of the car and the amount of depreciation for the assessment year 2026-27 assuming the rate of depreciation to be 15%. **[SM Q]**

Answer 2

As per section 43(1), the expression "actual cost" would mean the actual cost of asset to the assessee.

The purchase price of ₹ 5,25,000 is, therefore, the actual cost of the car to Dr. Soman. Market value (i.e. ₹ 2,50,000) on the date when the asset is brought into professional use is not relevant.

Therefore, amount of depreciation on car as per section 32 for the A.Y.2026-27 would be ₹ 78,750, being ₹ 5,25,000 x 15%.

Note: Explanation 5 to section 43(1) providing for reduction of notional depreciation from the date of acquisition of asset for personal use to determine actual cost of the asset is applicable only in case of building which is initially acquired for personal use and later brought into professional use. It is not applicable in respect of other assets.

Question 3 Pg 14 (2) Illustration 3 **[Depreciation Calculation]**

A newly qualified Chartered Accountant Mr. Dhaval, commenced practice and has acquired the following assets in his office during F.Y. 2025-26 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for A.Y.2026-27. Assume that all the assets were purchased by way of account payee cheque.

Sl. No.	Description	Date of acquisition	Date when put to use	Amount ₹

TELEGRAM: CA NOTE HUB

Sl. No.	Description	Date of acquisition	Date when put to use	Amount ₹
1.	Computer including computer software	27 Sept., 25	1 Oct., 25	35,000
2.	Computer UPS	2 Oct., 25	8 Oct., 25	8,500
3.	Computer printer	1 Oct., 25	1 Oct., 25	12,500
4.	Books (other than annual publications are of ₹ 12,000)	1 Apr., 25	1 Apr., 25	13,000
5.	Office furniture (Acquired from a practicing C.A.)	1 Apr., 25	1 Apr., 25	3,00,000
6.	Laptop	26 Sep., 25	8 Oct., 25	43,000

[SM Q]

Question 4 Illustration 4 [Depreciation Calculation]

Mr. Gamma, a proprietor started a business of manufacture of tyres and tubes for motor vehicles on 1.1.2025. The manufacturing unit was set up on 1.5.2025. He commenced his manufacturing operations on 1.6.2025. The total cost of the plant and machinery installed in the unit is ₹ 120 crore. The said plant and machinery included second hand plant and machinery bought for ₹ 20 crore and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of ₹ 15 crore.

Compute the amount of depreciation allowable under section 32 of the Income-tax Act, 1961 in respect of the assessment year 2026-27. Assume that all the assets were purchased by way of account payee cheque and Mr. Gamma has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). [SM Q]

Question 5 LDR Practical Q.1. [Depreciation Calculation]

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

	(₹ in lakhs)
WDV of Plant and Machinery on 31.3.2025 (before depreciation)	30.00
Depreciation including additional depreciation for P.Y. 2024-25	4.75
New machinery purchased on 1-9-2025	10.00
New machinery purchased on 1-12-2025	8.00
Computer purchased on 3-1-2026	4.00

Additional information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.
- New machinery purchased on 1-12-2025 and computer have been installed in the office.
- During the year ended 31-3-2025, a new machinery had been purchased on 31-10-~~2025,~~ for ₹ 10 lakhs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.
- The assessee has no brought forward business loss or unabsorbed depreciation as on 1.4.2025.

TELEGRAM: CA NOTE HUB

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

(i) he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)

(ii) he pays tax under the default tax regime under section 115 BAC.

Answer 5

Computation of written down value of block of assets of Venus Ltd. as on 31.3.2026

Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
Written down value (as on 31.3.2025)	**30.00**	**Nil**
Less: Depreciation including additional depreciation for P.Y. 2024-25	4.75	-
Opening balance as on 1.4.2025	25.25	
Add: Actual cost of new assets acquired during the year		
New machinery purchased on 1.9.2025	10.00	-
New machinery purchased on 1.12.2025	8.00	-
Computer purchased on 3.1.2026	-	4.00
	43.25	4.00
Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Written Down Value (as on 31.03.2026)	**43.25**	**4.00**

(i) If Mr. Venus exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)

In this case, since his income would be computed under the optional tax regime as per the normal provisions of the Act, he would be entitled for normal depreciation and additional depreciation, subject to fulfilment of conditions.

Computation of depreciation for A.Y. 2026-27

	Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
I.	**Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation**		
	Normal Depreciation		
	- WDV of plant and machinery (₹ 25.25 lacs x 15%)	3.79	-
	- New Machinery purchased on 1.9.2025 (₹ 10 lacs x 15%)	1.50	-
	(A)	5.29	-
	Additional Depreciation		
	New Machinery purchased on 1.9.2025 (₹ 10 lakhs	2.00	-

TELEGRAM: CA NOTE HUB

	x 20%) Balance additional depreciation in respect of new machinery purchased on 31.10.2024 and put to use for less than 180 days in the P.Y. 2024-25 (₹ 10 lakhs x 20% x 50%) (B)	1.00 3.00	
II.	**Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation, if any** New machinery purchased on 1.12.2025 [₹ 8 lacs x 7.5% (i.e., 50% of15%)] Computer purchased on 3.1.2026 [₹ 4 lacs x 20% (50% of 40%)] (C)	0.60 - 0.60	- 0.80 0.80
	Total Depreciation (A+B+C)	**8.89**	**0.80**

Notes:

(1) As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005, by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

However, additional depreciation shall not be allowed in respect of, inter alia,–

(i) any office appliances or road transport vehicles;

(ii) any machinery or plant installed in, inter alia, office premises.

In view of the above provisions, additional depreciation cannot be claimed in respect of -

(i) Machinery purchased on 1.12.2025, installed in office and

(ii) Computer purchased on 3.1.2026, installed in office.

(2) Balance additional depreciation@10% on new plant or machinery acquired and put to use for less than 180 days in the year of acquisition which has not been allowed in that year, shall be allowed in the immediately succeeding previous year.

Hence, in this case, the balance additional depreciation@10% (i.e., ₹ 1 lakhs, being 10% of ₹ 10 lakhs) in respect of new machinery which had been purchased during the previous year 2024-25 and put to use for less than 180 days in that year can be claimed in P.Y. 2025-26 being immediately succeeding previous year.

(i) If Mr. Venus pays tax under default tax regime under section 115BAC

In this case, under the default tax regime as per section 115BAC, he would be entitled only for normal depreciation but not additional depreciation.

Computation of depreciation for A.Y. 2026-27

	Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
I.	**Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation** **Normal Depreciation**		-

TELEGRAM: CA NOTE HUB

	- WDV of plant and machinery (₹ 25.25 lacs x 15%)	3.79	
	- New Machinery purchased on 1.9.2025 (₹ 10 lacs x 15%)	1.50	-
	(A)	5.29	-
II.	**Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation**		
	Normal Depreciation		
	New machinery purchased on 1.12.2025 [₹ 8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2026 [₹ 4 lacs x 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80
	Total Depreciation (A+B+C)	**5.89**	**0.80**

Question 6 Practical Q·2. **[Depreciation Calculation]**

Mr. Abhimanyu is engaged in the business of generation and distribution of electric power. He opts to claim depreciation on written down value for income-tax purposes. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 1961 for the assessment year 2026-27, assuming he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A):

	(₹ in lacs)
(i) WDV of block as on 31.3.2025 (15% rate) (before depreciation)	50
(ii) Depreciation for P.Y. 2024-25	7.50
(iii) New machinery purchased on 12-10-2025	10
(iv) Machinery imported from Colombo on 12-4-2025. This machine had been used only in Colombo earlier and the assessee is the first user in India.	9
(v) New computer installed in generation wing unit on 15-7-2025	2

All assets were purchased by A/c payee cheque. **[SM Q]**

Answer 6

Computation of written down value of block of assets of Venus Ltd. as on 31.3.2026

Particulars	Plant & Machinery (₹ in lacs)	Computer (in lacs)
Written down value (as on 31.3.2025)	**50.00**	-
Less: Depreciation including additional depreciation for P.Y. 2024-25	7.5	-
Opening balance as on 1.4.2025	42.5	
Add: Actual cost of new assets acquired during the year		
New machinery purchased on 12.4.2025	9.00	-
New machinery purchased on 12.10.2025	10.00	-
Computer purchased on 15.07.2025	-	2.00
	61.5	2.00

TELEGRAM: CA NOTE HUB

Particulars	Plant & Machinery (₹ in lacs)	Computer (in lacs)
Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Written Down Value (as on 31.03.2026)	**43.25**	**2.00**

Computation of Depreciation for A.Y. 2026-27

	Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
I.	**Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation**		
	Normal Depreciation		
	- WDV of plant and machinery (₹ 42.5 lacs x 15%)	6.375	-
	- New Machinery purchased on 12.04.2025 (₹ 9 lacs x 15%)	1.35	-
	- Computer purchased on 15.07.2025 [₹ 2 lacs x 40%]	-	0.8
	(A)	7.725	
	Additional Depreciation		
	New Machinery purchased on 12,10.2025 (₹ 10 lakhs x 10%)	1.00	
	Additional Depreciation@20% on new computer installed in generation wing of the unit [20% of ₹ 2 lakhs]	-	0.4
	(B)	1.00	
II.	**Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation, if any**		
	Normal Depreciation		
	New machinery purchased on 1.12.2025 [₹ 10 lacs x 7.5% (i.e., 50% of 15%)]	0.75	-
		-	
	(C)	0.75	0.40
	Total Depreciation (A+B+C)	**9.475**	**1.2**

Note:-

The benefit of additional depreciation is available to new plant and machinery acquired and installed in power sector undertakings. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, inter alia, in the business of generation, transmission or distribution of power, at the rate of 20% of the actual cost of such machinery or plant.

TELEGRAM: CA NOTE HUB

Therefore, new computer installed in generation wing units eligible for additional depreciation@20%.

Since the new machinery was purchased only on 12.10.2025, it was put to use for less than 180 days during the previous year, and hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the A.Y.2026-27. The balance additional depreciation would be allowed in the next year.

However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person. Therefore, additional depreciation is not allowable in respect of imported machinery, since it was used in Colombo, before its installation by the assessee.

Question 7 [Depreciation Calculation]

Dr. Arjun runs a clinic in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 25-09-2025, for the purpose of his medical profession, as per following details:

Cost of car (excluding GST)	15,00,000
Add: Delhi GST at 14%	2,10,000
Add: Central GST at 14%	2,10,000
Total price of car	19,20,000

He put his car to use from 25.9.2025 itself. He estimates the usage of the car for personal purposes will be 25%. He is advised by his friends that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using the car immediately after purchase.

Determine the depreciation allowable on car for the A.Y. 2026-27, if this is the only asset in the block. If this car would also be used in the subsequent Assessment Year 2027-28 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-tax Act, 1961. **[RTP M-20 Q]**

Answer 7

Computation of depreciation allowance

Particulars	₹
Since the car was put to use for more than 180 days in the P.Y.2025-26, full depreciation@15% of ₹ 19,20,000, which is the total price (inclusive of GST) would be allowable.	
However, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable	
Depreciation for P.Y.2025-26 = 15% x ₹ 19,20,000 x 75% =	2,16,000
Written Down Value as on 1.4.2026 = ₹ 19,20,000 – ₹2,16,000 =₹17,04,000	
Depreciation for P.Y.2026-27 = 15% x ₹17,04,000 x 75% =	1,91,700

Note - As per section 17(5) of the CGST Act, 2017, input tax credit would not be available in respect of motor vehicles for transportation of persons having approved seating capacity of not more than thirteen persons (including the driver), except when they are used for making the taxable supplies, namely, further supply of such motor vehicles; or transportation of passengers; or imparting training on driving such motor vehicles. Since Dr. Arjun used the car for his professional purpose and not for any purpose stated in exception cases, input tax credit would not be available and hence, both CGST & SGST would form part of actual cost of car.

TELEGRAM: CA NOTE HUB

Question 8 Pg 18(2) LDR **[Depreciation Calculation]**

Mr. Lights engaged in the business of generation of power, furnishes the following particulars pertaining to P.Y. 25-26. Compute the depreciation allowable u/s 32 for A.Y. 26-27 while computing his income under the head "Profits and gains of business or profession". Assessee has opted for the depreciation allowance on the basis of written down value. Assessee shifted out of default tax regime u/s 115BAC. **[FINAL SM Q]**

Particular	₹
Opening Written down value of Plant and Machinery (15% block) as on 1.4.2025 (Purchase value ₹8,00,000) → no use	5,78,000
Purchase of second-hand machinery (15% block) on 29.12.2025 for business Half, add	2,00,000
Machinery Y (15% block) purchased and installed on 12.7.2025 for the purpose of power generation Full ✓ Add ✓	8,00,000
Acquired and installed for use a new air pollution control equipment on 31.7.2025 P&M @ 40% Full ✓ Add ✓	2,50,000
New air conditioner purchased and installed in office premises on 8.9.2025 P&M @ 15% Full Add ✗	3,00,000
New machinery Z (15% block) acquired and installed on 23.11.2025 for the purpose of generation of power Half Add ✓	3,25,000
Sale value of an old machinery X, sold during the year (Purchase value ₹4,80,000 WDV as on 1.4.2025 ₹3,46,800) @15%	3,10,000

Half = 2+3.25 = 5.25 ✓

Full = 8+3 = 11 ✓

Answer 8 No use No use

Computation of depreciation allowance u/s 32 for the A.Y. 2026-27

Particular	₹	P & M @15%	P & M @40%
Opening WDV as on 1.4.2025		5,78,000	
Add: Plant and Machinery acquired during the year			
- Second hand machinery	2,00,000		
- Machinery Y	8,00,000		
- Air conditioner for office	3,00,000		
- Machinery Z	3,25,000	16,25,000	
- Air pollution control equipment			2,50,000
		22,03,000	**2,50,000**
Less: Asset sold during the year		3,10,000	Nil
Written down value before charging depreciation		**18,93,000**	**2,50,000**

Particular	₹	P & M @15%	P & M @40%)
Normal depreciation			

TELEGRAM: CA NOTE HUB

Particular	₹	P & M @15%	P & M @40%)
40% on air pollution control equipment (₹2,50,000 x 40%)			1,00,000
Depreciation on plant and machinery put to use for less than 180 days@7.5% (i.e. 50% of 15%)			
Second hand machinery (₹2,00,000 x 7.5%)	15,000		
- Machinery Z (₹3,25,000 x 7.5%)	24,375	39,375	
15% on the balance WDV being put to use for more than 180 days (₹13,68,000 x 15%)		2,05,200	
Additional depreciation			
- Machinery Y (₹8,00,000 x 20%)	1,60,000		
- Machinery Z (₹3,25,000 x 10%, being 50% of 20%)	32,500		
Air pollution control equipment (₹2,50,000 x 20%)		1,92,500	50,000
Total depreciation		**4,37,075**	**1,50,000**

Notes:

(i) Power generation equipment qualify for claiming additional depreciation in respect of new plant and machinery.

(ii) Additional depreciation is not allowed in respect of second-hand machinery.

(iii) No additional depreciation is allowed in respect of office appliances. Hence, no depreciation is allowed in respect of air conditioner installed in office premises.

(iv) The balance 50% additional depreciation in respect of machinery Z of ₹32,500 (10% x ₹3,25,00) can be claimed as deduction in subsequent financial year i.e., F.Y. 2026-27.

Question 9 Pg 25(2) [Capital Gain in case of Depreciable assets]

Singhania & Co., a sole proprietorship owns six machines, put in use for business in March, 2024. The depreciation on these machines is charged@15%. The opening balance of these machines after providing depreciation for P.Y. 2024-25 was ₹ 8,50,000. Three of the old machines were sold on 10th June, 2025 for ₹ 11,00,000. A second hand plant was bought for ₹ 8,50,000 on 30th November, 2025.

You are required to:

(i) determine the claim of depreciation for Assessment Year 2026-27.

(ii) compute the capital gains liable to tax for Assessment Year 2026-27.

(iii) If Singhania & Co. had sold the three machines in June, 2025 for ₹ 21,00,000, will there be any difference in your above workings? Explain. **[SM Q.]**

Answer 9

(i) **Computation of depreciation for A.Y.2026-27**

Particulars	₹
Opening balance of the block as on 1.4.2025 [i.e., W.D.V. as on 31.3.2025 after providing depreciation for P.Y. 2024-25]	8,50,000
Add: Purchase of second hand plant during the year	8,50,000
	17,00,000
Less: Sale consideration of old machinery during the year	11,00,000

TELEGRAM: CA NOTE HUB

W.D.V of the block as on 31.03.2026	6,00,000

Since the value of the block as on 31.3.2026 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is ₹ 45,000, being 7½% of ₹ 6,00,000.

(ii) The provisions u/s 50 for computation of capital gains in the case of depreciable assets can be invoked only under the following circumstances:

(a) When one or some of the assets in the block are sold for consideration more than the value of the block.

(b) When all the assets are transferred for a consideration more than the value of the block.

(c) When all the assets are transferred for a consideration less than the value of the block.

Since in the first two cases, the sale consideration is more than the written down value of the block, the computation would result in short term capital gains.

In the third case, since the written down value of the block exceeds the sale consideration, the resultant figure would be a short-term capital loss of the block.

In the given case, capital gains will not arise as the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block.

(iii) If the three machines are sold in June, 2025 for ₹ 21,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

Particulars	₹	₹
Sale consideration		21,00,000
Less: Opening balance of the block as on 1.4.2025 [i.e., W.D.V. as on 31.3.2025 after providing depreciation for P.Y. 2024-25]	8,50,000	
Purchase of second plant during the year	8,50,000	17,00,000
Short term capital gains		**4,00,000**

Question 10 Pg 35(2) Illustration 5 LDR **[Scientific Research]**

Mr. A, furnishes the following particulars for the P.Y.2025-26. Compute the deduction allowable under section 35 for A.Y.2026-27, while computing his income under the head "Profits and gains of business or profession", if.

(i) he is paying tax under default tax regime under section 115BAC

(ii) he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

Normal 115BAC

	Particulars	₹
1.	Amount paid to notified approved Indian Institute of Science, Bangalore, for scientific research	1,00,000
2.	Amount paid to IIT, Delhi for an approved scientific research programme	2,50,000
3.	Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority	4,00,000
4.	Expenditure incurred on in-house scientific research and development facility as approved by the prescribed authority related to his business	

100000 (1)(ii) X
250000 (2A) Y
400000 (1)(iii) X

TELEGRAM: CA NOTE HUB

	(a) Revenue expenditure on scientific research	3,00,000
	(b) Capital expenditure (including cost of acquisition of land ₹ 5,00,000) on scientific research	7,50,000

Question 11 Pg 45(2) Illustration 6 **[Specified Businesses u/s 35AD]**

LDR

Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2025. He incurred capital expenditure of ₹ 80 lakh, ₹ 60 lakh and ₹ 50 lakh, respectively, on purchase of land and building during the period January, 2025 to March, 2025 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2025. The cost of land included in the above figures is ₹ 50 lakh, ₹ 40 lakh and ₹ 30 lakh, respectively. During the P.Y. 2025-26, he incurred capital expenditure of ₹ 20 lakh, ₹ 15 lakh & ₹ 10 lakh, respectively, for extension/ reconstruction of the building purchased and used exclusively for the above businesses.

Compute the income under the head "Profits and gains of business or profession" for the A.Y.2026-27 and the loss to be carried forward, assuming that Mr. A is exercising the option of shifting out of the default tax regime provided u/s 115BAC(1A) and Mr. A has fulfilled all the conditions specified under section 35AD and wants to claim deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading "C – Deductions in respect of certain incomes".

The profits from the business of setting up a warehousing facility for storage of food grains, sugar and edible oil (before claiming deduction under section 35AD and section 32) for the A.Y. 2026-27 is ₹ 16 lakhs, ₹ 14 lakhs and ₹ 31 lakhs, respectively. Also, assume in respect of expenditure incurred, the payments are made by account payee cheque or use of ECS through bank account. **[SM Q]**

Question 12 Illustration 7 **[Specified Businesses u/s 35AD]**

Mr. Suraj, a proprietor, commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2025. He incurred capital expenditure of ₹ 50 lakh during the period January, 2025 to March, 2025 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2025. Further, during the P.Y. 2025-26, he incurred capital expenditure of ₹ 2 crore (out of which ₹ 1.50 crore was for acquisition of land) exclusively for the above business.

Compute the income under the head "Profits and gains of business or profession" for the A.Y.2026-27, assuming that he has fulfilled all the conditions specified under section 35AD and opted for claiming deduction under section 35AD; and he has not claimed any deduction under Chapter VI-A under the heading "C – Deductions in respect of certain incomes". He has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y.2026-27 is ₹ 25 lakhs. Assume that he also has another existing business of running a four-star hotel in Coimbatore, which commenced operations fifteen years back, the profits from which are ₹ 120 lakhs for the A.Y.2026-27. Also, assume that payments for capital expenditure were made by net banking. **[SM Q]**

Answer 12

Computation of profits and gains of business or profession for A.Y. 2026-27

Particulars	₹
Profits from the specified business of new hotel in Madurai (before providing deduction under section 35AD)	25 lakh
Less: Deduction under section 35AD	
Capital expenditure incurred during the P.Y.2025-26 (excluding the	

Note: Loss of Specified Business can be set off only against income of any other specified business irrespective of whether the other specified business is eligible for deduction u/s 35AD or not.

TELEGRAM: CA NOTE HUB

Profession (PGBP)

Particulars		₹
d) = ₹ 200 lakh – ₹ 150 lakh	50 lakh	
1.4.2025 (i.e., prior to ed in the books of account as on 1.4.2025	50 lakh	
Total deduction under section 35AD for A.Y.2026-27		100 lakh
Loss from the specified business of new hotel in Madurai		**(75 lakh)**
Profit from the existing business of running a hotel in Coimbatore		120 lakh
Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A		45 lakh

Question 13 Pg 48 LDR Illustration 8 **[Specified Businesses u/s 35AD]**

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

Unit A commenced operations on 1.4.2024 and it claimed deduction of ₹ 100 lacs incurred on purchase of two buildings for ₹ 50 lacs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y.2025-26. However, in February, 2026, Unit A transferred one of its buildings to Unit B.

Examine the tax implications of such transfer in the hands of Mr. Arnav. **[SM Q]**

Answer 13

Since the capital asset, in respect of which deduction of ₹ 50 lacs was claimed u/s 35AD, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in the P.Y.2025-26, the deeming provision u/s 35AD(7B) is attracted during the A.Y.2026-27.

Particulars	₹
Deduction allowed under section 35AD for A.Y.2025-26	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2025-26 [10% of ₹ 50 lacs]	5,00,000
Deemed income under section 35AD(7B)	**45,00,000**

Mr. Arnav, however, by virtue of proviso to Explanation 13 to section 43(1), can claim depreciation under section 32 on the building in Unit B for A.Y.2026-27. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

Particulars	₹
Actual cost to the assessee	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2025-26 [10% of ₹ 50 lacs]	5,00,000
Actual cost in the hands of Mr. Arnav in respect of building in its Unit B	**45,00,000**

Question 14 Pg 34(2) **[Preliminary Exps]**

First Flight Ltd. is an existing Indian Company, which sets up a new industrial unit. It incurs the following expenditure in connection with the new unit:

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

Note: Loss of specified business can be set off only against income of any other specified business irrespective of whether

TELEGRAM: CA NOTE HUB

Profession (PGBP)

Particulars		₹
expenditure incurred on acquisition of land) = ₹ 200 lakh – ₹ 150 lakh	50 lakh	
Capital expenditure incurred prior to 1.4.2025 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2025	50 lakh	
Total deduction under section 35AD for A.Y.2026-27		100 lakh
Loss from the specified business of new hotel in Madurai		**(75 lakh)**
Profit from the existing business of running a hotel in Coimbatore		120 lakh
Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A		45 lakh

Question 13 Pg 48 LDR Illustration 8 **[Specified Businesses u/s 35AD]**

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

Unit A commenced operations on 1.4.2024 and it claimed deduction of ₹ 100 lacs incurred on purchase of two buildings for ₹ 50 lacs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y.2025-26. However, in February, 2026, Unit A transferred one of its buildings to Unit B.

Examine the tax implications of such transfer in the hands of Mr. Arnav. **[SM Q]**

Answer 13

Since the capital asset, in respect of which deduction of ₹ 50 lacs was claimed u/s 35AD, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in the P.Y.2025-26, the deeming provision u/s 35AD(7B) is attracted during the A.Y.2026-27.

Particulars	₹
Deduction allowed under section 35AD for A.Y.2025-26	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2025-26 [10% of ₹ 50 lacs]	5,00,000
Deemed income under section 35AD(7B)	**45,00,000**

Mr. Arnav, however, by virtue of proviso to Explanation 13 to section 43(1), can claim depreciation under section 32 on the building in Unit B for A.Y.2026-27. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

Particulars	₹
Actual cost to the assessee	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2025-26 [10% of ₹ 50 lacs]	5,00,000
Actual cost in the hands of Mr. Arnav in respect of building in its Unit B	**45,00,000**

Question 14 Pg 34(2) **[Preliminary Exps]**

First Flight Ltd. is an existing Indian Company, which sets up a new industrial unit. It incurs the following expenditure in connection with the new unit:

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

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Total	9,00,000
The following further data is given:	
Cost of project	30,00,000
Capital employed in the new unit	35,00,000

What is the deduction admissible to the company under section 35D for Assessment Year 2026-27?

Question 15 Illustration 13 **[Employer contribution towards NPS]**

Do after Salary & Deductions

X Ltd. contributes 20% of basic salary to the account of each employee under a pension scheme referred to in section 80CCD. Dearness Allowance is 40% of basic salary and it forms part of pay of the employees.

Compute the amount of deduction allowable under section 36(1)(iva), if the basic salary of the employees aggregate to ₹ 10 lakh. Would disallowance under section 40A(9) be attracted, and if so, to what extent? **[SM Q]**

Answer 15

Computation of deduction u/s 36(1)(iva) and disallowance u/s 40A(9)

Particulars	₹
Basic Salary	10,00,000
Dearness Allowance@40% of basic salary [DA forms part of pay]	4,00,000
Salary for the purpose of section 36(1)(iva) (Basic Salary + DA)	**14,00,000**
Actual contribution (20% of basic salary i.e., 20% of ₹ 10 lakh)	2,00,000
Less: Permissible deduction under section 36(1)(iva)	
(14% of basic salary plus dearness pay = 14% of ₹ 14,00,000 = ₹ 1,40,000)	**1,96,000**
Excess contribution disallowed under section 40A(9)	4,000

Question 16 Illustration 9 **[Disallowed u/s 40 – TDS not deducted]**

Delta Ltd. credited the following amounts to the account of resident payees in the month of March, 2026 without deduction of tax at source. What would be the consequence of non-deduction of tax at source by Delta Ltd. on these amounts during the financial year 2025-26, assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by Delta Ltd.?

	Particulars	Amount in ₹
(1)	Salary to its employees (credited and paid in March, 2026) 360000	12,00,000
(2)	Directors' remuneration (credited in March, 2026 and paid in April, 2026) 8400	28,000

Would your answer change if Delta Ltd. has deducted tax on directors' remuneration in April, 2026 at the time of payment and remitted the same in July, 2026? **[SM Q]**

↓ 368400 Total

Answer 16

Non-deduction of tax at source on any sum payable to a resident on which tax is deductible at source would attract disallowance u/s 40(a)(ia).

Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible u/s 192 or any sum credited or paid by way of directors' remuneration on which tax is deductible under section 194J, would attract disallowance@30% u/s 40(a)(ia). Whereas in case of

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salary, tax has to be deducted u/s 192 at the time of payment, in case of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier. Therefore, in both the cases i.e., salary and directors' remuneration, tax is deductible in the P.Y.2025-26, since salary was paid in that year and directors' remuneration was credited in that year. Therefore, the amount to be disallowed u/s 40(a)(ia) while computing business income for A.Y.2026-27 is as follows –

Particulars	Amount paid in ₹	Disallowance u/s 40(a)(ia) @30%
(1) Salary [tax is deductible under section 192]	12,00,000	3,60,000
(2) Directors' remuneration [tax is deductible under section 194J without any threshold limit]	28,000	8,400
Disallowance under section 40(a)(ia)		**3,68,400**

If the tax is deducted on directors' remuneration in the next year i.e., P.Y.2026-27 at the time of payment and remitted to the Government, the amount of ₹ 8,400 would be allowed as deduction while computing the business income of A.Y. 2027-28.

Question 17 Illustration 10 **[Disallowed u/s 40 – TDS not deducted]**

During the financial year 2025-26, the following payments/expenditure were made/ incurred by Mr. Yuvan Raja, a resident individual (whose turnover during the year ended 31.3.2025 was ₹ 99 lacs):

Do after TDS

(i) Interest of ₹ 45,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;

(ii) ₹ 10,00,000 was paid as salary to a resident individual without deduction of tax at source;

(iii) Commission of ₹ 21,000 was paid to Mr. Vidyasagar, a resident, on 2.7.2025 without deduction of tax at source.

Briefly discuss whether any disallowance arises under the provisions of section 40(a)(ia) of the Income-tax Act, 1961 assuming that the payees in all the cases mentioned above, have not paid the tax, if any, which was required to be deducted by Mr. Raja? [SM Q]

Answer 17

Disallowance under section 40(a)(ia) of the Income-tax Act, 1961 is attracted where the assessee fails to deduct tax at source as is required under the Act, or having deducted tax at source, fails to remit the same to the credit of the Central Government within the stipulated time limit.

(i) The obligation to deduct tax at source from interest paid to a resident arises under section 194A in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y.2024-25 exceeds ₹ 1 crore.

Thus, in present case, since the turnover of the assessee is less than ₹ 1 crore, he is not liable to deduct tax at source. Hence, disallowance under section 40(a)(ia) is not attracted in this case.

(ii) The disallowance of 30% of the sums payable under section 40(a)(ia) would be attracted in respect of all sums on which tax is deductible under Chapter XVII-B. Section 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII-B. The obligation to deduct tax at source under section 192 arises, in the hands all assessee-employer even if the turnover amount does not exceed ₹ 1 crore in the immediately preceding previous year.

Therefore, in the present case, the disallowance under section 40(a)(ia) is attracted for failure to deduct tax at source under section 192 from salary payment. However, only 30% of the amount of salary paid without deduction of tax at source would be disallowed.

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(iii) The obligation to deduct tax at source under section 194-H from commission paid in excess of ₹ 20,000 to a resident arises in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y.2024-25 exceeds ₹ 1 crore. Thus, in present case, since the turnover of the assessee is less than ₹ 1 crore, he is not liable to deduct tax at source u/s 194-H. Mr. Raja is not required to deduct tax at source u/s 194M also since the aggregate of such commission to Mr. Vidyasagar does not exceed ₹ 50 lakh during the P.Y. 2025-26. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

Question 18 Pg 107(2) Illustration 12 **[Partnership Firm – Remuneration and Interest allowability]**

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

(1) Salary of ₹ 40,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership). 40000 x 2 x 12 = 960000

(2) Depreciation on plant and machinery under section 32 (computed) ₹ 1,50,000.

(3) Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest is ₹ 5,00,000. x 12% = 60,000

Compute:

(i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.

(ii) Allowable working partner salary for the A.Y. 2026-27 as per section 40(b).

Question 19 Pg 105(2) [Partnership Firm – Remuneration & Interest Allowabi LDR

A firm comprising of four partners A, B, C and D carrying on business in partnership, sharing profits/ losses equally shows a profit of ₹ 7,00,000 in its books after deduction of the following amounts for the year :

Particulars	Amt.
(a) Remuneration to partner 'A' who is not actively engaged in business	60,000
(b) Remuneration to partners 'B' & 'C' actively engaged in business	
Partner 'B'	80,000
Partner 'C'	90,000
(c) Interest to partner 'D' on loan of 1,50,000	36,000

The deed of partnership provides for the payment of above remuneration and interest to partners. You are required to work out the taxable income of the firm as well as partners for assessment year 2026-27.

Question 20 Illustration 14 **[Disallowance due to section 43B]**

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

		₹
(i)	Andhra Pradesh State Financial Corporation (P.Y. 2024-25 & 2025-26)	15,00,000
(ii)	Indian Bank (P.Y. 2025-26)	30,00,000
		45,00,000

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2025-26, converted the above interest payable by Hari to them as a loan repayable in 60

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equal installments. During the year ended 31.3.2026, Hari paid 5 installments to APSFC and 3 installments to Indian Bank.

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

Answer 20

According to section 43B, any interest payable on the term loans to specified financial institutions and any interest payable on any loans and advances to, *inter alia,* scheduled banks shall be allowed only in the year of payment of such interest irrespective of the method of accounting followed by the assessee. Where there is default in the payment of interest by the assessee, such unpaid interest may be converted into loan. Such conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose of section 43B. The amount of unpaid interest so converted as loan shall be allowed as deduction only in the year in which the converted loan is actually paid.

In the given case of Hari, the unpaid interest of ₹ 15,00,000 due to APSFC and of ₹ 30,00,000 due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion. Hence, claim of Hari that the entire interest of ₹ 45,00,000 is to be allowed as deduction in the year of conversion is not tenable. The deduction shall be allowed only to the extent of repayment made during the financial year. Accordingly, the amount of interest eligible for deduction for the A.Y.2026-27 shall be calculated as follows:

	Interest outstanding	Number of Instalments	Amount per instalment	Instalments paid	Interest allowable (₹)
APSFC	15 lakh	60	25,000	5	1,25,000
Indian Bank	30 lakh	60	50,000	3	1,50,000
Total amount eligible for deduction					**2,75,000**

Question 21 Illustration 15 **[Sec 44AA Maintenance of BOA]**

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

Particulars	₹
Financial year 2022-23	1,15,000
Financial year 2023-24	1,80,000
Financial year 2024-25	2,10,000

What is his obligation regarding maintenance of books of accounts for Assessment Year 2026-27 under section 44AA of Income-tax Act, 1961? **[SM Q]**

Answer 21

Section 44AA(1) requires every person carrying on any profession, notified by the Board in the Official Gazette (in addition to the professions already specified therein), to maintain such books of account and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of the Income-tax Act, 1961.

As per Rule 6F, a person carrying on a notified profession shall be required to maintain specified books of accounts:

(i) if his gross receipts in all the three years immediately preceding the relevant previous year has exceeded ₹ 1,50,000; or

(ii) if it is a new profession which is setup in the relevant previous year, it is likely to exceed ₹ 1,50,000 in that previous year.

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In the present case, Vinod is a person carrying on profession as film artist, which is a notified profession. Since his gross receipts have not exceeded ₹ 1,50,000 in financial year 2022-23, the requirement under section 44AA to compulsorily maintain the prescribed books of account is not applicable to him.

Mr. Vinod, however, required to maintain such books of accounts as would enable the Assessing Officer to compute his total income.

Question 22 LDR Illustration 16 [Sec 44AD Presumptive PGBP]

Mr. Praveen engaged in retail trade, reports a turnover of ₹ 2,98,50,000 for the financial year 2025-26. Amount received in cash during the P.Y. 2025-26 is ₹ 14,00,000 and balance through prescribed electronic modes on or before 31st July 2026. His income from the said business as per books of account is ₹ 15,00,000 computed as per the provisions of Chapter IV-D "Profits and gains from business or Profession" of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. A.Y. 2025-26 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 44AD.

(i) Is Mr. Praveen also eligible for presumptive determination of his income chargeable to tax for the assessment year 2026-27?

(ii) If so, determine his income from retail trade as per the applicable presumptive provision.

(iii) In case Mr. Praveen wants to declare profits as per books of account from retail trade, what are his obligations under the Income-tax Act, 1961?

(iv) What is the due date for filing his return of income under both the options?

Answer 22

(i) Yes. Since his cash receipts during the P.Y. does not 5% of the total turnover (14,00,000/2,98,50,000 x 100) and his total turnover for the F.Y.2025-26 is below ₹ 300 lakhs, he is eligible for presumptive taxation scheme under section 44AD in respect of his retail trade business.

(ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be ₹ 18,19,000 (₹ 1,12,000, being 8% of ₹ 14,00,000 + ₹ 17,07,000, being 6% of ₹ 2,84,50,000).

(iii) Mr. Praveen had declared profit for the previous year 2024-25 in accordance with the presumptive provisions and if he wants to declare profits as per books of account which is lower than the presumptive income for any of the five consecutive assessment years i.e., A.Y. 2026-27 to A.Y. 2030-31, he would not be eligible to claim the benefit of presumptive taxation for five assessment years subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance the presumptive provisions i.e. if he declares profits lower than the presumptive income in say P.Y. 2025-26 relevant to A.Y.2026-27, then he would not be eligible to claim the benefit of presumptive taxation for A.Y. 2027-28 to A.Y. 2031-32.

Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.

(iv) In case he declares presumptive income under section 44AD, the due date would be 31st July, 2026.

In case he declares profits as per books of account which is lower than the presumptive income, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2026.

Question 23 [Sec 44AD Presumptive PGBP]

Mr. Ayaansh (aged 35 years), a resident individual, is a dealer of garments. During the previous year 2025-26, total turnover of his business was ₹ 105 lakhs (out of which ₹ 15 lakhs was received by way of account payee cheques and balance in cash). Mr. Ayaansh does not opt to pay tax as per the provisions of section 115BAC.

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What would be your advice to Mr. Ayaansh relating to the provisions of advance tax with its due date along with the amount payable, assuming that he wishes to make maximum tax savings without getting his books of account audited. **[RTP N-21 Q]**

Answer 23

Computation of advance tax of Mr. Ayaansh under Presumptive scheme as per section 44AD

The total turnover of Mr. Ayaansh, a dealer of garments, is ₹ 105 lakhs. Since his total turnover from such business is less than ₹ 200 lakhs and he does not wish to get his books of account audited, he can opt for presumptive tax scheme under section 44AD.

Profits and gains from business computed under section 44AD:

Particulars	₹
6% of ₹ 15 lakhs, being turnover effected through account payee cheque	90,000
8% of ₹ 90 lakhs, being cash turnover	7,20,000
	8,10,000

An eligible assessee opting for computation of profits and gains of business on presumptive basis under section 44AD in respect of eligible business is required to pay advance tax of the whole amount on or before 15th March of the financial year.

Computation of tax liability of Mr. Ayaansh as per normal provisions of Income-tax Act, 1961

Particulars	Amount in ₹	
Total Income	8,10,000	
Tax on 8,10,000		
Upto₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000@5%	12,500	
₹ 5,00,001 – ₹ 8,10,000@20%	62,000	74,500
Add: Health and Education cess@4%		2,980
Tax liability		77,480

Accordingly, he is required to pay advance tax of ₹ 77,480 on or before 15th March of the financial year. However, any amount by way of advance tax on or before 31st March of the financial year shall also be treated as advance tax paid during the financial year ending on that day for all the purposes of the Act.

Question 24 Pg 99(2) Illustration 17 **[Sec 44AE Presumptive PGBP]**

Mr. X commenced the business of operating goods vehicles on 1.4.2025. He purchased the following vehicles during the P.Y.2025-26. Compute his income under section 44AE for A.Y.2026-27.

	Gross Vehicle Weight (in kilograms)		Number	Date of purchase
(1)	OV	7,000 7500 X 2 X 12 =	180000 2	10.04.2025
(2)	OV	6,500 7500 X 1 X 1 =	7500 1	15.03.2026
(3)	OV	10,000 7500 X 3 X 9 =	202500 3	16.07.2025
(4)	OV	11,000 7500 X 1 X 3 =	22500 1	02.01.2026
(5)	HV	15,000 15000 X 2 X 8 =	240000 2	29.08.2025
(6)	HV	15,000 15000 X 1 X 2 =	30000 1	23.02.2026

Would your answer change if the goods vehicles purchased in April, 2025 were put to use only in July, 2025? 692500 10 **[SM Q]**

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Answer 24

Since Mr. X does not own more than 10 vehicles at any time during the previous year 2025-26, he is eligible to opt for presumptive taxation scheme under section 44AE. ₹ 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1) Number of Vehicles	(2) Date of purchase	(3) No. of months for which vehicle is owned	(4) No. of months × No. of vehicles [(1) × (3)]
For Heavy goods vehicle			
2	29.08.2025	8	16
1	23.02.2026	2	2
			18
For goods vehicle other than heavy goods vehicle			
2	10.4.2025	12	24
1	15.3.2026	1	1
3	16.7.2025	9	27
1	02.1.2026	3	3
			55

The presumptive income of Mr. X under section 44AE for A.Y.2026-27 would be - ₹ 6,82,500, i.e., 55 × ₹ 7,500 (being for other than heavy goods vehicle) + 18 x ₹ 1,000 x 15 ton (being for heavy goods vehicle).

The answer would remain the same even if the two vehicles purchased in April, 2025 were put to use only in July, 2025, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

Question 25 Practical Q-8. **[Sec 44AE Presumptive PGBP]**

Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2025, he owns 10 trucks (out of which 6 are heavy goods vehicles, the gross vehicle weight of such goods vehicle is 15,000 kg each). On 2nd May, 2025, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6th May, 2025. This new vehicle could however be put to use only on 15th June, 2025. → No use

Compute the total income of Mr. Sukhvinder for the assessment year 2026-27, taking note of the following data: **[SM Q]**

Particulars	₹	₹
Freight charges collected		12,70,000
Less : Operational expenses	6,25,000	
Depreciation as per section 32	1,85,000	
Other office expenses	15,000	8,25,000
Net Profit		4,45,000

5 Heavy X 15000 X 12 = 900000 • • = 1372500

1 HV X 15000 X 2 m = 30000 • 1 other X 7500 X 11m = 82500 •
4 other X 7500 X 12 m = 360000 •

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Other business and non-business income		70,000

Answer 25

Section 44AE would apply in the case of Mr. Sukhvinder since he is engaged in the business of plying goods carriages and owns not more than ten goods carriages at any time during the previous year.

Section 44AE provides for computation of business income of such assessees on a presumptive basis. The income shall be deemed to be ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by the assessee in the previous year or such higher sum as declared by the assessee in his return of income.

Mr. Sukhvinder's business income calculated applying the provisions of section 44AE is ₹ 13,72,500 **(See Notes 1 & 2 below)** and his total income would be ₹ 14,42,500.

However, as per section 44AE(7), Mr. Sukhvinder may claim lower profits and gains if he keeps and maintains proper books of account as per section 44AA and gets the same audited and furnishes a report of such audit as required under section 44AB. If he does so, then his income for tax purposes from goods carriages would be ₹ 4,45,000 instead of ₹ 13,72,500 and his total income would be ₹ 5,15,000.

Notes:

1. Computation of total income of Mr. Sukhvinder for A.Y. 2026-27

Particulars	Presumptive income ₹	Where books are maintained ₹
Income from business of plying goods carriages **[See Note 2 Below]**	13,72,500	4,45,000
Other business and non-business income	70,000	70,000
Total Income	14,42,500	5,15,000

2. Calculation of presumptive income as per section 44AE

Type of carriage	No. of months	Rate per ton per month/per month	Ton	Amount ₹
(1)	(2)		(3)	(4)
Heavy goods vehicle				
1 goods carriage upto 1st May	2	1,000	15 (15,000/ 1,000)	30,000
5 goods carriage held throughout the year	12	1,000	15 (15,000/ 1,000)	9,00,000
Goods vehicle other than heavy goods vehicle				
1 goods carriage from 6th May	11	7,500	-	82,500
4 goods carriage held throughout the year	12	7,500	-	3,60,000
			Total	**13,72,500**

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Question 26 LDR

[Sec 44AE Presumptive PGBP]

Mr. Yogesh is in the business of operating goods vehicles. As on 1st April, 2025, he had the following vehicles: **[Exam N-19 Q]**

Vehicle	Gross Vehicle Weight (in Kgs.)	Date of Purchase	Put to use during F.Y. 2025-26?
A	9000	2-6-2024	Yes
B	15000	15-5-2024	Yes
C	12000	4-8-2024	No (as under repairs)

During P.Y. 2025-26, he purchased the following vehicles:

Vehicle	Gross Vehicle Weight (in Kgs.)	Date of Purchase	Date on which put to use
D	11500	20-4-2025	10-5-2025
E	14000	15-5-2025	18-5-2025

Compute his income under section 44AE of the Income-tax Act, 1961 for A.Y. 2026-27.

Answer 26

Since Mr. Yogesh does not own more than 10 vehicles at any time during the previous year 2025-26, he is eligible to opt for presumptive taxation scheme under section 44AE. As per section 44AE, ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be , per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

Calculation of presumptive income as per section 44AE

Type of carriage	No. of months the vehicle is owned by Mr. Prakash	Rate per ton per month	Ton	Amount ₹
(1)	(2)	(3)	(4)	(5) [(2) x (3) x (4)]
Heavy goods vehicle				
Vehicle B (15,000 kgs) held throughout the year	12	₹ 1,000	15 (15,000/1,000)	1,80,000
Vehicle E (14,000kgs) purchased on 15.5.2025	11	₹ 1,000Rate per month	14 (14,000/1,000)	1,54,000
Goods vehicles other than heavy goods vehicle				
Vehicle A held throughout the year	12	₹ 7,500	-	90,000
Vehicle C held throughout the year	12	₹ 7,500	-	90,000
Vehicle D purchased on	12	₹ 7,500	-	90,000

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20.4.2025				
			Total	6,04,000

The "put to use" date of the vehicle is not relevant for the purpose of computation of presumptive income under section 44AE, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. Yogesh.

Question 27 practical Q.3. **[Misc Exps allowability]**

Examine with reasons, the allowability of the following expenses incurred by Mr. Manav, a wholesale dealer of commodities, under the Income-tax Act, 1961 while computing profit and gains from business or profession for the Assessment Year 2026-27.

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

(ii) Purchase of building for the purpose of specified business of setting up and operating a warehousing facility for storage of food grains amounting to ₹ 4,50,000.

(iii) Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted. The sales for the previous year 2024-25 was ₹ 202 lakhs. Mr. X has not paid the tax, if any, on such interest.

(iv) Commodities transaction tax paid ₹ 20,000 on sale of bullion. **[SM Q]**

Answer 27

Allowability of the expenses incurred by Mr. Manav, a wholesale dealer in commodities, while computing profits and gains from business or profession

(i) Construction of school building in compliance with CSR activities

Under section 37(1), only expenditure not being in the nature of capital expenditure or personal expense and not covered under sections 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income.

However, any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall **not** be allowed as deduction under section 37.

Accordingly, the amount of ₹ 5,60,000 incurred by Mr. Manav, towards construction of school building in compliance with CSR activities shall **not** be allowed as deduction under section 37.

(ii) Purchase of building for setting up and operating a warehousing facility for storage of food grains

Mr. Manav, would be eligible for investment-linked tax deduction under section 35AD @100% in respect of amount of ₹ 4,50,000 invested in purchase of building for setting up and operating a warehousing facility for storage of food grains which commences operation on or after 1st April, 2009 (P.Y.2025-26, in this case), if Mr. Manav does not opt for section 115BAC.

Therefore, the deduction u6nder section 35AD while computing business income of such specified business would be ₹ 4,50,000, if Mr. Manav opts for section 35AD.

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

As per section 194A, Mr. Manav, being an individual is required to deduct tax at source on the amount of interest on loan paid to Mr. X, since his turnover during the previous year 2024-25 exceeds ₹ 100 lacs.

Therefore, ₹ 15,000, being 30% of ₹ 50,000, would be disallowed under section 40(a)(ia) while computing the business income of Mr. Manav for non-deduction of tax at source under section 194A on interest of ₹ 50,000 paid by it to Mr. X.

The balance ₹ 35,000 would be allowed as deduction under section 36(1)(iii), assuming that the amount was borrowed for the purposes of business.

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(iv) Commodities transaction tax of ₹ 20,000 paid on sale of bullion Commodities transaction tax paid in respect of taxable commodities transactions entered into in the course of business during the previous year is allowable as deduction, provided the income arising from such taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession".

Taking that income from this commodities transaction is included while computing the business income of Mr. Manav, the commodity transaction tax of ₹ 20,000 paid is allowable as deduction under section 36(1)(xvi).

Question 28 Practical Q.4. **[Misc Exps allowability]**

Examine with reasons, for the following sub-divisions, whether the following statements are true or false having regard to the provisions of the Income-tax Act, 1961:

(i) For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.

(ii) Where a person follows mercantile system of accounting, an expenditure of ₹ 25,000 has been allowed on accrual basis and in a later year, in respect of the said expenditure, assessee makes the payment of ₹ 25,000 through a crossed cheque, ₹ 25,000 can be the profits and gains of business under section 40A(3A) in the year of payment.

(iii) It is mandatory to provide for depreciation under section 32 of the Income-tax Act, 1961, while computing income under the head "Profits and Gains from Business and Profession".

(iv) The mediclaim premium paid to GIC by Mr. Lomesh for his employees, by a draft, on 27.12.2025 is a deductible expenditure under section 36.

(v) Under section 35DDA, amortization of expenditure incurred under eligible Voluntary Retirement Scheme at the time of retirement alone, can be done.

(vi) An individual engaged in trading activities and exercising the option of shifting out of the default tax regime provided u/s 115BAC(1A) can claim additional depreciation under section 32(1)(iia) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%. **[SM Q]**

Answer 28

(i) True: Section 36(1)(xv) allows a deduction of the amount of securities transaction tax paid by the assessee in respect of taxable securities transactions entered into in the course of business during the previous year as deduction from the business income of a dealer in shares and securities.

(ii) True: As per section 40A(3A), in the case of an assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any previous year on due basis, and payment exceeding ₹ 10,000 has been made in the subsequent year otherwise than by an account payee cheque or an account payee bank draft or use of ECS through a bank account or through such other prescribed electronic modes such as credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, and BHIM Aadhar Pay, then, the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.

(iii) True: According to the Explanation 5 to section 32(1), allowance of depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating income from business/ profession whether or not the assessee has claimed the same while computing his total income.

(iv) True: Section 36(1)(ib) provides deduction in respect of premium paid by an employer to keep in force an insurance on the health of his employees under a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction under section 36(1)(ib).

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(v) **False:** Expenditure incurred in making payment to the employee in connection with his voluntary retirement either in the year of retirement or in any subsequent year, will be entitled to deduction in 5 equal annual installments beginning from the year in which each payment is made to the employee.

(vi) **False**: Additional depreciation can be claimed only in respect of eligible plant and machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation or transmission or distribution of power.

In this case, the assessee is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, the assessee will not be entitled to claim additional depreciation under section 32(1)(iia).

Question 29 Practical Q.5. [Misc Exps allowability]

Examine, with reasons, the allowability of the following expenses under the Income-tax Act, 1961 while computing income from business or profession for the Assessment Year 2026-27:

(i) Provision made on the basis of actuarial valuation for payment of gratuity ₹ 5,00,000. However, no payment on account of gratuity was made before due date of filing return.

(ii) Purchase of oil seeds of ₹ 50,000 in cash from a farmer on a banking day.

(iii) Tax on non-monetary perquisite provided to an employee ₹ 20,000.

(iv) Payment of ₹ 50,000 by using credit card for fire insurance.

(v) Salary payment of ₹ 4,00,000 to Mr. X outside India by a company without deduction of tax assuming Mr. X has not paid tax on such salary income.

(vi) Payment made in cash ₹ 30,000 to a transporter in a day for carriage of goods

[SM Q]

Answer 29

(i) **Not allowable as deduction:** As per section 40A(7), no deduction is allowed in computing business income in respect of any provision made by the assessee in his books of account for the payment of gratuity to his employees except in the following two cases:

(1) where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund; or

(2) where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the previous year.

Therefore, in the present case, the provision made on the basis of actuarial valuation for payment of gratuity has to be disallowed under section 40A(7), since, no payment has been actually made on account of gratuity.

Note: It is assumed that such provision is not for the purpose of contribution towards an approved gratuity fund.

(ii) **Allowable as deduction:** As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance under section 40A(3) is attracted even though the cash payment for the expense exceeds ₹ 10,000.

Therefore, in the given case, disallowance under section 40A(3) is not attracted since, cash payment for purchase of oil seeds is made directly to the farmer.

(iii) **Not allowable as deduction:** Income-tax of ₹ 20,000 paid by the employer in respect of non-monetary perquisites provided to its employees is exempt in the hands of the employee under section 10(10CC).

As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.

(iv) **Allowable as deduction:** Payment for fire insurance is allowable as deduction under section

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36(1). Since payment is made by credit card, which is a prescribed electronic mode, disallowance under section 40A(3) is not attracted in this case.

(v) **Not allowable as deduction:** Disallowance under section 40(a)(iii) is attracted in respect of salary payment of ₹ 4,00,000 outside India by a company without deduction of tax at source.

(vi) **Allowable as deduction:** The limit for attracting disallowance under section 40A(3) for payment otherwise than by way of account payee cheque or account payee bank draft or use of ECS through a bank account or through such other prescribed electronic mode is ₹ 35,000 in case of payment made for plying, hiring or leasing goods carriage. Therefore, in the present case, disallowance under section 40A(3) is not attracted for payment of ₹ 30,000 made in cash to a transporter for carriage of goods.

Question 30 Practical Q·6. [Misc Exps allowability]

Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

(a) Payment made in respect of a business expenditure incurred on 16th February, 2026 for ₹ 25,000 through a crossed cheque is hit by the provisions of section 40A(3). Disallow

(b) (i) It is a condition precedent to write off in the books of account, the amount due from debtor to claim deduction for bad debt.

(ii) Failure to deduct tax at source in accordance with the provisions of Chapter XVII-B, inter alia, from the amounts payable to a non-resident as rent or royalty, will result in disallowance while computing the business income where the non-resident payee has not paid the tax due on such income. **[SM Q]**

Answer 30

(a) **True:** In order to escape the disallowance specified in section 40A(3), payment in respect of the business expenditure ought to have been made through an account payee cheque. Payment through a crossed cheque will attract disallowance under section 40A(3).

(b) (i) **True:** It is mandatory to write off the amount due from a debtor as not receivable in the books of account, in order to claim the same as bad debt under section 36(1)(vii). However, where the debt has been taken into account in computing the income of the assessee on the basis of ICDSs notified under section 145(2), without recording the same in the accounts, then, such debt shall be allowed in the previous year in which such debt becomes irrecoverable and it shall be deemed that such debt or part thereof has been written off as irrecoverable in the accounts for the said purpose. No use - Sol^n only 2 lines

(ii) **True:** Section 40(a)(i) provides that failure to deduct tax at source from, inter alia, rent or royalty payable to a non-resident, in accordance with the provisions of Chapter XVII-B, will result in disallowance of such expenditure, where the non-resident payee has not paid the tax due on such income.

Question 31 Pg 82(2) LDR Practical Q·7. [Computation of PGBP]

Mr. Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 2026:

Trading and Profit and Loss Account for the year ended 31.03.2026

Particulars	₹	Particulars	₹
To Opening stock	90,000	By Sales	1,12,11,500
To Purchases	1,10,04,000	By Closing stock	1,86,100
To Gross Profit	3,03,600		-
	1,13,97,600		1,13,97,600
To Salary	60,000	By Gross profit b/d	3,03,600

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Particulars	₹	Particulars	₹
To Rent and rates	36,000	By Income from UTI	2,400
To Interest on loan	15,000		
To Depreciation	1,05,000		
To Printing & stationery	23,200		
To Postage & telegram	1,640		
To Loss on sale of shares (Short term)	8,100		
To Other general expenses	7,060		
To Net Profit	50,000		
	3,06,000		3,06,000

Additional Information:

(i) It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:

Opening stock	₹ 9,000
Closing stock	₹ 18,000

(ii) Salary includes ₹ 10,000 paid to his brother, which is unreasonable to the extent of ₹ 2,000.

(iii) The whole amount of printing and stationery was paid in cash by way of one time payment to Mr. Ramesh.

(iv) The depreciation provided in the Profit and Loss Account ₹ 1,05,000 was based on the following information:

The opening balance of plant and machinery (i.e., the written down value as on 31.3.2025 minus depreciation for P.Y. 2024-25) is ₹ 4,20,000. A new plant falling under the same block of depreciation was bought on 01.7.2025 for ₹ 70,000. Two old plants were sold on 1.10.2025 for ₹ 50,000.

(v) Rent and rates includes GST liability of ₹ 3,400 paid on 7.4.2026.

(vi) Other general expenses include ₹ 2,000 paid as donation to a Public Charitable Trust.

You are required to compute the profits and gains of Mr. Sivam under presumptive taxation under section 44AD and profits and gains as per normal provisions of the Act assuming he has not opted for the provisions of section 115BAC. Assume that the whole of the amount of turnover received by account payee cheque or use of electronic clearing system through bank account during the previous year. **[SM Q]**

Question 32 Pg. 79(2) LDR Practical Q.9. [Computation of PGBP]

Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2026:

Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2026

Particulars	₹	Particulars	₹
To Opening Stock	71,000	By Sales	2,32,00,000
To Purchase of Raw Materials	2,16,99,000	By Closing stock	2,00,000
To Manufacturing Wages & Expenses	5,70,000		
To Gross Profit	10,60,000		

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Particulars	₹	Particulars	₹
	2,34,00,000		2,34,00,000
To Administrative charges	3,26,000	By Gross Profit	10,60,000
To SGST penalty ✗	5,000	By Dividend from domestic companies) DFOS	15,000
To GST paid ✓	1,10,000	By Income from agriculture (net)) Exempt	1,80,000
To General Expenses	54,000		
To Interest to Bank (On machinery term loan) 31.3.26 = 20000 Nov 26 = 40K	60,000		
To Depreciation	2,00,000		
To Net Profit	5,00,000		
	12,55,000		**12,55,000**

Following are the further information relating to the financial year 2025-26:

(i) Administrative charges include ₹ 46,000 paid as commission to brother of the assessee. The commission amount at the market rate is ₹ 36,000. 10K unreasonable dis-allow

(ii) The assessee paid ₹ 33,000 in cash to a transport carrier on 29.12.2025. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment) (Note dena hoga)

(iii) A sum of ₹ 4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in the books of account.

(iv) Bank term loan interest actually paid upto 31.03.2026 was ₹ 20,000 and the balance was paid in November 2026. 40K

(v) Housing loan principal repaid during the year was ₹ 50,000 and it relates to residential property acquired by him in P.Y. 2024-25 for self-occupation. Interest on housing loan was ₹ 23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above. HP (11SBAC → no deduction)

(vi) Depreciation allowable under the Act is to be computed on the basis of following information:

Plant & Machinery (Depreciation rate @ 15%)	₹
WDV (as on 31.03.2025) 1130000	14,00,000
Less: Depreciation for P.Y. 2024-25	2,10,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000

Compute the total income of Mr. Raju for the assessment year 2026-27 assuming he paid taxes under default tax.

Note: Ignore application of section 14A for disallowance of expenditures in respect of any exempt income. **[SM Q]**

Question 33 Practical Q.10. **[Party agriculture and Party Business Income]**

Mr. Tenzingh is engaged in composite business of growing and curing (further processing) coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.3.2026 are given below: 25:1. Business

25:1. Agriculture

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Particulars	₹
Opening balance of car (only asset in the block) as on 1.4.2025 (i.e. WDV as on 31.3.2025 (-) depreciation for P.Y. 2024-25)	3,00,000
Opening balance of machinery as on 1.4.2025 (i.e., WDV as on 31.3.2025 (-) depreciation for P.Y. 2024-25)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

Besides being used for agricultural operations, the car is also used for personal use; disallowance for personal use may be taken at 20%. The expenses incurred for car running and maintenance are ₹ 50,000. The machines were used in coffee curing business operations.

Compute the income arising from the above activities for the A.Y. 2026-27. **[SM Q]**

Answer 33

Where an assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income, as per Rule 7B of the Income-tax Rules, 1962.

As per the above Rule, income derived from sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax. The balance 75% will be treated as agricultural income.

Particulars	₹	₹	₹
Sale value of cured coffee			22,00,000
Less: Expenses for growing coffee		3,10,000	
Car expenses (80% of ₹ 50,000)		40,000	
Depreciation on car (80% of 15% of ₹ 3,00,000) **[See Computation below]**		36,000	
Total cost of agricultural operations		3,86,000	
Expenditure for coffee curing operations	3,00,000		
Add: Depreciation on machinery (15% of ₹ 15,00,000) **[See Computation below]**	2,25,000		
Total cost of the curing operations		5,25,000	
Total cost of composite operations			9,11,000
Total profits from composite activities			**12,89,000**
Business income (25% of above)			3,22,250
Agricultural income (75% of above)			9,66,750

Computation of depreciation for P.Y. 2025-26

Particulars	₹	₹
Car		
Opening balance as on 1.4.2025 (i.e., WDV as on 31.3.2025 (-) depreciation for P.Y.2024-25)		3,00,000

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Depreciation thereon at 15%	45,000	
Less: Disallowance @20% for personal use	9,000	
Depreciation actually allowed		36,000
Machinery		
Opening balance as on 1.4.2025 (i.e., WDV as on 31.3.2025 (-) depreciation for P.Y.2024-25)		15,00,000
Depreciation @ 15% for P.Y. 2025-26		2,25,000

Explanation 7 to section 43(6) provides that in cases of 'composite income', for the purpose of computing written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire composite income of the assessee (and not just 25%) is chargeable under the head "Profits and gains of business or profession". The depreciation so computed shall be deemed to have been "actually allowed" to the assessee.

Study Material Questions not included here :

Illustration 11 → Module Pg 3.276
Illustration 18 → Module Pg 3.316
Practical Q.11 → Module Pg 3.348
Practical Q.12 → Module Pg 3.348
Practical Q.13 → Module Pg 3.349

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CHAPTER

Total = 37 Questions

Capital Gain

6

Question 1 [Capital Asset]

A is the owner of a car. On 1-4-2025, he starts a business of purchase and sale of motor car ₹ He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31-3-2026 and gets a profit of ₹ 1 lakh. Discuss the tax implication in his hands under the head "Capital gains". [SM Q.]

Answer 1

Since car is a personal asset, conversion or treatment of the same as the stock-in- trade of his business will not be trapped by the provisions of section 45(2). Hence, A is not liable to capital gains tax.

Question 2 Pg 153 [CG Calculation]

Mr. A purchased a property during 03-04 for ₹ 3,50,000. He spent ₹ 2,00,000 on Improvement during 2004-05. The property was sold by for ₹ 37 lacs on 12th July, 2024 (Brokerage 2%). Compute Capital Gains.

Question 3 Pg 194 [COA in case of Asset Acquired before 1/4/01]

Mr. C purchases a house property for ₹1,06,000 on May 15, 1975. The following expenses are incurred by him for making addition/alternation to the house property:

	Particulars	₹
(a)	Cost of construction of first floor in 1982-83 Ignore	3,10,000
(b)	Cost of construction of the second floor in 2002-03	7,35,000
(c)	Reconstruction of the property in 2012-13	5,50,000

Fair market value of the property on April 1, 2001 is ₹ 8,50,000 and stamp duty value on the said date was ₹ 8,10,000. The house property is sold by Mr. C on July 10, 2025 for ₹ 68,00,000 (expenses incurred on transfer: ₹ 50,000). Compute the capital gain for the assessment year 2026-27.

Question 4 Pg 158 [Conversion of capital asset into SIT]

X converts his capital asset (acquired on June 10, 2004 for ₹ 60,000) into stock-in- trade on March 10, 2024. The fair market value on the date of the above conversion was ₹ 5,50,000. He subsequently sells the stock-in-trade so converted for ₹ 6,00,000 on June 10, 2025. Discuss the year of chargeability of capital gain and business income. [SM Q.]

Question 5 Pg 159 [Conversion of capital Assets into SIT]

LDR

Preeti purchased a Land at a cost of ₹ 10 Lakhs in the Financial Year 1982-83 and held the same as her Capital Asset till 31st March, 2010. Preeti started her real estate business on 01st April, 2010 and converted the said land into Stock-in-Trade of her business on the said date, when the fair market value of the land was ₹ 150 Lakhs. FMV of land as on 1/4/2001 is 9.3 lacs.

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She constructed 20 Flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 8 Lakhs. Construction was completed in December 2025. She sold 15 Flats at ₹ 20 Lakhs per Flat between January, 2026 and March 2026. The remaining 5 flats were held in stock as on 31st March, 2026.

Compute the amount of chargeable Capital Gain and Business Income in the hands of Preeti arising from the transactions for A.Y. 2026-27 indication clearly the reasons for treatment for each item.

Question 6 Pg 214 **[Conversion of capital Assets into SIT]**

LDR

Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the financial year 2004-05 and held the same as her capital asset till 20th March, 2024.

She started her real estate business on 21st March, 2024 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 210 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 10 lakhs. Construction was completed in February, 2026. She sold 10 flats at ₹ 30 lakhs per flat in March, 2026. The remaining 5 flats were held in stock as on 31st March, 2026.

She invested ₹ 50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2026 and another₹ 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2026.

Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harshita arising from the above transactions for Assessment Year 2026-27 indicating clearly the reasons for treatment for each item.

Question 7 Pg 166 **[Compulsory Acquisition of Capital Asset]**

The house property of Navin is compulsory acquired by the Govt. on March 10, 2010. The Govt. award ₹ 14,00,000 in the first instance (out of which 10,000 is received on April 12, 2025 and the balance ₹ 13,90,000 is received on May 10, 2026). Navin purchased the house in 2001-02 for ₹ 2,00,000. On the appeal of Navin the high court increase the compensation to ₹ 16,50,000 (Expenditure in court's proceedings ₹ 6,000). The additional compensation of ₹ 2,50,000 is received on May 6, 2027. Find out the capital gain chargeable to tax.

Question 8 Pg 167 **[Compulsory Acquisition of Capital Asset]**

The Government compulsorily acquired land of Mr. Shivam in April 2021 and paid compensation of ₹ 20 lakhs in June 2025. The land was acquired by Mr. Shivam in June 2004 for ₹ 12 lakhs. He had filed for additional compensation through Court and was awarded ₹ 18 Lakhs in February 2026 but this amount was received only during May 2026. Compute the taxable capital gain from the above transaction indicating the relevant assessment year. Expenses in connection with compulsory acquisition were ₹ 30,000 and for obtaining enhancement of compensation was ₹ 1 lakh

Question 9 Pg 195 **[Destruction of Capital Asset]**

The Assessee was a Company carrying on business of manufacture and sale of Art-Silk cloth. It purchased Machinery worth ₹4 Lakhs on 1.5.2007 and insured it with United India Assurance Ltd. against Fire, Flood, Earthquake, etc. The written down value of the asset as on 01.04.2025 was ₹2,08,800. The Insurance policy contained a re-instatement clause requiring the insurance company to pay the value of the machinery, as in the date of the fire,

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etc., in case of destruction of loss. A fire broke out in August 2025 causing extensive damage to the machinery of the Assessee rendering them totally useless. The Assessee company received a sum of ₹6 Lakhs from the Insurance Company on 15th March, 2026. Discuss the issue arising on account on the transactions and their treatment.

[Bonus Shares]

Question 10 Pg 184

Ms. Usha purchases 1,000 equity shares in X Ltd., an unlisted company, at a cost of ₹ 30 per share (brokerage 1%) in January 1996. She gets 100 bonus shares in August 2000. She again gets 1,100 bonus shares by virtue of her holding in February 2006. Fair market value of the shares of X Ltd. on April 1, 2001 is ₹ 80.

On 1st May 2025, she transfers all her shares @ ₹ 200 per share (brokerage 2%).

Compute the capital gains taxable in the hands of Ms. Usha for the A.Y. 2026-27

[Right Shares]

Question 11 Pg 185

Mr. R holds 1000 shares in Star Minus Ltd., an unlisted company, acquired in the year 2001-02 at a cost of ₹75,000. He has been offered right shares the company in the month of August, 2025 at ₹160 per share, in the ratio of 2 for every 5 held. He retains 50% of the right and renounces the balance right shares in favour of Mr. Q for ₹30 per shares in September 2025. All the shares are sold by Mr. R for ₹300 per shares in January 2026 and Mr. Q sells his shares in December 2025 at ₹280 per share. What are the capital gains taxable in the hands of Mr. R and Mr. Q?

[Exempt transfer u/s 47]

Question 12

In which of the following situations capital gains tax liability does not arise?

(i) Mr. A purchased gold in 1970 for ₹ 25,000. In the P.Y. 2025-26, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was ₹ 1,00,000.

(ii) A house property is purchased by a Hindu undivided family in 1945 for ₹ 20,000. It is given to one of the family members in the P.Y. 2025-26 at the time of partition of the family. FMV on the date of partition was ₹ 12,00,000.

(iii) Mr. B purchased 50 convertible debentures for ₹ 40,000 in 1995 which are converted into 500 shares worth ₹ 85,000 in November 2025 by the company. **[SM Q.]**

Answer 12

We know that capital gains arises only when we transfer a capital asset. The liability of capital gains tax in the situations given above is discussed as follows:

(i) As per the provisions of section 47(iii), transfer of a capital asset under a gift is **not** regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

(ii) As per the provisions of section 47(i), transfer of a capital asset (being in kind) on the total or partial partition of Hindu undivided family is **not** regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

(iii) As per the provisions of section 47(x), transfer by way of conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is **not** regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

[Exempt transfer u/s 47 Reverse mortgage]

Question 13

Mr. Abhishek a senior citizen, mortgaged his residential house with a bank, under a notified reverse mortgage scheme. He was getting loan from bank in monthly installments. Mr. Abhishek did not repay the loan on maturity and hence gave possession of the house to the

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bank, to discharge his loan. How will the treatment of long-term capital gain be on such reverse mortgage transaction? **[SM Q.]**

Answer 13

Section 47(xvi) provides that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be considered as a transfer for the purpose of capital gain.

Accordingly, the mortgaging of residential house with bank by Mr. Abhishek will not be regarded as a transfer. Therefore, no capital gain will be charged on such transaction.

Further, section 10(43) provides that the amount received by the senior citizen as a loan, either in lump sum or in installment, in a transaction of reverse mortgage would be exempt from income-tax. Therefore, the monthly installment amounts received by Mr. Abhishek would not be taxable.

Question 14 **[Misc. Concepts]**

Examine, with reasons, whether the following statements are True or False.

(i) Alienation of a residential house in a transaction of reverse mortgage under a scheme made and notified by the Central Government is treated as "transfer" for the purpose of capital gains.

(ii) Zero coupon bonds of eligible corporation, held for 14 months, will be long- term capital assets.

(iii) Zero Coupon Bond means a bond on which no payment and benefits are received or receivable before maturity or redemption. **[SM Q.]**

Answer 14

(i) False: As per section 47(xvi), such alienation in a transaction of reverse mortgage under a scheme made and notified by the Central Government is not regarded as "transfer" for the purpose of capital gains.

(ii) True: Section 2(42A) defines the term 'short-term capital asset'. Under the proviso to section 2(42A), zero coupon bond held for not more than 12 months will be treated as a short-term capital asset. Consequently, such bond held for more than 12 months will be a long-term capital asset.

(iii) True: As per section 2(48), 'Zero Coupon Bond' means a bond issued by any infrastructure capital company or infrastructure capital fund or infrastructure debt fund or a public sector company, or Scheduled Bank on or after 1st June 2005, in respect of which no payment and benefit is received or receivable before maturity or redemption from such issuing entity and which the Central Government may notify in this behalf.

[Slump Sale]

Question 15 Pg 190

Mr. A is a proprietor of Akash Enterprises having 2 units. He transferred on 1.4.2025 his Unit 1 by way of slump sale for a total consideration of ₹ 25 lacs. The fair market value of the unit on 1.4.2025 is ₹ 30 lacs. Unit 1 was started in the year 2006-07. The expenses incurred for this transfer were ₹ 28,000. His Balance Sheet as on 31.3.2025 is as under:

Liabilities	Total (₹)	Assets	Unit 1(₹)	Unit 2 (₹)	Total (₹)
Own Capital	15,00,000	Building	12,00,000	2,00,000	14,00,000
Revaluation Reserve (for building of unit 1)	3,00,000	Machinery	3,00,000	1,00,000	4,00,000
Bank loan (70% for unit 1)	2,00,000	Debtors	1,00,000	40,000	1,40,000
Trade creditors (25% for unit 1)	1,50,000	Other assets	1,50,000	60,000	2,10,000

Asset ka revaluation more hoga

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Total	21,50,000	Total	17,50,000	4,00,000	21,50,000

Other information:

(i) Revaluation reserve is created by revising upward the value of the building of Unit 1.

(ii) No individual value of any asset is considered in the transfer deed.

(iii) Other assets of Unit 1 include patents acquired on 1.7.2023 for ₹ 50,000 on which no depreciation has been charged.

(iv) The value of machinery represents the written down value as per the Income tax Act, 1961.

Compute the capital gain for the assessment year 2026-27. **[SM Q.]**

[Gift from HUF]

Question 16 Pg 195

X & sons, HUF, purchased a land for ₹ 1,20,000 in the P.Y. 2002-03. In the P.Y. 2006-07, a partition took place when Mr. A, a coparcener, is allotted this plot valued at ₹ 1,50,000. In P.Y. 2007-08, he had incurred expenses of ₹ 2,35,000 towards fencing of the plot. Mr. A sells this plot of land for ₹15,00,000 on 10th December, 2025 after incurring expenses to the extent of ₹ 20,000. You are required to compute the capital gain for the A.Y.2026-27.

Question 17 Pg 176

Mr. Dinesh received a vacant site as gift from his friend in November 2005. The site was acquired by his friend for ₹ 7,00,000 in April 2002. Dinesh constructed a residential building during the year 2010-11 in the said site for ₹ 15,00,000. He carried out some further extension of the construction in the year 2012-13 for ₹ 5,00,000.

Dinesh sold the residential building for ₹ 55,00,000 in January 2026 but the State stamp valuation authority adopted ₹ 65,00,000 as value for the purpose of stamp duty.

Compute his long-term capital gain, for the assessment year 2026-27 based on the above information. 38,00,000.

Question 18 Pg 177

[Advance money forfeit]

Mr. Kay purchases a house property on April 10, 1992 for ₹ 65,000. The fair market value of the house property on April 1, 2001 was ₹ 2,70,000 & SDV as on 01/04/01 is ₹ 2,90,000. On August 31, 2003, Mr. Kay enters into an agreement with Mr. Jay for sale of such property for ₹ 3,70,000 and received an amount of ₹ 60,000 as advance. However, as Mr. Jay did not pay the balance amount, Mr. Kay forfeited the advance. In May 2008, Mr. Kay constructed the first floor by incurring a cost of ₹ 2,35,000. Subsequently, in January 2009, Mr. Kay gifted the house to his friend Mr. Dee. On February 10, 2026, Mr. Dee sold the house for ₹ 22,00,000. Compute the capital gains in the hands of Mr. Dee for A.Y.2026-27. 16,95,000

Question 19 Pg 178

[Advance money forfeit]

Mr. X purchases a house property in December 1993 for ₹ 5,25,000 and an amount of ₹ 1,75,000 was spent on the improvement and repairs of the property in March, 1997. The property was proposed to be sold to Mr. Z in the month of May, 2006 and an advance of 40,000 was taken from him. As the entire money was not paid in time, Mr. X forfeited the advance and subsequently sold the property to Mr. Y in the month of May, 2025 for ₹ 58,00,000. The fair value of the property on April 1, 2001 was ₹ 11,90,000 & SDV as on 01/04/01 is ₹ 12,90,000. What is the capital gain chargeable in the hands of Mr. X for the A.Y. 2026-27? 46,50,000

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Question 20

[Exemptions u/s 54]

Mr. Cee purchased a residential house on July 20, 2023 for ₹ 10,00,000 and made some additions to the house incurring ₹ 2,00,000 in August 2023. He sold the house property in April 2025 for ₹ 20,00,000. Out of the sale proceeds, he spent ₹ 5,00,000 to purchase another house property in September 2024.

What is the amount of capital gains taxable in the hands of Mr. Cee for the A.Y.2026-27?

[SM Q.]

Answer 20

The house is sold before 24 months from the date of purchase. Hence, the house is a short-term capital asset and no benefit of indexation would be available.

Particulars	₹
Sale consideration	20,00,000
Less: Cost of acquisition	10,00,000
Cost of improvement	2,00,000
Short-term capital gains	**8,00,000**

Note: The exemption of capital gains u/s 54 is available only in case of long-term capital asset. As the house is short-term capital asset, Mr. Cee cannot claim exemption u/s 54. Thus, the amount of taxable short-term capital gains is ₹ 8,00,000.

Question 21 Pg 198

Ravi owns a residential house which was purchased by him in 1975 for ₹ 80,000. The FMV as on 1.4.01 was ₹ 2,00,000 & SDV as on 01/04/01 is ₹ 1,90,000. This house is sold by him on 16.7.2025 for a consideration of ₹ 27,00,000. The brokerage and expenses on transfer was ₹ 15,000. Compute capital gains for the assessment year 2026-27. If he invests ₹ 5,00,000 for purchase of a new house on 15.3.2026. If the HP so purchased in 15.3.2026 is again sold in 21.10.26 for ₹ 9 lacs, what will be the capital gain?

Question 22 Pg 199

Mr. Roy owned a residential house in Noida. It was acquired on 09.09.2012 for ₹ 30,00,000. He sold it for ₹ 1,57,00,000 on 07.01.2023.

Mr. Roy utilized the sale proceeds of the above property to acquire a residential house in Panchkula for ₹ 2,05,00,000 on 20.07.2023. The said house property was sold on 31.10.2025 and he purchased another residential house at delhi for 2,57,00,000 on 02.03.26. The property at Panchkula was sold for ₹ 3,25,00,000.

Calculate capital gains chargeable to tax for the assessment year 2023-24 and 2026-27. All working should form part of your answer.

Question 23 Pg 203

On 16th January 2026, Suman sold agricultural land for ₹ 22 lacs. He incurred selling expenses for ₹50,000. Compute capital gains, If the land sold, was purchased on 1st February 2006 for ₹ 2 lacs, and the land was used for agricultural purposes by his mother. He again purchased agricultural land of ₹ 8 lacs on 25th January 2026. Amount deposited in a scheduled bank under "Capital Gains Deposit Scheme ₹ 4 lacs on 6th April 2026.

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Question 24 Pg 205

PQR Ltd., purchased a land for industrial undertaking in May 2004, at a cost of ₹ 3,50,000. The above property was compulsorily acquired by the State Government at a compensation of ₹ 14,00,000 in the month of January, 2026. The compensation was received in February, 2026. The company purchased another land for its industrial undertaking at a cost of ₹ 2,00,000 in the month of March, 2026. What is the amount of the capital gains chargeable to tax in the hands of the company for the A.Y. 2026-27?

Question 25 Pg 210

From the following particulars, compute the taxable capital gains of Mr. D for A.Y.2026-27

Cost of jewellery [Purchased in F.Y.2004-05]	₹ 2,52,000
Sale price of jewellery sold in January 2026	₹ 11,50,000
Expenses on transfer	₹ 7,000
Residential house purchased in March 2025	₹ 5,00,000

Question 26

Mr. Selvan, acquired a residential house in January, 2002 for ₹ 10,00,000 and made some improvements by way of additional construction to the house, incurring expenditure of ₹ 2,00,000 in October, 2005. He sold the house property in October, 2026 for ₹ 75,00,000. The value of property was adopted as ₹ 80,00,000 by the State stamp valuation authority for registration purpose. He acquired a residential house in January, 2026 for ₹ 25,00,000. He deposited ₹ 20,00,000 in capital gains bonds issued by National Highways Authority of India (NHAI) in June, 2026 Compute the capital gain chargeable to tax for the assessment year 2026-27.

What would be the tax consequence and in which assessment year it would be taxable, if the house property acquired in January, 2026 is sold for ₹ 40,00,000 in March, 2027?

Question 27 Pg 207

Mr. Rahul transferred a vacant site on 28.10.2025 for ₹ 100 lakhs. The site was acquired for ₹ 9,99,300 on 30.6.2004. He invested ₹ 50 lakhs in eligible bonds issued by Rural Electrification Corporation Ltd. (RECL) on 20.3.2026. Again, he invested ₹ 20 lakhs in eligible bonds issued by National Highways Authority of India (NHAI) on 16.4.2026.

Compute the chargeable capital gain in the hands of Rahul for the A.Y. 2026-27.

Question 28 Pg 228 [Bonus Shares]

Mr. Mithun purchased 100 equity shares of M/s Goodmoney Co. Ltd. on 01- 04-2007 at rate of ₹ 1,000 per share in public issue of the company by paying securities transaction tax.

Company allotted bonus shares in the ratio of 1:1 on 01.12.2024. He has also received dividend of ₹ 10 per share on 01.05.2025.

He has sold all the shares on 01.10.2025 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02%.

Compute his total income and tax liability for A.Y. 2026-27 if Mr. Mithun pays tax under default tax regime, assuming that he is having other income of ₹ 8,00,000. Fair market value of shares of M/s Goodmoney Co. Ltd. on 31.1.2018 is ₹ 2,000.

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Answer 28

Computation of total income & tax liability of Mr. Mithun for A.Y. 2026-27

Particulars		₹
Long term capital gains on sale of original shares		
Gross sale consideration (100 x ₹ 4,000)		4,00,000
Less: Brokerage@1%		4,000
Net sale consideration		3,96,000
Less: Cost of acquisition (100 x ₹ 2,000) **(Refer Note 1)**		2,00,000
Long term capital gains		**1,96,000**
Short term capital gains on sale of bonus shares		
Gross sale consideration (100 x ₹ 4,000)		4,00,000
Less: Brokerage@1%		4,000
Net sale consideration		3,96,000
Less: Cost of acquisition of bonus shares [Nil as such shares are allotted after 1.04.2001]		NIL
Short term capital gains [Since bonus shares are held for less than 12 months before sale]		**3,96,000**
Income from other sources		
Dividend received from M/s Goodmoney Co. Ltd. Is taxable in the hands of shareholders [200 shares x 10 per share]		2,000
Other income		8,00,000
Total Income		**13,94,000**
Tax Liability		
Tax on STCG u/s 111A		
20% of ₹ 3,96,000		79,200
Tax on LTCG u/s 112A		
12.5% of (₹ 1,96,000 - ₹ 1,25,000)		8,875
Tax on other income of ₹ 8,02,000		
₹ 4,00,000 to ₹ 8,00,000@5%	20,000	
₹ 8,00,000 to ₹ 8,02,000 @10%	200	20,200
		1,08,275
Add: Health and education cess @4%		4,331
Tax liability		**1,12,606**
Tax liability (rounded off)		**1,12,610**

Notes:

(1) Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of

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- Cost of acquisition i.e., ₹ 1,000 per share and
- lower of

  Fair market value of such asset i.e., ₹ 2,000 per share and Full value of consideration i.e., ₹ 4,000 per share.

Therefore, the cost of acquisition of original share is ₹ 2,000 per share.

(2) Securities transaction tax is not allowable as deduction.

Question 29 [Destruction of capital assets]

Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident.

The value of stock lost (total damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening balance of the block as on 1.4.2025 (i.e., WDV as on 31.3.2025 after providing depreciation for P.Y. 2024-25) was ₹ 10,80,000.

During the process of safeguarding machinery and in the fire fighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2004 for ₹ 1,20,000. The market value of these two items as on the date of fire accident was ₹ 1,80,000.

Mr. A received the following amounts from the insurance company:

(i) Towards loss of stock	₹ 4,80,000
(ii) Towards damage of machinery	₹ 6,00,000
(iii) Towards gold chain and diamond ring	₹ 1,80,000

You are requested to briefly comment on the tax treatment of the above three items under the provisions of the Income-tax Act, 1961. [SM Q.]

Answer 29

(i) Compensation towards loss of stock: Any compensation received from the insurance company towards loss/damage to stock in trade is to be construed as a trading receipt. Hence, ₹ 4,80,000 received as insurance claim for loss of stock has to be assessed under the head "Profit and gains of business or profession".

Note - The assessee can claim the value of stock destroyed by fire as revenue loss, eligible for deduction while computing income under the head "Profits and gains of business or profession".

(ii) Compensation towards damage to machinery: The question does not mention whether the salvaged machinery is taken over by the Insurance company or whether there was any replacement of machinery during the year. Assuming that the salvaged machinery is taken over by the Insurance company, and there was no fresh addition of machinery during the year, the block of machinery will cease to exist. Therefore, ₹ 4,80,000 being the excess of written down value (i.e. ₹ 10,80,000) over the insurance compensation (i.e. ₹ 6,00,000) will be assessable as a short-term capital loss.

Note – If new machinery is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year.

(iii) Compensation towards loss of gold chain and diamond ring: Gold chain and diamond ring are capital assets as envisaged by section 2(14). They are not "personal effects", which alone are to be excluded. If any profit or gain arises in a previous year owing to receipt of insurance claim, the same shall be chargeable to tax as capital gains. The capital gains has to be computed by reducing the indexed cost of acquisition of jewellery from the insurance compensation of ₹ 1,80,000.

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Question 30 [Capital Gain with Section 50C & Exemption u/s 54]

Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2025 for ₹ 1,50,00,000.

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

(i) 20% through account payee bank draft on the date of agreement.

(ii) 60% on the date of the possession of the property.

(iii) Balance after the completion of the registration of the title to the property.

Mr. Jaikumar was handed over the possession of the property on 15.12.2025 and the registration process was completed on 14.01.2026. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority-

(a) on 16.08.2025 was ₹ 1,70,00,000;

(b) on 15.12.2025 was ₹ 1,71,00,000; and

(c) on 14.01.2026 was ₹ 1,71,50,000.

Mr. Sarthak had acquired the residential house at Kanpur on 01.04.2001 for ₹ 30,00,000. After recovering the sale proceeds from Jaikumar, he purchased two residential house properties, one in Kanpur for ₹ 20,00,000 on 24.3.2026 and another in Delhi for ₹ 35,00,000 on 28.5.2026.

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

Answer 30

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

Particulars	₹
Capital Gains on sale of residential house	
Actual sale consideration ₹ 1,50,00,000 Value adopted by Stamp Valuation Authority ₹ 1,70,00,000 on the date of agreement	
[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration. In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the considerationis paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement. In this case, since 20% of ₹ 150 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration]	
Full value of sale consideration [Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration]	1,70,00,000

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Particulars	₹
Less: Cost of acquisition of residential house	30,00,000
Long-term capital gains [Since the residential house property was held by Mr. Sarthak for more than 24 months immediately preceding the date of its transfer]	**1,40,00,000**
Less: **Exemption u/s 54**	55,00,000
Since, long-term capital gains does not exceed ₹ 2 crore, he would be eligible for exemption in respect of both the residential house properties purchased in India. The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of these residential house properties in India within one year before or two years after the date of transfer of original asset. Thus, he would be eligible for exemption of ₹ 55,00,000 being ₹ 20,00,000 and ₹ 35,00,000 invested on acquisition of residential house property in Kanpur and Delhi, respectively.	
Long term capital gains chargeable to tax	**85,00,000**

Note: It may be noted that since Sarthak has transferred residential house property which was acquired before 23.07.2024, he can opt to pay tax @20% on LTCG (computed with indexation) or 12.5% on LTCG (computed without indexation) whichever is beneficial to him.

Question 31 [Capital Gain with Section 50C & Exemption u/s 54/54EC]

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

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.05.2025 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was ₹ 890 lakhs. The sale deed was executed and registered on 14-07-2025 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

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

(i) Acquired two residential houses at Delhi and Chandigarh for ₹ 130 lakhs and ₹ 50 lakhs, respectively, on 31.1.2026 and 15.5.2026

(ii) Acquired a residential house at UK for ₹ 180 lakhs on 23.3.2026.

(iii) Subscribed to NHAI capital gains bond (approved u/s 54EC) for ₹ 50 lakhs on 30-11-2025 and for ₹ 40 lakhs on 9-1-2026.

Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for A.Y.2026-27. The choice of exemption must be in the manner most beneficial to the assessee.

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Answer 31

Computation of income chargeable under the head "Capital Gains" of Mrs. Yuvika for A.Y.2026-27

Particulars	₹ (in lakhs)	₹ (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration ₹ 810 lakhs		
Value adopted by Stamp Valuation Authority ₹ 890 lakhs		
[Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.		
However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through prescribed electronic modes on or before the date of agreement.		
In this case, since advance of ₹ 80 lakh is received by RTGS, i.e., one of the prescribed modes, stamp duty value on the date of agreement can be adopted as the full value of consideration. However, in the present case since stamp duty value on the date of agreement does not exceed 110% of the actual consideration, actual sale consideration would be taken as the full value of consideration]		
Gross Sale consideration (Actual consideration, since stamp duty value on the date of agreement does not exceed 110% of the actual consideration)		810.00
Less: Brokerage @1% of sale consideration (1% of ₹ 810 lakhs)		8.10
Net Sale consideration		801.90
Less: Cost of acquisition		
- Cost of vacant land, ₹ 80 lakhs, *plus* registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land [₹ 88 lakhs]	88.00	
- Construction cost of residential building (₹ 100 lakhs)	100.00	188.00
Long-term capital gains		**613.90**
Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain]		
***Less:* Exemption u/s 54**		130.00
Where long-term capital gains exceed ₹ 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset.		

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Particulars	₹ (in lakhs)	₹ (in lakhs)
Therefore, in the present case, the exemption would be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK. It would be more beneficial for her to claim the cost of acquisition of residential house at Delhi, i.e., ₹ 130 lakhs as exemption.		
***Less:* Exemption u/s 54EC**		50.00
Amount invested in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.1.2026), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of ₹ 50 lakhs, whether such investment is made in the current financial year or subsequent financial year. Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 90 lakhs, even if the both the investments are made on or before 13.1.2026 (i.e., within six months after the date of transfer).		
Long term capital gains chargeable to tax		**433.90**

Note: *Advance of ₹ 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head "Income from other sources", in the A.Y. 2016-17, as per section 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition.*

Question 32 [Capital Gain with Section 50C & Advance Money]

Mr. Shiva purchased a house property on February 15, 1979 for ₹ 3,24,000. In addition, he has also paid stamp duty @10% on the stamp duty value of ₹ 3,50,000.

In April, 2008, Mr. Shiva entered into an agreement with Mr. Mohan for sale of such property for ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shiva forfeited the advance. In May 2015, he again entered into an agreement for sale of said house for ₹ 20,25,000 to Ms. Deepshikha and received ₹ 1,51,000 as advance. However, as Ms. Deepshikha did not pay the balance amount, Mr. Shiva forfeited the advance. In August, 2015, Mr. Shiva constructed the first floor by incurring a cost of ₹ 3,90,000.

On November 15, 2025, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transferred the house to Mr. Manish on February 20, 2026. Mr. Shiva has paid the brokerage @1% of sale consideration to the broker.

On April 1, 2001, fair market value of the house property was ₹ 11,85,000 and Stamp duty value was ₹ 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15th November, 2025 was ₹ 39,00,000 and on 20th February, 2026 was ₹ 41,00,000.

Compute the capital gains in the hands of Mr. Shiva for A.Y.2026-27. Also, compute the tax liability u/s 112, assuming that the basic exemption limit has been fully exhausted against other income.

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Question 33 Pg 221

[Capital Gain in case of share and security]

Calculate the amount chargeable to tax under the head 'Capital Gains' and also calculate tax on such gains for A.Y. 2026-27 from the following details provided by Mr. Naveen with respect to sale of certain securities during F.Y. 2025-26, assuming that the other incomes of Mr. Naveen exceed the maximum amount not chargeable to tax. (Ignore surcharge and cess): **[MTP Q]**

(i) Sold 10,000 shares of Y Ltd. on 05-04-2025 @ ₹ 650 per share

Y Ltd. is a listed company. These shares were acquired by Mr. Naveen on 05-04-2017 @₹ 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares which was affected through a recognized stock exchange.

On 31-01-2018, the shares of Y Ltd. were traded on a recognized stock exchange as under:

Highest price - ₹ 300 per share

Average price - ₹ 290 per share

Lowest price - ₹280per share

(ii)Sold 1,000 units of AB Mutual Fund on 20-05-2025 @₹ 50 per unit

AB Mutual Fund is an equity oriented fund. These units were acquired by Mr. Naveen on 10-03-2017 @ ₹ 10 per unit. STT was paid only at the time of transfer of such units. On 31- 01-2018, the Net Asset Value of the units of AB Mutual Fund was ₹ 55 per unit. The units of AB Mutual Fund were not listed on the stock exchange as on 31.1.2018.

(iii) Sold 100 shares of C Ltd. on 27-05-2025 @ ₹ 200 per share

C Ltd. is an unlisted company. These shares were issued by the company as bonus shares on 30-09-1997. The Fair Market Value of these shares as on 01-04-2001 was ₹ 50 per share.

Cost Inflation Index for various financial years are as under:

2001-02	-	100
2017-18	-	272
2018-19	-	280
2025-26	-	376

Question 34

[Calculation of Tax Liability in case of CG]

Calculate the income-tax liability for the assessment year 2026-27 in the following cases:

	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Status	**Non-resident**	**Non-resident**	**Resident**	**Non-resident**
Total income other than long-term capital gain	2,40,000	3,10,000	5,90,000	4,80,000
Long-term capital gain	85,000 from sale of vacant site	10,000 from sale of listed equity shares (STT paid on sale and purchase of shares)	60,000 from sale of agricultural land in rural area	Nil

(i) If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.

(ii) If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act.

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Question 35 [Capital Gain with Section 50C & Exemption u/s 54]

Mr. Rajkumar bought a residential house for ₹ 5 crores in March 2016. He entered into an agreement for sale of the said residential house with Ms. Nikita (not a relative) in September 2025 for ₹ 17 crores. The sale proceeds were to be paid in the following manner:

(i) 10% through account payee bank draft on the date of agreement.

(ii) 80% on the date of the possession of the property.

(iii) Balance after the completion of the registration of the title of the property.

Ms. Nikita was handed over the possession of the property on 10.11.2025 and the registration process was completed on 05.02.2026. She paid the sale proceeds as per the sale agreement. Value of property for stamp duty in September 2025 was ₹ 19 crores. Subsequently, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 20 crores on 05.02.2026. Mr. Rajkumar paid 1% as brokerage on sale consideration received.

Subsequent to sale, he purchased another residential house for ₹ 13 crores in Mumbai in March 2026.

You are required to compute the capital gains chargeable to tax in the hands of Mr. Rajkumar for A.Y. 2026-27. What would be the capital gain, if any, in A.Y. 2027-28 if Mr. Rajkumar transfers the new residential house in December 2026 for ₹ 15 crores?

Answer 35

Computation of capital gains of Mr. Rajkumar for A.Y. 2026-27

Particulars	₹ (in crores)
Actual sale consideration ₹ 17 crores Value adopted by Stamp Valuation Authority ₹ 19 crores [Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through prescribed electronic modes on or before the date of agreement. In this case, since advance of ₹ 1.7 crores is received by account payee bank draft, stamp duty value on the date of agreement can be adopted as the full value of consideration. Gross Sale consideration (Stamp duty value on the date of agreement, since it exceeds 110% of the actual consideration)	19
Less: Brokerage @1% of sale consideration (1% of ₹ 17 crores)	0.17
Net Sale consideration	18.83
Less: Cost of acquisition	5.00
Long term capital gains [Since the residential house property was held by Mr. Rajkumar for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain]	13.83 10

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Particulars	₹ (in crores)
Less: Exemption u/s 54 Where long-term capital gains exceed ₹ 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset. However, if the cost of new residential house exceeds ₹ 10 crores, the amount exceeding ₹ 10 crore would not be taken into account for exemption. Therefore, in the present case, the exemption would be available in respect of the residential house acquired in Mumbai and to the extent of ₹ 10 crores only. **Long term capital gains chargeable to tax** **As per proviso to section 112, this case while calculating tax liability, assessee is required to pay tax at 12.5% without indexation or 20% with indexation, whichever is lower.**	**3.83**

Computation of capital gains of Mr. Rajkumar for A.Y. 2027-28

Particulars	₹ (in crores)
Sale consideration	15
Less: Cost of acquisition (-) capital gains exempt in A.Y. 2026-27 (₹ 13 – ₹ 10)	3
Short term capital gains chargeable to tax Since the residential house property was held by Mr. Rajkumar for not more than 24 months immediately preceding the date of its transfer]	12

Question 36

[Sec 50AA Capital Gain]

Mr. Sanjay is a resident in India aged 55 years. He had an impressive investment portfolio in various mutual funds. He redeemed his entire mutual fund investment portfolio and bought a villa in Lonavala for ₹ 2.00 crores to spend rest of his life there. The details of mutual funds are as under –

S. No.	Type of mutual fund	Date of investment	Date of redemption	Amount invested (in ₹ lakhs)	Amount redeemed (in ₹ lakhs)
1	BLR growth fund	03.04.2022	05.06.2025	110	140
2	ABC Strategic fund	04.05.2025	02.02.2026	46	50
3	ABD fund Midcap	02.12.2024	05.07.2025	115	118
4	SBA fund Growth	08.11.2023	12.12.2025	110	120

The funds stated at 1 and 2 have invested 30% of their proceeds in equity shares of domestic companies and funds stated at 3 and 4 have invested 70% of their proceeds in equity shares of domestic companies. The investment pattern of funds remained unchanged over all the years. STT is paid at the time of acquisition and redemption of mutual fund, wherever applicable.

You are required to compute the capital gains chargeable to tax in the hands of Mr. Sanjay for A.Y. 2026-27.

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Answer 36

Computation of capital gains of Mr. Sanjay for A.Y. 2026-27

Particulars	₹	₹
Redemption of BLR growth fund		
Full value of consideration [Redemption value]	1,40,00,000	
Less: Cost of acquisition	1,10,00,000	
Long term capital gains [Since it is debt fund (as not more than 65% of the proceeds are invested in equity shares of domestic companies) and it was held by Mr. Sanjay for more than 36 months immediately preceding the date of its transfer] Sec 50AA not applicable as MF acquired before 1/4/2023.		30,00,000
Redemption of ABC Strategic fund		
Full value of consideration [Redemption value]	50,00,000	
Less: Cost of acquisition	46,00,000	
Short term capital gains [Since it is a specified mutual fund (as not more than 35% of its proceeds are invested in equity shares of domestic companies) which is acquired on or after 1.4.2023, this fund would be considered as short-term capital asset as per section 50AA irrespective of the period of holding]		4,00,000
Redemption of ABD Midcap fund		
Full value of consideration [Redemption value]	1,18,00,000	
Less: Cost of acquisition	1,15,00,000	3,00,000
Short term capital gains [Since it is equity-oriented fund (as more than 65% of its proceeds are invested in equity shares of domestic companies) and it was held by Mr. Sanjay for not more than 12 months immediately preceding the date of its transfer]		
Redemption of SBA Growth fund		
Full value of consideration [Redemption value]	1,20,00,000	
Less: Cost of acquisition	1,10,00,000	
Long term capital gains [Since it is equity-oriented fund (as more than 65% of its proceeds are invested in equity shares of domestic companies) and it was held by Mr. Sanjay for more than 12 months immediately preceding the date of its transfer]		10,00,000
Total Capital Gain		**47,00,000**
Less: Exemption u/s 54F		
Capital gain arising on transfer of a long term capital asset other than a residential house shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India within one year before or two years after the date of transfer of original asset.		30,00,000
Therefore, in the present case, the exemption would be available only in respect of long-term capital gains from redemption of BLR growth fund and SBA Growth fund.		5,00,000
Exemption from long term capital gains from redemption of BLR short term fund		
[30,00,000 x 1,40,00,000 /1,40,00,000]		
Exemption from long term capital gains from redemption of SBA		

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Growth fund [10,00,000 x 60,00,000 (2 crore – 1.4 crore) /1,20,00,000]		
Capital Gain Chargeable to tax for AY 26-27		**12,00,000**

Question 37 [Capital Gain Tax with & Without Indexation]

Mr. Gopal resident Individual acquired a house property for ₹ 7,00,000 during PY 1982-83 & paid stamp duty ₹ 1,50,000 at the time of registration of property. He incurred following expenses for improvement of property,

PY 96-97 - ₹ 3,50,000

PY 12-13 - ₹ 4,00,000

PY 23-24 - ₹ 3,50,000

FMV as on 01/04/2001 of such property is ₹ 18,20,000 & Stamp Duty Value on same date is ₹16,00,000.

Mr. Gopal sold this property as on 10/12/2025 for ₹ 1,25,00,000.

Mr. Gopal's income from other sources is ₹ 10,00,000. Compute Total Income and Tax liability. Assume he opted out from section 115BAC.

Answer 37

Computation of taxable capital gains for the A.Y.2026-27

Particulars	₹	₹
Sale consideration		1,25,00,000
Less: Expenses incurred for transfer		-
		1,25,00,000
Less: (i) Cost of acquisition		
(a) Cost 8,50,000		
(b) - FMV on 1/4/01 18.2 lakhs		
- SDV on 1/4/01 16.0 lakhs 16,00,000	16,00,000	
(ii) Cost of improvement (12-13)	4,00,000	
(iii) Cost of improvement (23-24)	3,50,000	23,50,000
Long term capital gains		1,01,50,000

Computation of Total Income & Tax Liability for the A.Y.2026-27

Particulars	₹	₹
LTCG u/s 112		1,01,50,000
Income from other sources		10,00,000
Net Taxable Income		**1,11,50,000**
Computation of Tax Liability		
1. Tax on LTCG u/s 112 [Note-2]		
(a) Tax @ 12.5% without Index [1,01,50,000 x 12.5%]	12,68,750	
(b) Tax @ 20% with Index (note -1) [53,53,839 x 20%]	10,70,768	10,70,768
Whichever is lower		
2. Tax on Balance Income		
Upto 2,50,000 -		

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> 2,50,000 upto 5,00,000 5% 12,500 > 5,00,000 upto 10,00,000 20% 1,00,000		1,12,500
		11,83,268
Add: Surcharge @15% since Total Income more than 1 crore		1,77,490
		13,60,758
Add: Health & Education cess @4%		54,430
Net Tax Liability		14,15,188
	i.e.	**14,15,190**

Note: 1

Particulars		Amount ₹
Full Value of Consideration		1,25,00,000
Less: Transfer Expenses	—	NIL
Net Consideration		1,25,00,000
Less: Indexed Cost of Acquisition 16,00,000 × 376 [F.Y. 2025-26] / 100 [F.Y. 2001-02]	—	(60,16,000)
Less: Indexed Cost of Improvement 4,00,000 × 376 [F.Y. 2025-26] / 200 [F.Y. 2012-13]		(7,52,000)
3,50,000 × 376 [F.Y. 2025-26] / 348 [F.Y. 2023-24]		(3,78,161)
Long Term Capital Gain		**53,53,839**

Note: 2

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.

Total = 16 Questions + 2 add ons TELEGRAM: CA NOTE HUB Note book Page 232

CHAPTER 7

Income from Other Sources

Question 1 III.1 **[Deemed Dividend u/s 2(22)(e)]**

Rahul, a resident Indian, holding 28% of equity shares in a company, took a loan of ₹ 5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of ₹4,00,000. The company is engaged in some manufacturing activity.

(i) Is the amount of loan taxable as deemed dividend, if the company is a company in which the public are substantially interested? → Listed co./Widely held co.

(ii) What would be your answer, if the lending company is a private limited company (i.e. which is not a company in which the public are substantially interested)? **[SM Q.]**

→ Closely held co.

Answer 1

Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan to an equity shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, is deemed as dividend u/s 2(22)(e), to the extent the company possesses accumulated profits.

(i) The provisions of section 2(22)(e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.

(ii) However, if the loan is taken from a private company (i.e. a company in which the public are not substantially interested), which is a manufacturing company and not a company where lending of money is a substantial part of the business of the company, then, the provisions of section 2(22)(e) would be attracted, since Rahul holds more than 10% of the equity shares in the company.

The amount chargeable as deemed dividend cannot, however, exceed the accumulated profits held by the company on the date of giving the loan. Therefore, the amount taxable as deemed dividend would be limited to the accumulated profit i.e., ₹ 4,00,000 and not the amount of loan which is ₹ 5,00,000.

Question 2 Pg 250 III.2 **[Capital Gain & IFOS]**

LDR

Mr. A, a dealer in shares, received the following without consideration during the P.Y. 2025-26 from his friend Mr. B, -

Gift

(1) Cash gift of ₹ 75,000 on his anniversary, 15th April, 2025. Fully Taxable

(2) Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2025. T

(3) A plot of land at Faridabad on 1st July, 2025, the stamp value of which is ₹ 5 lakh on that date. Mr. B had purchased the land in April, 2009. Taxable

S-T 56(2)(x) not applicable

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹ 400 each on 19th June, 2025, the fair market value of which was ₹ 600 each on that date. Mr. A sold these shares in the course of his business on 23rd June, 2025.

Further, on 1st November, 2025, Mr. A took possession of property (office building) booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2025 was ₹ 32 lakh and on the date of booking was ₹ 23 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking. 3 lakh → IFOS → T

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On 1st March, 2026, he sold the plot of land at Faridabad for ₹ 7 lakh.

Compute the income of Mr. A chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2026-27. **[SM Q.]**

Question 3 III.3 [Taxability of GIFT]

Discuss the taxability or otherwise of the following in the hands of the recipient u/s 56(2)(x) the Income-tax Act, 1961 -

(i) Akhil HUF received ₹ 75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is the Karta of the HUF.

(ii) Nitisha, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is ₹ 9,00,000.

(iii) Mr. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was ₹ 100 per share. He also received jewellery worth ₹ 45,000 (FMV) from his nephew on the same day.

(iv) Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ₹ 5,25,000. **[SM Q.]**

Answer 3

	Taxable/ Non-taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	75,000	Sum of money exceeding ₹ 50,000 received without consideration from a non-relative is taxable u/s 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Non- taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable u/s 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2).
(iii)	Taxable	55,000	As per provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds ₹ 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (₹ 10,000) and jewellery (₹ 45,000) exceeds ₹ 50,000. Hence, the entire amount of ₹ 55,000 shall be taxable.
(iv)	Non- taxable	Nil	Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable.

Question 4 III.4 [Taxability of Capital Gain & GIFT]

Mr. Hari, a property dealer, sold a building in the course of his business to his friend Rajesh, who is a dealer in automobile spare parts, for ₹ 90 lakh on 1.1.2026, when the stamp duty value was ₹ 150 lakh. The agreement was, however, entered into on 1.9.2025 when the stamp duty value was ₹ 140 lakh. Mr. Hari had received a down payment of ₹ 15 lakh by a crossed cheque from Rajesh on the date of agreement. Discuss the tax implications in the hands of Hari and Rajesh, assuming that Mr. Hari has purchased the building for ₹ 75 lakh on 12th July, 2024.

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

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[SM Q.]

Answer 4

Case 1: Tax implications if Mr. Hari is a property dealer

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
In the hands of Hari, the provisions of section 43CA would be attracted, since the building represents his stock-in- trade and he has transferred the same for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. U/s 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised. Therefore, **₹ 75 lakh**, being the difference between the stamp duty value on the date of transfer i.e., ₹ 150 lakh, and the purchase price i.e., ₹ 75 lakh, would be chargeable as **business income** in the hands of Mr. Hari, since stamp duty value exceeds **110% of the consideration**	Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration. Therefore, **₹ 60 lakh,** being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable u/s 56(2)(x) in the hands of **Mr. Rajesh**, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

Case 2: Tax implications if Mr. Hari is a share broker

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
In case Mr. Hari is a share broker and not a property dealer, the building would represent his capital asset and not stock- in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari, since building is transferred for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. Thus, **₹ 75 lakh, being the difference between the stamp duty value on the date of registration (i.e., ₹ 150 lakh) and the purchase price (i.e., ₹ 75 lakh)**	There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker, (except where the property transferred in a residential unit fulfilling the stipulated conditions, which is not so in this case). Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being

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In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
would be chargeable as short-term capital gains.	a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of₹ 50,000 and 10% of consideration.
It may be noted that u/s 50C,the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakhs has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.	Therefore, **₹ 60 lakh,** being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable u/s 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

Question 5 Prac. Q. 1. **[Income from other sources] [SM Q.]**

Examine under which heads the following incomes are taxable:

(i) Rental income in case property held as stock-in-trade for 3 years HP

(ii) Dividend on shares IFOS

(iii) Salary received by a partner from his partnership firm PGBP

(iv) Rental income of machinery PGBP / IFOS (if not charged in PGBP)

(v) Winnings from lotteries by a person having the same as business activity IFOS

(vi) Salaries payable to a Member of Parliament IFOS

(vii) Receipts without consideration IFOS

(viii) In case of retirement, interest on employee's contribution if provident fund is unrecognized. IFOS

(ix) Rental income in case of a person engaged in the business of letting out of properties. PGBP

Answer 5

	Particulars	Head of Income
(i)	Rental income in case property held as stock-in trade for 3 years	Income from house property
(ii)	Dividend on shares	Income from other sources
(iii)	Salary by partner from his partnership firm	Profits and gains of business or profession
(iv)	Rental income of machinery **(See Note below)**	Profits and gains of business or profession/ Income from other sources
(v)	Winnings from lotteries by a person having the same as business activity	Income from other sources
(vi)	Salaries payable to a Member of	Income from other sources

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	Particulars	Head of Income
	Parliament	
(vii)	Receipts without consideration	Income from other sources
(viii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources
(xi)	Rental income in case of a person engaged in the business of letting out of properties	Profits and gains from business or profession

Note - As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head "Income from Other Sources", if the same is not chargeable to income-tax under the head "Profits and gains of business or profession".

Question 6 Prac. Q. 3. **[Interest on Late Compensation]**

On 10.10.2025, Mr. Govind (a bank employee) received ₹ 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2016-17.

Out of this interest, ₹ 1,50,000 relates to the financial year 2017-18; ₹ 1,65,000 to the financial year 2018-19; and ₹ 1,85,000 to the financial year 2019-20. He incurred ₹ 50,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax for the assessment year 2026-27? **[SM Q.]**

Answer 6

Section 145B provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates.

Section 56(2)(viii) states that such income shall be taxable as 'Income from other sources'.

50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such Income.

Therefore, legal expenses incurred to receive the interest on enhanced compensation would not be allowed as deduction from such income.

Computation of interest on enhanced compensation taxable as "Income from other sources" for the A.Y 2026-27:

Particulars	₹
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction u/s 57(iv) (50% x ₹ 5,00,000)	2,50,000
Taxable interest on enhanced compensation	**2,50,000**

Question 7 Prac. Q. 4. **[Taxability of Gift]**

The following details have been furnished by Mrs. Hemali pertaining to the year ended 31.3.2026:

(i) Cash gift of ₹ 51,000 received from her friend on the occasion of her "Shastiaptha Poorthi", a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.

(ii) On the above occasion, a diamond necklace worth ₹ 2 lacs was presented by her sister living in Dubai.

(iii) When she celebrated her daughter's wedding on 21.2.2026, her friend assigned in Mrs.

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Hemali's favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was ₹ 52,000.

Compute the income, if any, assessable as income from other sources. [SM Q.]

Answer 7

(i) Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age.

The gift of ₹ 51,000 received from a non-relative is, therefore, chargeable to tax u/s 56(2)(x) in the hands of Mrs. Hemali, since the same exceeds ₹ 50,000.

(ii) The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister, being a relative, is not taxable u/s 56(2)(x), even though jewellery falls within the definition of "property".

(iii) To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case, ₹ 52,000 shall be taxable in hands of Hemali. We assume that FD is treated under money.

Question 8 Prac. Q. S. [Taxability of Gift]

Examine the following transactions in the context of Income-tax Act, 1961: [SM Q.]

(i) Mr. B transferred 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2025 for ₹ 3,00,000 when the market price was ₹ 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at ₹ 4,45,000. The transfer was not subjected to securities transaction tax.

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

(ii) Mr. Chezian is employed in a company with taxable salary income of ₹ 5,00,000. He received a cash gift of ₹ 1,00,000 from Atma Charitable Trust (registered u/s 12AB) in December 2025 for meeting his medical expenses.

Is the cash gift so received from the trust chargeable to tax in the hands of Mr. Chezian?

Answer 8

(i) Any movable property received for inadequate consideration by any person is chargeable to tax u/s 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds ₹ 50,000.

Thus, share received by M/s B. Co. (P) Ltd. from Mr B for inadequate consideration is chargeable to tax u/s 56(2)(x) to the extent of ₹ 2,00,000.

As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of R (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of R (P) Ltd are unquoted shares.

The full value of consideration (₹ 5,00,000) less the indexed cost of acquisition (₹ 4,45,000) would result in a long term capital gains of ₹ 55,000 in the hands of Mr. B.

(ii) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered u/s 12AB. Therefore, the cash gift of ₹ 1 lakh received from Atma Charitable Trust, being a trust registered u/s 12AB, for meeting medical expenses would not be chargeable to tax u/s 56(2)(x) in the hands of Mr. Chezian.

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Question 9 Pg 265

From the following particulars of Gani Bhai for the previous year ended 31st March, 2026, compute the income chargeable under the head "Income from other sources":

Particulars	₹
(a) Directors fees from a company	10,000
(b) Interest on bank deposits	3,000
(c) Income from undisclosed sources	12,000
(d) Winnings from lotteries (Net) → 35000/70 x 100 or 35000/70·1	35,000
(e) Royalty on book written by him	9,000
(f) Lectures in seminars	5,000
(g) Interest on loan given to a relative	7,000
(h) Interest on debenture of a company	3,600
(i) Interest on post office Saving Bank Account Exempt (limit →3500)	500
(j) Interest on government securities	2,200
(k) Interest on monthly income scheme of Post Office	33,000

He paid ₹ 1,000 for typing the manuscript of book written by him. (Royalty = 9000 (-) 1000 = 8000)

Question 10 Pg 249

Mr. Ganesh received the following gifts during P.Y. 2025-26 from his friend Mr. Sundar

(i) Cash Gift of ₹ 51,000/- on his birthday, 19th June, 2025 Fully Taxable

(ii) 50 Shares of Beta Ltd, the FMV of which was ₹ 60,000 on his birthday, 19th June, 2025 Fully Taxable

(iii) 100 shares of Alpha Ltd, FMV Ltd of which was ₹ 70,000 on the date of transfer. The gift was received on the occasion of Diwali. Mr. Sundar had originally purchased the shares on 10.08.2024 at a cost of ₹ 50,000/- Fully Taxable

Further on 20th November, 2025, Mr. Ganesh purchased land from his sister's mother-in-law for ₹ 5,00,000/-. The stamp value of land was ₹ 7,00,000/-. (7-5=2L) Taxable

On 15th February, 2026, he sold 100 shares of Alpha Ltd for ₹ 1,00,000/- (1L - 70K = 30K)

Compute the Income of Mr. Ganesh chargeable under the head "Income from Other Sources" and "Capital Gains" for A.Y. 2026-27

Question 11 Pg 239

Karan's bank account shows the following deposits during the financial year 2025-26. Compute Karan's (aged 45 years) total income for the A.Y. 2026-27, assuming that his income from house property (computed) is ₹ 62,000.

(i)	Gift from his sister in Amsterdam Exempt	₹ 2,30,000
(ii)	Gift from his friend on his birthday	₹ 10,000 m
o/s (iii)	Dividend from shares of various Indian companies	₹ 12,600
(iv)	Gift from his mother's friend on his engagement	₹ 25,000 m
(v)	Gift from his fiancée	₹ 75,000 m
(vi)	Interest on bank deposits (Fixed Deposit)(Gross)	₹ 25,000

1L, 10K fully taxable

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Question 12 Pg 245

X acquires a commercial flat from Y on December 16, 2025. Cost of acquisition and stamp duty value are as follows –

	Case 1	Case 2	Case 3	Case 4	Case 5
Consideration	4,00,000	4,00,000	4,00,000	6,00,000	6,00,000
SDV	4,39,000	4,46,000	4,70,000	6,59,000	6,80,000

Discuss tax implication in hands of X & Y.

Question 13 Pg 248

X acquires an immovable property from Y during Dec. 2025. Relevant data is given below –

	Case 1	Case 2	Case 3	Case 4	Case 5
SDV on the date of agreement	4,00,000	4,00,000	4,50,000	4,50,000	7,00,000
SDV on the date of registration	4,70,000	4,70,000	4,90,000	4,90,000	7,80,000
Consideration for acquiring property from Y	3,81,000	3,81,000	4,27,500	4,27,500	7,10,000
Whether advance is paid by A/c payee cheque/DD/ECS upto date of agreement	Yes	NO	Yes	NO	NO

Discuss tax implication in hands of X & Y.

Question 14

Examine whether the following incomes are chargeable to tax, and if so, compute the amount liable to tax:

(i) Arvind received ₹ 20,000 as his share from the income of the HUF.

(ii) Mr. Xavier, a 'Param Vir Chakra' awardee, who was formerly in the service of the Central Government, received a pension of ₹ 2,20,000 during the financial year 2023-24.

[SM Q.]

Answer 14

S. No.	Taxable/Not Taxable	Amount liable to tax (₹)	Reason
(i)	Not Taxable	-	Share received by member out of the income of the HUF is exempt under section 10(2).
(ii)	Not Taxable	-	Pension received by Mr. Xavier, a former Central

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			Government employee who is a 'Param Vir Chakra' awardee, is exempt under section 10(18).

Question 15

Examine with reasons in brief whether the following statements are true or false with reference to the provisions of the Income-tax Act, 1961:

(i) Pension received by a recipient of gallantry award, who was a former employee of Central Government, is exempt from income-tax. **[SM Q.]**

Answer 15

(i) True: Section 10(18) exempts any income by way of pension received by individual who has been in service of Central Government and has been awarded "ParamVir Chakra" or "MahaVir Chakra" or "Vir Chakra" or such other gallantry award as the Central Government, may, by notification in the Official Gazette, specify in this behalf.

Question 16 I11.5

Compensation on account of disaster received from a local authority by an individual or his/her legal heir is taxable. Examine the correctness of the statement with reference to the provisions of the Income-tax Act, 1961. **[SM Q.]**

Answer 16

The statement is not correct. As per section 10(10BC), any amount received or receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax. However, the exemption is not available to the extent such individual or legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.

Not included SM que:
I11.6
Prac. Q.2.

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Total = 16 questions

Notebook Page = 112

CHAPTER 8

Clubbing of Income

Income of Other Persons Included in Assessee's Total Income

Question 1 I11.7. **[Clubbing of children Income]**

Mr. A has three minor children – two twin daughters, aged 12 years, and one son, aged 16 years. Income of the twin daughters is ₹ 2,000 p.a. each and that of the son is ₹ 1,200 p.a. Mrs. A has transferred her flat to her minor son on 1.4.2025 out of natural love and affection. The flat was let out on the same date and the rental income from the flat is ₹ 10,000 p.m. Compute the income, in respect of minor children, to be included in the hands of Mr. A and Mrs. A u/s 64(1A) [assuming that Mr. A's total income is higher than Mrs. A's total income, before including the income of minor children and both Mr. A and Mrs. A exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A)]. **[SM Q.]**

Answer 1

Taxable income, in respect of minor children, in the hands of Mr. A is:

Particulars	₹	₹
Twin minor daughters [₹ 2,000 × 2]	4,000	
Less: Exempt u/s 10(32) [₹ 1,500 × 2]	3,000	1,000
Minor son	1,200	
Less: Exempt u/s 10(32)	1,200	Nil
Income to be clubbed in the hands of Mr. A		**1,000**

Note – As per section 27(i), Mrs. A is the deemed owner of house property transferred to her minor son. Natural love and affection do not constitute adequate consideration for this purpose. Accordingly, the income from house property of ₹ 84,000 [i.e., ₹ 1,20,000 (-) ₹ 36,000, being 30% of ₹ 1,20,000) would be taxable directly in her hands as the deemed owner of the said property. Consequently, clubbing provisions u/s 64(1A) would not be attracted in respect of income from house property, owing to which exemption u/s 10(32) cannot be availed by her.

Question 2 Prac. Q. 1. **[Clubbing of children Income]**

Mr. Sharma has four children consisting 2 daughters and 2 sons. The annual income of 2 daughters were ₹ 9,000 and ₹ 4,500 and of sons were ₹ 6,200 and ₹ 4,300, respectively. The daughter who has income of ₹ 4,500 was suffering from a disability specified u/s 80U.

Compute the amount of income earned by minor children to be clubbed in hands of Mr. Sharma assuming he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 2

As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified u/s 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, the income of daughter suffering from disability specified u/s 80U should not be clubbed with the income of Mr. Sharma.

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U/s 10(32), income of each minor child includible in the hands of the parent u/s 64(1A) would be exempt to the extent of the actual income or ₹ 1,500, whichever is lower. The remaining income would be included in the hands of the parent.

Computation of income earned by minor children to be clubbed with the income of Mr. Sharma:

	Particulars	₹
(i)	Income of one daughter	9,000
	Less: Income exempt u/s 10(32)	1,500
	Total (A)	7,500
(ii)	Income of two sons (₹ 6,200 + ₹ 4,300)	10,500
	Less: Income exempt u/s 10(32)	
	(₹ 1,500 + ₹ 1,500)	3,000
	Total (B)	7,500
	Total Income to be clubbed as per section 64(1A) (A+B)	**15,000**

Note: It has been assumed that:

(1) All the four children are minor children;

(2) The income does not accrue or arise to the minor children on account of any manual work done by them or activity involving application of their skill, talent or specialized knowledge and experience;

(3) The income of Mr. Sharma, before including the minor children's income, is greater than the income of Mrs. Sharma, due to which the income of the minor children would be included in his hands; and

(4) This is the first year in which clubbing provisions are attracted.

Question 3 Ill.2 & Ill.3 combined. **[Clubbing of spouse of Income]**

Mr. A holds shares carrying 25% voting power in X (P) Ltd. Mrs. A is working as a computer software programmer in X (P) Ltd. at a salary of ₹ 30,000 p.m. She is, however, not qualified for the job. The other income of Mr. A & Mrs. A are ₹ 7,00,000 & ₹ 4,00,000, respectively. Compute the gross total income of Mr. A and Mrs. A for the A.Y.2026-27, if they are paying tax under default tax regime.

Will your answer be different if Mrs. A was qualified for the job? **[SM Q.]**

Answer 3

Mr. A holds shares carrying 25% voting power in X (P) Ltd i.e., a substantial interest in the company. His wife is working in the same company without any professional qualifications for the same. Thus, by virtue of the clubbing provisions of the Act, the salary received by Mrs. A from X (P) Ltd. will be clubbed in the hands of Mr. A.

Computation of Gross total income of Mr. A

Particulars	₹	₹
Salary received by Mrs. A (₹30,000 × 12)	3,60,000	
Less: Standard deduction u/s 16(ia)	75,000	2,85,000
Other Income		7,00,000
Gross total income		**9,85,000**

The gross total income of Mrs. A is ₹ 4,00,000.

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If Mrs. A possesses professional qualifications for the job, then the clubbing provisions shall not be applicable.

Gross total income of Mr. A = ₹ 7,00,000[other income].

Gross total income of Mrs. A = Salary received by Mrs. A [₹ 30,000×12] Less ₹ 75,000, being the standard deduction u/s 16(ia) plus other income [₹ 4,00,000] = ₹ 6,85,000

Question 4 II.4 [Clubbing of Income]

Mr. B holds shares carrying 30% voting power in Y (P) Ltd. Mrs. B is working as accountant in Y (P) Ltd. getting income under the head salary (computed) of ₹ 3,44,000 without any qualification in accountancy. Mr. B also receives ₹ 30,000 as interest on securities. Mrs. B owns a house property which she has let out. Rent received from tenants is ₹ 6,000 p.m. Compute the gross total income of Mr. B and Mrs. B for the A.Y.2026-27. **[SM Q.]**

Answer 4

Since Mrs. B is not professionally qualified for the job, the clubbing provisions shall be applicable.

Computation of Gross total income of Mr. B

Particulars	₹
Income under the head salary of Mrs. B (Computed)	3,44,000
Income from other sources	
- Interest on securities	30,000
	3,74,000

Computation of Gross total income of Mrs. B

Particulars	₹	₹
Income from Salary [clubbed in the hands of Mr. B]		Nil
Income from house property		
Gross Annual Value [₹ 6,000 × 12]	72,000	
Less: Municipal taxes paid	-	
Net Annual Value (NAV)	**72,000**	
Less: Deductions u/s 24		
- 30% of NAV i.e., 30% of ₹ 72,000	21,600	
- Interest on loan	-	50,400
Gross total income		**50,400**

Question 5 Pg 128(2). II.5 [Clubbing of spouse of Income from Business]

Mr. Vaibhav started a proprietary business on 01.04.2024 with a capital of ₹ 5,00,000. He incurred a loss of ₹ 2,00,000 during the year 2024-25. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of ₹ 5,00,000 on 01.04.2025, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of ₹ 4,00,000 during the year 2025-26. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the Assessment Year 2026-27. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed? **[SM Q.]**

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Question 6 Pg 127(2) Prac Q.4. **[Clubbing of spouse of Income from Business]**

A proprietary business was started by Smt. Rani in the year 2023. As on 1.4.2024 her capital in business was ₹ 3,00,000.

Her husband gifted ₹ 2,00,000 on 10.4.2024 to her and such sum is invested by Smt. Rani in her business on the same date. Smt. Rani earned profits from her proprietary business for the Financial year 2024-25, ₹ 1,50,000 and Financial year 2025-26 ₹ 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the Assessment year 2026-27 with reasons. **[SM Q.]**

Question 7 T11.6. **[Clubbing of Income]**

Mrs. Kasturi transferred her immovable property to ABC Co. Ltd. subject to a condition that out of the rental income, a sum of ₹ 36,000 per annum shall be utilized for the benefit of her son's wife.

Mrs. Kasturi claims that the amount of ₹ 36,000 (utilized by her son's wife) should not be included in her total income as she no longer owned the property.

Examine with reasons whether the contention of Mrs. Kasturi is valid in law. **[SM Q.]**

Answer 7

The clubbing provisions u/s 64(1)(viii) are attracted in case of transfer of any asset, directly or indirectly, otherwise than for adequate consideration, to any person to the extent to which the income from such asset is for the immediate or deferred benefit of son's wife. Such income shall be included in computing the total income of the transferor-individual.

Therefore, income of ₹ 36,000 meant for the benefit of daughter-in-law is chargeable to tax in the hands of transferor i.e., Mrs. Kasturi in this case.

The contention of Mrs. Kasturi is, hence, not valid in law.

~~Note~~ - In order to attract the clubbing provisions u/s 64(1)(viii), the transfer should be otherwise than for adequate consideration. In this case, it is presumed that the transfer is otherwise than for adequate consideration and therefore, the clubbing provisions are attracted. Moreover, the provisions of section 56(2)(x) would also get attracted in the hands of ABC Co Ltd., if the conditions specified thereunder are satisfied.

Note : If it is presumed that the transfer was for adequate consideration, the provisions of section 64(1)(viii) would not be attracted.

Question 8 T11.8 **[Clubbing of Income]**

Compute the gross total income of Mr. & Mrs. A from the following information assuming both exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A)

	Particulars	₹
(a)	Salary income (computed) of Mrs. A	2,30,000
(b)	Income from profession of Mr. A	3,90,000
(c)	Income of minor son B from company deposit	15,000
(d)	Income of minor daughter C from special talent	32,000
(e)	Interest from bank received by C on deposit made out of her special talent	3,000
(f)	Gift received by C on 30.09.2025 from friend of Mrs. A	2,500

Brief working is sufficient. Detailed computation under various heads of income is not required. **[SM Q.]**

Answer 8

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As per the provisions of section 64(1A) of the Income-tax Act, 1961, all the income of a minor child has to be clubbed in the hands of that parent whose total income (excluding the income of the minor) is greater. The income of Mr. A is ₹ 3,90,000 and income of Mrs. A is ₹ 2,30,000. Since the income of Mr. A is greater than that of Mrs. A, the income of the minor children have to be clubbed in the hands of Mr. A. It is assumed that this is the first year when clubbing provisions are attracted.

Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be clubbed. Hence, the income of minor child C from exercise of special talent will not be clubbed.

However, interest from bank deposit has to be clubbed even when deposit is made out of income arising from application of special talent.

The Gross Total Income of Mrs. A is ₹ 2,30,000. The total income of Mr. A giving effect to the provisions of section 64(1A) is as follows:

Computation of gross total income of Mr. A for the A.Y. 2026-27

Particulars	₹	₹
Income from profession		3,90,000
Income of minor son B from company deposit	15,000	
Less: Exemption u/s 10(32)	1,500	13,500
Income of minor daughter C		
From special talent – not to be clubbed	-	
Interest from bank	3,000	
Gift of ₹ 2,500 received from a non-relative is not taxable u/s 56(2)(x) being less than the aggregate limit of ₹ 50,000	Nil	
	3,000	
Less : Exemption u/s 10(32)	1,500	1,500
Gross Total Income		**4,05,000**

Question 9 [Cross Gift]

Mr. Vasudevan gifted a sum of ₹ 6 lakhs to his brother's wife on 14-6-2025. On 12-7-2025, his brother gifted a sum of ₹ 5 lakhs to Mr. Vasudevan's wife. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and wife of Mr. Vasudevan's brother on 01-8-2025 at 9% interest. Examine the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Vasudevan and his brother. **[SM Q.]**

Answer 9

In the given case, Mr. Vasudevan gifted a sum of ₹ 6 lakhs to his brother's wife on 14.06.2025 and simultaneously, his brother gifted a sum of ₹ 5 lakhs to Mr. Vasudevan's wife on 12.07.2025. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and his brother's wife. These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. It was so held by the Apex Court in Keshavji Morarji (1967) .

Accordingly, the interest income arising to Mrs. Vasudevan in the form of interest on fixed deposits would be included in the total income of Mr. Vasudevan and interest income arising in the hands of his brother's wife would be taxable in the hands of Mr. Vasudevan's brother as per section 64(1), to

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the extent of amount of cross transfers i.e., ₹ 5 lakhs.

This is because both Mr. Vasudevan and his brother are the indirect transferors of the income to their respective spouses with an intention to reduce their burden of taxation.

However, the interest income earned by his spouse on fixed deposit of ₹ 5 lakhs alone would be included in the hands of Mr. Vasudevan's brother and not the interest income on the entire fixed deposit of ₹ 6 lakhs, since the cross transfer is only to the extent of ₹ 5 lakhs.

Question 10 Prac·Q·3· **[Cross Gift]**

Mr. A has gifted a house property valued at ₹ 50 lakhs to his wife, Mrs. B, who in turn has gifted the same to Mrs. C, their daughter-in-law. The house was let out at ₹ 25,000 per month throughout the year. Compute the total income of Mr. A and Mrs. C. Will your answer be different if the said property was gifted to his son, husband of Mrs. C? **[SM Q.]**

Answer 10

As per section 27(i), an individual who transfers otherwise than for adequate consideration any house property to his spouse, not being a transfer in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred.

Therefore, in this case, Mr. A would be the deemed owner of the house property transferred to his wife Mrs. B without consideration.

As per section 64(1)(vi), income arising to the son's wife from assets transferred, directly or indirectly, to her by an individual otherwise than for adequate consideration would be included in the total income of such individual.

Income from let-out property is ₹ 2,10,000 [i.e., ₹ 3,00,000, being the actual rent calculated at ₹ 25,000 per month less ₹ 90,000, being deduction u/s 24@30% of ₹ 3,00,000]

In this case, income of ₹ 2,10,000 from let-out property arising to Mrs. C, being Mr. A's son's wife, would be included in the income of Mr. A, applying the provisions of section 27(i) and section 64(1)(vi). Such income would, therefore, not be taxable in the hands of Mrs. C.

In case the property was gifted to Mr. A's son, the clubbing provisions u/s 64 would not apply, since the son is not a minor child. Therefore, the income of ₹ 2,10,000 from letting out of property gifted to the son would be taxable in the hands of the son.

It may be noted that the provisions of section 56(2)(x) would not be attracted in the hands of the recipient of house property, since the receipt of property in each case was from a "relative" of such individual. Therefore, the stamp duty value of house property would not be chargeable to tax in the hands of the recipient of immovable property, even though the house property was received by her or him without consideration.

Question 11 LDR [Similar to Prac·Q·6, Different amounts] **[Cross Gift]**

Rayaan gifted ₹ 15 lakhs to his wife, Sargam on her birthday on, 23rd February, 2025. Sargam lent ₹ 8,00,000 out of the gifted amount to Karuna on 1st April, 2025 for six months on which she received interest of ₹ 80,000. The said sum of ₹ 80,000 was invested in shares of a listed company on 5th October, 2025, which were sold for ₹ 96,000 on 28th March, 2026. Securities transactions tax was paid on purchase and sale of such shares. The balance amount of gift was invested on 1st April 2025, as capital by Sargam in her new business. She suffered loss of ₹ 52,000 in the business in Financial Year 2025-26.

In whose hands the above income and loss shall be included in Assessment Year 2026-27, assuming that capital invested in the business was entirely out of the funds gifted by her husband. Support your answer with brief reasons. **[RTP M-20 Q.]**

Answer 11

In computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an

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agreement to live apart.

Interest on loan: Accordingly, ₹ 80,000, being the amount of interest on loan received by Mrs. Sargam, wife of Mr.Rayaan, would be includible in the total income of Mr. Rayaan, since such loan was given out of the sum of money received by her as gift from her husband.

Loss from business: As per Explanation 2 to section 64, income includes loss. Thus, clubbing provisions would be attracted even if there is loss and not income.

Thus, the entire loss of ₹ 52,000 from the business carried on by Mrs. Sargam would also be includible in the total income of Mr. Rayaan, since as on 1st April 2025, the capital invested was entirely out of the funds gifted by her husband.

Short-term capital gain: Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and, therefore, short-term capital gain of₹ 16,000 (₹ 96,000, being the sale consideration less ₹ 80,000, being the cost ofacquisition) arising in the hands of Mrs. Sargam from sale of shares acquired by investing the interest income of ₹ 80,000 earned by her (from the loan given out of the sum gifted by her husband), would not be included in the hands of Mr. Rayaan. Thus, such income is taxable in the hands of Mrs. Sargam.

[Cross Gift]

Question 12

Mr. Karan gifted a sum of ₹ 9 lakhs to his brother's minor son on 1-5-2025. On the same date, his brother gifted debentures worth ₹ 10 lakhs to Mrs. Karan. Son of Mr. Karan's brother invested the amount in fixed deposit with Canara Bank @ 9% p.a. interest and Mrs. Karan received interest of ₹ 81,000 on these debentures during the previous year 2025-26. Discuss the tax implications under the provisions of the Income- tax Act, 1961.

[RTP N-20]

Answer 12

In the given case, Mr. Karan gifted a sum of ₹ 9 lakhs to his brother's minor son on 1.5.2025 and simultaneously, his brother gifted debentures worth ₹ 10 lakhs to Mr. Karan's wife on the same date. Mr. Karan's brother's minor son invested the gifted amount of ₹ 9 lakhs in fixed deposit with Canara Bank.

These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted.

As per section 64(1A), all income of a minor child is includible in the hands of the parent, whose total income, before including minor's income is higher. Accordingly, the interest income arising to Mr. Karan's brother's son from fixed deposits would be included in the total income of Mr. Karan's brother, assuming that Mr. Karan's brother's total income is higher than his wife's total income, before including minor's income. Mr. Karan's brother can claim exemption of ₹ 1,500 u/s 10(32).

Interest on debentures arising in the hands of Mrs. Karan would be taxable in the hands of Mr. Karan as per section 64(1)(iv).

This is because both Mr. Karan and his brother are the indirect transferors of the income to their spouse and minor son, respectively, with an intention to reduce their burden of taxation.

In the hands of Mr. Karan, interest received by his spouse on debentures of ₹ 9 lakhs alone would be included and not the entire interest income on the debentures of ₹10 lakhs, since the cross transfer is only to the extent of ₹ 9 lakhs.

Hence, only proportional interest (i.e., 9/10th of interest on debentures received)₹ 72,900 would be includible in the hands of Mr. Karan.

The provisions of section 56(2)(x) are not attracted in respect of sum of money transferred or value of

TELEGRAM: CA NOTE HUB

debentures transferred, since in both the cases, the transfer is from a relative.

Question 13 Pg 123(2) Prac · Q · 2. **[Misc. Income clubbing]**

During the previous year 2025-26, the following transactions occurred in respect of Mr. A.

(a) Mr. A had a fixed deposit of ₹ 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 1-4-2025 to 31-3-2026 to the savings bank account of Mr. B, son of his brother, to help him in his education. 45000

(b) Mr. A holds 75% profit share in a partnership firm. Mrs. A received a commission of ₹ 25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.

(c) Mr. A gifted a flat to Mrs. A on April 1, 2025. During the previous year 2025- 26, Mrs. A's "Income from house property" (computed) was ₹ 52,000 from such flat. HP · Deemed owner

(d) Mr. A gifted ₹ 2,00,000 to his minor son who invested the same in a business and he derived income of ₹ 20,000 from the investment. Mrs A / Mr A → Jiski inc. zada

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

During the year, Mr. A got a monthly pension of ₹ 10,000. He had no other income. Mrs. A received salary of ₹ 20,000 per month from a part time job.

Examine the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child assuming they exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Question 14 Prac Q 5. **[Misc Income clubbing]**

Mr. B is the Karta of a HUF, whose members derive income as given below:

	Particulars	₹
(i)	Income from B' s profession	45,000
(ii)	Mrs. B' s salary as fashion designer	76,000
(iii)	Minor son D (interest on fixed deposits with a bank which were gifted to him by his uncle)	10,000
(iv)	Minor daughter P's earnings from sports	95,000
(v)	D's winnings from lottery (gross) No exemption	1,95,000

Examine the tax implications in the hands of Mr. and Mrs. B. Assume assessee opted out from Default Tax Regime u/s 115BAC **[SM Q.]**

Answer 14

Clubbing of income and other tax implications

As per the provisions of section 64(1A), in case the marriage of the parents subsist, the income of a minor child shall be clubbed in the hands of the parent whose total income, excluding the income of the minor child to be clubbed, is greater. In this problem, it has been assumed that the marriage of Mr. B and Mrs. B subsists.

Further, in case the income arises to the minor child on account of any manual work done by the child or as a result of any activity involving application of skill, talent, specialized knowledge or experience of the child, then, the same shall not be clubbed in the hands of the parent.

Tax implications

(i) Income of ₹ 45,000 from Mr. B's profession shall be taxable in the hands of Mr. B under the head "Profits and gains of business or profession".

(ii) Salary of ₹ 26,000 (₹ 76,000 less standard deduction u/s 16(ia) of ₹ 50,000) shall be taxable as "Salaries" in the hands of Mrs. B.

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(iii) Income from fixed deposit of ₹ 10,000 arising to the minor son D, shall be clubbed in the hands of the father, Mr. B as "Income from other sources", since Mr. B's income is greater than income of Mrs. B before including the income of the minor child.

As per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child. The balance income would be clubbed in the hands of the parent as "Income from other sources".

(iv) Income of ₹ 95,000 arising to the minor daughter P from sports shall not be included in the hands of the parent, since such income has arisen to the minor daughter on account of an activity involving application of her skill.

(v) Income of ₹ 1,95,000 arising to minor son D from lottery shall be included in the hands of Mr. B as "Income from other sources", since Mr. B's income is greater than the income of Mrs. B before including the income of minor child.

Note–Mr. B can reduce the tax deducted at source from such lottery income while computing his net tax liability.

Question 15 LDR [Misc Income clubbing]

Details of Income of Mr. R and his wife Mrs. R for the previous year 2025-26 are as under:

(i) Mr. R transferred his self-occupied property without any consideration to the HUF of which he is a member. During the previous year 2025-26 the HUF earned an income of ₹ 50,000 from such property.

(ii) Mr. R transferred ₹ 4,00,000 to his wife Mrs. R on 01.04.2009 without any consideration which was given as a loan by her to Mr. Girish. She earned ₹ 3,50,000 as interest during the earlier previous years which was also given as a loan to Mr. Girish. During the previous year 2025-26, she earned interest @ 11% per annum.

(iii) Mr. R and Mrs. R both hold equity shares of 27% and 25% respectively in AMG Limited. They are also working as employees in such Company. During the financial year 2025-26 they have withdrawn a salary of ₹ 3,20,000 and 2,70,000 respectively.

(iv) Mrs. R transferred 5,000 equity shares of RSB Ltd. on 17.09.2017 to Mr. R without any consideration. The Company issued 3,000 bonus shares to Mr. R in 2019. On 04.03.2026, Mr. R sold entire share holdings and earned ₹ 5,20,000 as capital gains.

Apart from above income, Mr. R has income from commission ₹ 4,00,000 and Mrs. R has interest income of ₹ 3,30,000.

Compute Gross Total income of Mr. R and Mrs. R for the assessment year 2026-27. Assume they have opted out from default taxation regime u/s 115BAC.

Answer 15

(a) Computation of Gross Total Income of Mr. R and Mrs. R for A.Y. 2026-27

	Particulars	Mr. R	Mrs. R
		Amount (₹)	
I.	**Income from house property Income from property transferred to HUF without consideration**		
	Since Mr. R has transferred his property to his HUF without consideration, income of ₹ 50,000[1] from such property would be included in the total income of Mr. R as per section 64(2).	50,000	
II.	**Capital Gains**		

1 *Assumed as computed figure.*

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	Particulars	Mr. R	Mrs. R
		Amount (₹)	
	Income from equity shares transferred by Mrs. R to Mr. R without consideration		
	Capital gains arising to Mr. R from transfer of equity shares of RSB Ltd. gifted to him by Mrs. R would be included in the hands of Mrs. R [₹ 5,20,000 x 5,000/8,000]		3,25,000
	Capital gains arising to Mr. R from transfer of bonus shares issued by RSB Ltd. on the basis of holding of the said equity shares would be included in the income of Mr. R and not Mrs. R, since income derived from accretion of the transferred asset cannot be clubbed with the income of transferor of the original asset i.e., Mrs. R [₹ 5,20,000 x 3,000/8,000]3	1,95,000	
III.	**Income from Other Sources**		
	Income from commission	4,00,000	
	Interest income		3,30,000
	Interest income on ₹ 4 lakh transferred by Mr. R to Mrs. R without consideration		
	Income of ₹ 44,000, i.e., 11% of ₹4,00,000, being the amount transferred by Mr. R to Mrs. R without any consideration and loaned by her to Mr. Girish, would be included in the income of Mr. R	44,000	
	Income of ₹ 38,500 i.e., 11% of ₹ 3,50,000, being the interest earned by Mrs. R out of amount gifted by Mr. R and thereafter, given by her as loan to Mr. Girish, would be included in the income of Mrs. R, as income derived by Mrs. R from accretion of the amount gifted by Mr. R (i.e., interest income) cannot be included in the income of Mr. R.		38,500
	Total income [before considering adjustment on account of item (iii) i.e., salary income from a company in which both Mr. R and Mrs. R have substantial interest]	6,89,000	6,93,500
IV.	**Salary income from a company in which both Mr. R and Mrs. R have substantial interest**		
	Since both Mr. R and Mrs. R have substantial interest in AMG Ltd. (on account of holding equity shares carrying 20% or more of voting power) and both are in receipt of income by way of salary from AMG Ltd., such **salary income would be includible in the hands of that spouse, whose total income, before including such salary income, is higher.** Accordingly, the salary income of both Mr. R and Mrs. R would be included in the hands of Mrs. R in this case, since her total income, before including such income, is higher than that of Mr. R.		
	Salary income of Mr. R = ₹ 3,20,000 – ₹ 50,000 (standard deduction)		**2,70,000**

Both are not having technical & professional qualification.

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	Particulars	Mr. R	Mrs. R
		Amount (₹)	
	Salary income of Mrs. R = ₹ 2,70,000 – ₹ 50,000 (standard deduction)		2,20,000
	Gross Total Income	6,89,000	11,83,500

III.1.

Question 16 [Income transfer without transfer of Asset]

Mr. Vatsan has transferred, through a duly registered document, the income arising from a godown to his son, without transferring the godown. In whose hands will the rental income from godown be charged?

Answer 16

Section 60 expressly states that where there is transfer of income from an asset without transfer of the asset itself, such income shall be included in the total income of the transferor. Hence, the rental income derived from the godown shall be clubbed in the hands of Mr. Vatsan.

Q'15: Assumption.

we have assumed that Mr. R & Mrs. R not having any technical or professional qualification,

module Q. 8:

Mahadev	Golu	Dariya
565000	250000 (Skill & talent)	380000
40000 (Gudla)		
605000	250000	380000

21000 cash not taxable (not > 50000)

Dividend acc. losses hain (deemed dividend) nahi maanenge.

SM Que. not included here:

Prac. Q. 7.

Prac. Q. 8.

Total = 20 Questions
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Notebook Page = 132

CHAPTER 9

Aggregation of Income, Set-Off and Carry Forward of Losses

Question 1

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

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

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

(i) He has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

(ii) He pays tax under the default tax regime.

Answer 1

(i) Computation of total income for the A.Y.2026-27 under normal provisions of the Act

Particulars	Amount (₹)	Amount (₹)
Income from salary	4,00,000	
Less: Loss from house property of ₹ 2,20,000 to be restricted to ₹ 2 lakhs by virtue of section 71(3A)	(-) 2,00,000	2,00,000
Balance loss of ₹ 20,000 from house property to be carried forward to next assessment year		
Income from other sources (interest on fixed deposit with bank)	80,000	
Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	-
Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next assessment year		
Gross total income [See Note below]		**2,00,000**
Less: Deduction under Chapter VI-A		Nil
Total income		**2,00,000**

Notes:

(i) Gross Total Income includes salary income of ₹ 2,00,000 after adjusting loss of ₹ 2,00,000 from house property. The balance loss of ₹ 20,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.

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(ii) Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

(ii) Computation of total income for the A.Y.2026-27 under default tax regime

Particulars	Amount (₹)	Amount (₹)
Income from salary		4,00,000
Income from other sources (interest on fixed deposit with bank)	80,000	
Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	-
Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next AY		
Gross total income/ Total Income		**4,00,000**

Notes:

(i) Under the default tax regime, loss from house property cannot be set off against income under any other head and cannot be carry forward.

(ii) Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

Question 2

Mr. B, a resident individual, furnishes the following particulars for the P.Y.2025-26:

Particulars	₹
Income from salary (computed)	45,000
Income from house property	(24,000)
Income from non-speculative business	(22,000)
Income from speculative business	(4,000)
Short-term capital losses	(25,000)
Long-term capital gains taxable u/s 112	19,000

What is the total income chargeable to tax for the A.Y.2026-27, assuming that he pays tax under section 115BAC?

Answer 2

Total income of Mr. B for the A.Y. 2026-27

Particulars	Amount (₹)	Amount (₹)
Income from salaries		45,000
Income from house property		
Loss from house property can neither be set-off nor can be carried forward, since Mr. B is paying tax under the default tax regime u/s 115BAC	Nil	
Profits and gains of business and profession		
Business loss to be carried forward **[Note (i)]**	(22,000)	
Speculative loss to be carried forward **[Note (ii)]**	(4,000)	

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Particulars	Amount (₹)	Amount (₹)
Capital Gains		
Long term capital gain taxable u/s 112	19,000	
Short term capital loss ₹ 25,000 set off against long-term capital gains to the extent of ₹ 19,000 **[Note (iii)]**	(19,000)	
	Nil	
Balance short term capital loss of ₹ 6,000 to be carried forward **[Note (iii)]**		
Taxable income		**45,000**

Notes:

(i) Business loss cannot be set-off against salary income. Therefore, loss of ₹ 22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss has to be carried forward to the next year for set-off against business profits, if any.

(ii) Loss of ₹ 4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be carried forward.

(iii) Short term capital loss can be set off against both short term capital gain and long-term capital gain. Therefore, short-term capital loss of ₹ 25,000 can be set-off against long-term capital gains to the extent of ₹ 19,000. The balance short term capital loss of ₹ 6,000 cannot be set-off against any other income and has to be carried forward to the next year for set-off against capital gains, if any.

Question 3

During the P.Y. 2025-26, Mr. C has the following income and the brought forward losses:

Particulars	₹
Short term capital gains on sale of shares	1,50,000
Long term capital loss of A.Y.2024-25	(96,000)
Short term capital loss of A.Y.2025-26	(37,000)
Long term capital gain u/s 112	75,000

What is the capital gain taxable in the hands of Mr. C for the A.Y.2026-27? **[SM Q.]**

Answer 3

Taxable capital gains of Mr. C for the A.Y. 2026-27

Particulars	₹	₹
Short term capital gains on sale of shares	1,50,000	
Less: Brought forward short term capital loss of the A.Y.2025-26	(37,000)	1,13,000
Long term capital gain	75,000	
Less: Brought forward long-term capital loss of A.Y.2024-25 ₹ 96,000 set off to the extent of ₹ 75,000 **[See Note below]**	(75,000)	Nil
Taxable short-term capital gains		**1,13,000**

Note: Long-term capital loss cannot be set off against short-term capital gain. Hence, the unadjusted long-term capital loss of A.Y.2024-25 of ₹ 21,000 (i.e. ₹ 96,000 – ₹ 75,000) can be carried forward to the next year to be set-off against long-term capital gains of that year.

TELEGRAM: CA NOTE HUB

Question 4

Mr. D has the following income for the P.Y.2025-26:

Particulars	₹
Income from the activity of owning and maintaining the race horses	75,000
Income from textile business	85,000
Brought forward textile business loss (relating to A.Y. 2025-26)	50,000
Brought forward loss from the activity of owning and maintaining the race horses (relating to A.Y.2023-24)	96,000

What is the total income in the hands of Mr. D for the A.Y. 2026-27? **[SM Q.]**

Answer 4

Total income of Mr. D for the A.Y. 2026-27

Particulars	₹	₹
Income from the activity of owning and maintaining race horses	75,000	
Less: Brought forward loss of ₹ 96,000 from the activity of owning and maintaining race horses set-off to the extent of ₹ 75,000	75,000	
	Nil	
Balance loss of ₹ 21,000 (₹ 96,000 – ₹ 75,000) from the activity of owning and maintaining race horses to be carried forward to A.Y.2027-28		
Income from textile business	85,000	
Less: Brought forward business loss from textile business.	50,000	35,000
Total income		**35,000**

Note: Loss from the activity of owning and maintaining race horses cannot be set-off against any other source/head of income.

Question 5

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

Particulars	₹
Income from salaries (computed)	1,50,000
Income from speculation business	60,000
Loss from non-speculation business	(40,000)
Short term capital gain	80,000
Long term capital loss of A.Y.2024-25	(30,000)
Winning from lotteries (Gross)	20,000

What is the taxable income of Mr. E for the A.Y.2026-27? **[SM Q.]**

TELEGRAM: CA NOTE HUB

Answer 5

Computation of taxable income of Mr. E for the A.Y.2026-27

Particulars	₹	₹
Income from salaries		1,50,000
Income from speculation business	60,000	
Less : Loss from non-speculation business	(40,000)	20,000
Short-term capital gain		80,000
Winnings from lotteries		20,000
Taxable income		**2,70,000**

Note: Long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of ₹ 30,000 has to be carried forward to the

Question 6

Compute the gross total income of Mr. F for the A.Y. 2026-27 from the information given below – **[SM Q.]**

Particulars	₹
Income from house property (computed)	1,25,000
Income from business (before providing for depreciation)	1,35,000
Short term capital gains on sale of unlisted shares	56,000
Long term capital loss from sale of property (brought forward from A.Y. 2025-26)	(90,000)
Income from tea growing & manufacturing business	1,20,000
Dividends from Indian companies carrying on agricultural operations (Gross)	80,000
Current year depreciation	26,000
Brought forward business loss (loss incurred six years ago)	(45,000)

Answer 6

Gross Total Income of Mr. F for the A.Y. 2026-27

Particulars	₹	₹
Income from house property (Computed)		1,25,000
Income from business		
Profits before depreciation	1,35,000	
Less: Current year depreciation	26,000	
Less: Brought forward business loss	45,000	
	64,000	
Income from tea business (40% is business income)	48,000	1,12,000
Capital gains		
Short term capital gains		56,000
Income from Other Sources		
Dividend income **(taxable in the hands of shareholders)**		80,000
Gross Total Income		**3,73,000**

Salary Deduction :
Normal Tax Regime = 50,000
Default u/s 115BAC = 75,000

TELEGRAM: CA NOTE HUB

Note:

(1) Dividend from Indian companies is fully taxable in the hands of shareholders at normal rates of tax.

(2) 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax;

(3) Long-term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss of ₹ 90,000 brought forward from A.Y.2025-26 cannot be set-off in the A.Y.2026-27, since there is no long- term capital gains in that year. It has to be carried forward for set-off against long-term capital gains, if any, during A.Y.2027-28.

Question 7 Pg 140(2)

Mr. Soohan submits the following details of his income for the assessment year 2026-27:

Particulars	₹
Income from salary (computed)	3,00,000
Loss from let out house property	(-) 40,000
Income from sugar business	50,000
Loss from iron ore business b/f (discontinued in P.Y. 2020-21)	(-) 1,20,000
Short term capital loss	(-) 60,000
Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning (Gross)	50,000
Winnings from card games (Gross)	6,000
Agricultural income	20,000
Short-term capital loss u/s 111A	(-) 10,000
Bank interest on Fixed deposit	5,000

Calculate gross total income and losses to be carried forward, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[SM Q.]

Question 8 Pg 141(2)

Mr. Batra furnishes the following details for year ended 31.03.2026:

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

TELEGRAM: CA NOTE HUB

Following are the brought forward losses:

(i) Losses from activity of owning and maintaining race horses-pertaining to A.Y.2023-24 ₹ 25,000.

(ii) Brought forward loss from business of textile ₹ 60,000 - Loss pertains to A.Y. 2018-19.

Compute gross total income of Mr. Batra for the AY 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). Also determine the losses eligible for carry forward to the AY 2027-28. **[SM Q.]**

Question 9

Mr. A furnishes you the following information for the year ended 31.03.2026:

		(₹)
(i)	Income from plying of vehicles (computed as per books) (He owned 5 light goods vehicle throughout the year)	3,20,000
(ii)	Income from retail trade of garments (Computed as per books) (Sales turnover ₹ 1,35,70,000) Mr. A had declared income on presumptive basis u/s 44AD for the first time in A.Y. 2025-26. Assume 10% of the turnover during the previous year 2025-26 was received in cash and balance through A/c payee cheque and all the payments in respect of expenditure were also made through A/c payee cheque or debit card.	7,50,000
(iii)	He has brought forward depreciation relating to A.Y. 2024-25	1,00,000

Compute taxable income of Mr. A and his tax liability for the assessment year 2026-27 with reasons for your computation, assuming he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 9

Computation of total income and tax liability of Mr. A for the A.Y. 2026-27

Particulars	₹
Income from retail trade – as per books **(See Note 1 below)**	7,50,000
Income from plying of vehicles – as per books **(See Note 2 below)**	3,20,000
	10,70,000
Less : Set off of b/f depreciation relating to A.Y. 2024-25	1,00,000
Total income	**9,70,000**
Tax liability	1,06,500
Add: Health and Education cess @4%	4,260
Total tax liability	**1,10,760**

Note:

1. **Income from retail trade:** Presumptive business income u/s 44AD is ₹ 8,41,340 i.e., 8% of ₹ 13,57,000, being 10% of the turnover received in cash and 6% of ₹ 1,22,13,000, being the amount of sales turnover received through A/c payee cheque. However, the income computed as per books is ₹ 7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of ₹ 1,00,000. Since the income computed as per books is lower than the income deemed u/s 44AD, the assessee can adopt the income as per books.

Jis saal mei loss hua uske agle saal se 4 saal ke 8 saal count karenge.

TELEGRAM: CA NOTE HUB

However, if he does not opt for presumptive taxation u/s 44AD, he has to get his books of accounts audited u/s 44AB, since his turnover exceeds ₹ 1 crore (the enhanced limit of ₹ 10 crore would not available, since more than 5% of the turnover is received in cash). Also, his case would be falling u/s 44AD(4) and hence tax audit is mandatory. It may further be noted that he cannot opt for section 44AD for next five A.Ys, if he does not opt for section 44AD this year.

2. **Income from plying of light goods vehicles:** Income calculated u/s 44AE(1) would be ₹ 7,500 x 12 x 5 which is equal to ₹ 4,50,000. However, the income from plying of vehicles as per books is ₹ 3,20,000, which is lower than the presumptive income of ₹ 4,50,000 calculated as per section 44AE(1). Hence, the assessee can adopt the income as per books i.e. ₹ 3,20,000, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required u/s 44AB.

It is to be further noted that in both the above cases, had presumptive income provisions been opted, all deductions u/ss 30 to 38, including depreciation would have been deemed to have been given full effect to and no further deduction under those sections would be allowable.

If the assessee opted for income to be assessed on presumptive basis, his total income would be as under:

Particulars	₹
Income from retail trade u/s 44AD [₹ 13,57,000 @ 8% plus ₹ 1,22,13,000 @6%]	8,41,340
Income from plying of light goods vehicles u/s 44AE [₹ 7,500 x 12 x 5]	4,50,000
	12,91,340
Less: Set off of brought forward depreciation – not possible as it is deemed that it has been allowed and set off	Nil
Total income	**12,91,340**
Tax thereon	1,99,902
Add : Health and Education cess @4%	7,996
Total tax liability	**2,07,898**
Total tax liability (rounded off)	**2,07,900**

Question 10 Pg 143 (2)

Mr. Aditya furnishes the following details for the year ended 31-03-2026:

Particulars	Amount (₹)
Loss from speculative business A	25,000
Income from speculative business B	5,000
Loss from specified business covered u/s 35AD	20,000
Income from salary (computed)	3,00,000
Loss from let out house property	2,50,000
Income from trading business	45,000
Long-term capital gain from sale of urban land	2,00,000
Long-term capital loss on sale of shares (STT not paid)	75,000
Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,02,000

TELEGRAM: CA NOTE HUB

Following are the brought forward losses:

(1) Losses from owning and maintaining of race horses pertaining to A.Y. 2024-25 ₹ 2,000.

(2) Brought forward loss from trading business ₹ 5,000 relating to A.Y.2021-22.

Compute the total income of Mr. Aditya and show the items eligible for carry forward, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Question 11

Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the previous year 2025-26.

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

The other details of unabsorbed depreciation and brought forward losses pertaining to Assessment Year 2025-26 are as follows:

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

Compute the Gross total income of Mr. Garg for the Assessment Year 2026-27 and the amount of loss, if any that can be carried forward or not. **[SM Q.]**

Answer 11

Computation of Gross Total Income of Mr. Garg for the A.Y. 2026-27

Particulars	₹	₹
(i) Income from salary		15,000
(ii) Profits and gains of business or profession	66,000	
Less: Unabsorbed depreciation brought forward from A.Y.2025-26	11,000	55,000
(Unabsorbed depreciation can be set-off against any head of income other than "salary")		
(iii) Capital gains		
Long-term capital gain on sale of land	10,800	
Less: Brought forward short-term capital loss		
[Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains as per section 74(1)]	9,800	1,000
Gross Total Income		**71,000**

Amount of loss to be carried forward to A.Y.2027-28

TELEGRAM: CA NOTE HUB

	Particulars	₹
(1)	**Loss from speculative business [to be carried forward as per section 73]** [Loss from a speculative business can be set off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of ₹ 22,000 brought forward from A.Y.2025-26 has to be carried forward to A.Y. 2027-28 for set-off against speculative business income of that year. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4), i.e., upto A.Y.2029-30]	22,000
(2)	**Loss on maintenance of race horses [to be carried forward as per section 74A]** [As per section 74A(3), the loss incurred in the activity of owning and maintaining race horses in any assessment year cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2030-31]	15,000
(3)	**Loss from gambling can neither be set-off nor be carried forward.**	

Question 12 Pg 139 (2)

The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31.3.2026:

Particulars	₹
Income from salaries (computed)	2,20,000
Loss from house property	(1,90,000)
Loss from cloth business	(2,40,000)
Income from speculation business	30,000
Loss from specified business covered by section 35AD	(20,000)
Long-term capital gains from sale of urban land	2,50,000
Loss from card games Ignore	(32,000)
Income from betting (Gross) Taxable	45,000
Life Insurance Premium paid (10% of the capital sum assured) 80C	45,000

Compute the total income and show the items eligible for carry forward, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Rem. Salary from firm → PGBP
Share in profit from firm → Exempt u/s 10(2A)

Question 13

Mr. Rajat submits the following information for the financial year ending 31st March, 2026. He decides to pay tax under the default tax regime u/s 115BAC. He desires that you should:

(a) Compute the total income; and

(b) Ascertain the amount of losses that can be carried forward.

Particulars	₹
(i) He has two let out house property:	
(a) House No. I – Income after all statutory deductions	72,000

TELEGRAM: CA NOTE HUB

Particulars	₹
(b) House No. II – Current year loss	(30,000)
(ii) He has three proprietary businesses:	
(a) Textile Business:	
(i) Discontinued from 31st October, 2025 – Current year loss	40,000
(ii) Brought forward business loss of A.Y.2021-22	95,000
(b) Chemical Business:	
(i) Discontinued from 1st March, 2023 – hence no profit/loss	Nil
(ii) Bad debts allowed in earlier years recovered during this year	35,000
(iii) Brought forward business loss of A.Y. 2022-23	50,000
(c) Leather Business: Profit for the current year	1,00,000
(d) Share of profit in a firm in which he is partner since 2011	16,550
(iii) (a) Short-term capital gain	60,000
(b) Long-term capital loss	35,000
(iv) Contribution to LIC towards premium (115BAC hai ded. nahi milega)	10,000

Answer 13

Computation of total income of Mr. Rajat for the A.Y. 2026-27

Particulars	₹	₹
1. Income from house property		
House No.1	72,000	
House No.2	(-) 30,000	42,000
2. Profits and gains of business or profession		
Profit from leather business	1,00,000	
Bad debts recovered taxable u/s 41(4)	35,000	
	1,35,000	
Less: Current year loss of textile business	(-) 40,000	
	95,000	
Less: Brought forward business loss of textile business for A.Y.2021-22 set off against the business income of current year	95,000	Nil
3. Capital Gains		
Short-term capital gain		60,000
Gross Total Income		**1,02,000**
Less: Deduction under Chapter VI-A		
U/s 80C – LIC premium paid (not available since he is paying tax under the default tax regime)		-
Total Income		**1,02,000**

Statement of losses to be carried forward to A.Y. 2027-28

Particulars	₹
Brought forward chemical business loss of A.Y. 2022-23 to be carried forward u/s 72	50,000
Long term capital loss of A.Y. 2026-27 to be carried forward u/s 74	35,000

TELEGRAM: CA NOTE HUB

Notes:

(1) Share of profit from firm of ₹ 16,550 is exempt u/s 10(2A).

(2) Long-term capital loss cannot be set-off against short-term capital gains. Therefore, it has to be carried forward to the next year to be set- off against long-term capital gains of that year.

Question 14

Ms. Geeta, a resident individual, provides the following details of her income/losses for the year ended 31.3.2026:

(i) Salary received as a partner from a partnership firm ₹ 7,50,000. The same was allowed to the firm.

(ii) Loss on sale of shares listed in BSE ₹ 3,00,000. Shares were held for 15 months and STT paid on sale and acquisition.

(iii) Long-term capital gain on sale of land ₹ 5,00,000.

(iv) ₹ 51,000 received in cash from friends in party.

(v) ₹ 55,000, received towards dividend on listed equity shares of domestic companies.

(vi) Brought forward business loss of assessment year 2024-25 ₹ 12,50,000.

Compute gross total income of Ms. Geeta for the Assessment Year 2026-27 and ascertain the amount of loss that can be carried forward. **[SM Q.]**

Answer 14

Computation of Gross Total Income of Ms. Geeta for the A.Y. 2026-27

Particulars		₹
Profits and gains of business and profession		
Salary received as a partner from a partnership firm is taxable under the head "Profits and gains of business and profession"		7,50,000
Less: B/f business loss of A.Y. 2024-25 ₹ 12,50,000 to be set-off to the extent of ₹ 7,50,000		7,50,000
		Nil
(Balance b/f business loss of ₹ 5,00,000 can be carried forward to the next year)		
Capital Gains		
Long term capital gain on sale of land	5,00,000	
Less: Long-term capital loss on shares on STT paid (See Note 2 below)	3,00,000	2,00,000
Income from other sources		
Cash gift received from friends - since the value of cash gift exceeds ₹ 50,000, the entire sum is taxable	51,000	
Dividend received from a domestic company is fully taxable in the hands of shareholders	55,000	1,06,000
Gross Total Income		**3,06,000**

Notes:

1. Balance brought forward business loss of assessment year 2024-25 of ₹ 5,00,000 has to be carried forward to the next year.
2. Long-term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set-off against long-term capital gain on sale of land since long-term capital gain on sale of shares (STT paid) is taxable u/s 112A. Therefore, it can be set-off against long-term capital

TELEGRAM: CA NOTE HUB

gain on sale of land as per section 70(3).

Question 15 Pg 144 (2)

Mr. P, a resident individual, furnishes the following particulars of his income and other details for the previous year 2025-26:

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

Depreciation allowable under the Income-tax Act, 1961, comes to ₹ 8,000, for which no treatment is given above.

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

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

Compute the gross total income of Mr. P for the Assessment year 2026-27, and the amount of loss that can or cannot be carried forward. **[SM Q.]**

Question 16

Compute total income of Mr. Mathur for the AY 2026-27 from the following information furnished by him for the FY 2025-26. Assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[RTP M-20 Q.]**

Particulars	₹
Salary income (computed)	4,70,000
Loss from self-occupied house property	2,00,000
Loss from let out house property	60,000
Loss from speculation business-X	80,000
Profit from speculation business-Y	40,000
Income from trading and manufacturing business @ 8%	3,50,000
Interest on PPF deposit	95,000
Long term capital gain on sale of Vacant site (Computed)	2,10,000
Short term capital loss on sale of Jewellery	1,50,000
Investment in tax saver deposit on 31-03-2026	60,000
Brought forward loss of business of assessment year 2020-21	5,50,000

TELEGRAM: CA NOTE HUB

Particulars	₹
Donation to a charitable trust recognized u/s 12AA and approved u/s 80G paid by cheque	1,10,000
Enhanced compensation received from government for compulsory acquisition of land (held for a period of 5 years) in the year 2010	3,00,000

Answer 16

Computation of total income of Mr. Mathur for A.Y.2026-27

Particulars	₹	₹
Salaries		4,70,000
Profits and gains from business or profession		
Profit from speculation business Y	40,000	
Less: Loss of ₹80,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(40,000)	
Loss of ₹ 40,000 from speculation business X to be carried forward to A.Y. 2027-28 for set-off against profits from speculation business.		
Income from trading and manufacturing business @8%	3,50,000	
Less: Brought forward business loss of A.Y. 2020-21 set-off since a period of eight assessment years has not expired.	(3,50,000)	Nil
Balance loss of ₹ 2,00,000 to be carried forward to A.Y. 2027-28		
Capital Gains		
Enhanced compensation received from government for compulsory acquisition [Taxable in P.Y. 2025-26 since enhanced compensation is taxable on receipt basis]	3,00,000	
Long term capital gain on sale of vacant site	2,10,000	
Less: Short term capital loss on sale of jewellery	(1,50,000)	
	3,60,000	
Less: Loss from house property can be set-off to the extent of ₹ 2,00,000 as per section 71(3A). Balance loss of ₹ 60,000 to be carried forward to A.Y. 2027-28.		
	(2,00,000)	1,60,000
Income from Other Sources		
Interest on PPF deposit	95,000	
Less: Exempt u/s 10(11)	(95,000)	Nil
Gross Total Income		**6,30,000**
Less: Deduction under Chapter VI-A		
Deduction u/s 80C		
Investment in tax saver deposit on 31.3.2026	60,000	
Deduction u/s 80G		
Donation to recognized and approved charitable trust [Donation of ₹ 1,10,000 to be first restricted to ₹ 41,000, being 10% of adjusted total income of ₹ 4,10,000 i.e., [₹ 6,30,000 – ₹ 1,60,000 – ₹ 60,000].	20,500	80,500

TELEGRAM: CA NOTE HUB

Particulars	₹	₹
Thereafter, deduction would be computed at 50% of ₹ 41,000.		
Total Income		**5,49,500**

Question 17

Mr. Krishan, residing in Indore, provides the following information for the financial year 2025-26:

Particulars	₹
Income from textile business	4,60,000
Income from speculation business	25,000
Loss from gambling	12,000
Loss on maintenance of race horse	15,000
Current year depreciation of textile business not adjusted in the income given above.	5,000
Unabsorbed depreciation of assessment year 2024-25	10,000
Speculation business loss of assessment year 2025-26	30,000

Compute the Gross Total Income of Mr. Krishan for the Assessment year 2026-27 and also state the losses eligible for carry forward and period upto which such losses can be carried forward. **[RTP N-20 Q.]**

Answer 17

Computation of Gross Total Income of Mr. Krishan for A.Y. 2026-27

Particulars	₹	₹
Profits and gains of business or profession		
Income from Textile business	4,60,000	
Less: Current year depreciation allowable u/s 32(1)	5,000	
	4,55,000	
Less: Unabsorbed depreciation brought forward from A.Y.2024-25 as per section 32(2)	10,000	
		4,45,000
Income from speculation business		
Current year income from speculation business	25,000	
Less: Speculation business loss for A.Y. 2025-26 set-off as per the provisions of section 73(2)	30,000	
Speculation business loss to be carried forward	(5,000)	Nil
Gross Total Income		**4,45,000**

Losses eligible for carry forward to A.Y.2027-28

	Particulars	₹
(1)	Loss from speculation business to be carried forward as per section 73 Loss from speculation business can be set off only against income from another speculation business. The remaining loss from speculation business can be carried forward for a maximum of four assessment years immediately	5,000

TELEGRAM: CA NOTE HUB

	succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward upto A.Y.2029-30	
(2)	Loss on maintenance of race horses to be carried forward as per section 74A(3) Loss on maintenance of race horses can be set-off only against income from the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years immediately succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward upto A.Y. 2030-31	15,000
(3)	Loss from gambling can neither be set-off nor be carried forward.	

Question 18

Ms. Aarti, a resident individual, provides the following information of her income/losses for the year ended on 31st March, 2026: **[RTP N-21 Q.]**

S. No.	Particulars	(₹)
1.	Income from salary (Computed)	8,20,000
2.	Income from house property (let out) (Net Annual Value)	1,20,000
3.	Share of profit from firm in which she is partner	48,000
4.	Loss from specified business covered u/s 35AD	67,000
5.	Income from textile business before adjusting the following items:	3,30,000
	(a) Current year depreciation	53,000
	(b) Unabsorbed depreciation of earlier year	1,85,000
	(c) Brought forward loss of textile business of the A.Y. 2023-24	1,90,000
6.	Long-term capital gain on sale of debentures (unlisted)	1,50,000
7.	Long-term capital loss on sale of equity shares (STT not paid)	1,50,000
8.	Long-term capital gain on sale of equity shares listed in recognized stock exchange (STT paid at the time of acquisition and sale)	2,50,000
9.	Dividend from units of UTI	1,15,000
10.	Repayment towards housing loan taken from a scheduled bank. Out of this ₹ 3,28,000 was towards payment of interest and rest towards principal.	4,85,000

Compute the Gross Total Income of Ms. Aarti and ascertain the amount of loss that can be carried forward. Ms. Aarti has always filed her return within the due date specified u/s 139(1) of the Income-tax Act, 1961. Assuming that she has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Answer 18

Computation of gross total income of Ms. Aarti for the A.Y.2026-27

Particulars	₹	₹
Salary Income (computed)	8,20,000	
Less: As per section 71(3A), loss from house property of₹ 2,44,000 can be set-off, to the extent of Income from House Property	2,00,000	6,20,000
Net Annual Value of House Property	1,20,000	

TELEGRAM: CA NOTE HUB

Particulars		₹	₹
Less: Deduction u/s 24			
(a) 30% of NAV	36,000		
(b) Interest on housing loan	3,28,000	3,64,000	
Loss from house property		(2,44,000)	
Less: Loss eligible for set-off against salary income restricted to		2,00,000	
Loss to be carried forward to A.Y. 2027-28 for set-off against income from house property, if any, in that year.		(44,000)	
Profits and gains of business or profession			
Share of profit from firm [Exempt u/s 10(2A)]		-	
Loss from specified business u/s 35AD ₹ 67,000 [can be set-off only against income from any specified business. Hence, it has to be carried forward to A.Y.2027-28]		-	
Income from textile business		3,30,000	
Less: Current year depreciation		53,000	
		2,77,000	
Less: Brought forward loss of textile business		1,90,000	
		87,000	
Less: Set-off of unabsorbed depreciation to the extent of₹ 87,000 against business income		87,000	Nil
Capital Gains			
Long-term capital gains on sale of listed equity shares (STT paid)		2,50,000	
Less: Balance unabsorbed depreciation of ₹ 98,000 set-off		98,000	
Long-term capital gains on sale of listed equity shares [Tax is payable u/s 112A @ 12.5% on the amount exceeding₹ 1,25,000]		1,52,000	1,52,000
Long-term capital gains on sale of debentures		1,50,000	
Less: Set-off of Long-term capital loss on sale of equity shares		1,50,000	Nil
Income from Other Sources			
Dividend from units of UTI [Taxable in the hands of the unitholders]			1,15,000
Gross Total Income			**8,87,000**

Losses to be carried forward to A.Y.2027-28		₹
(i)	Losses from specified business [can be carried forward indefinitely for set-off against income from any specified business]	67,000
(ii)	Loss from house property [can be carried forward upto 8 successive assessment years for set-off against income from house property]	44,000

Question 19

Compute the gross total income of Mr. Farhan and show the items eligible for carry forward

TELEGRAM: CA NOTE HUB

and the assessment years upto which such losses can be carry forward from the following information furnished by him for the year ended 31-03-2026, Assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Particulars	Amount (₹)
Loss from speculative business MNO	12,000
Income from speculative business BPO	25,000
Loss from specified business covered u/s 35AD	45,000
Income from salary (computed)	4,18,000
Loss from house property	2,20,000
Income from trading business	2,80,000
Long-term capital gain from sale of urban land	2,05,000
Long-term capital loss on sale of equity shares (STT not paid)	85,000
Long-term capital loss on sale of listed equity shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,10,000
Short-term capital loss u/s 111A	85,000

Following are the brought forward losses:

(1) Brought forward loss from speculative business MNO ₹ 18,000 relating to A.Y. 2022-23.

(2) Brought forward loss from trading business of ₹ 12,000 relating to A.Y. 2020-21

(3) Unabsorbed depreciation ₹ 1,00,000 relating to A.Y. 2025-26

Assume Mr. Farhan has furnished his return of income on or before the due date specified u/s 139(1) in all the above previous years. **[MTP Q.]**

Answer 19

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

Particulars	₹	₹
Salaries		
Income from Salary	4,18,000	
Less: Loss from house property set-off against salary	(2,00,000)	2,18,000
[As per section 71(3A), loss from house property to the extent of ₹ 2,00,000 can be set-off against any other head of income.]		
Profits and gains of business or profession		
Income from trading business	2,80,000	
Less: Brought forward loss from trading business of A.Y. 2020-21 can be set off against current year income from trading business as per section 72(1), since the eight-year time limit as specified u/s 72(3), within which set-off is permitted, has not expired.	(12,000)	
Less: Unabsorbed depreciation	(1,00,000)	1,68,000
Income from speculative business BPO	25,000	
Less: Loss from speculative business MNO set-off as per section 73(1)	(12,000)	
Loss from speculative business MNO brought forward from A.Y.		

TELEGRAM: CA NOTE HUB

2022-23 as per section 73(2), can be set off to the extent of ₹ 13,000. Balance loss will be lapsed, since four years his expired	(13,000)	-
Capital Gains		
Long term capital gain on sale of urban land	2,05,000	
Less: Long term capital loss on sale of shares (STT not paid) set- off as per section 71(3)	(85,000)	
Less: Long-term capital loss on sale of listed equity shares on which STT is paid can also be set-off as per section 71(3), since long-term capital arising on sale of such shares is taxable u/s 112A	(1,10,000)	
Less: Short-term capital loss u/s 111A as per section 71(2)	(10,000)	-
Gross Total Income		**3,86,000**

Items eligible for carried forward to A.Y.2027-28

Particulars	₹
Loss from house property As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y. 2034-35, in this case.	20,000
Loss from specified business u/s 35AD Loss from specified business u/s 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business .	45,000
Short-term capital loss u/s 111A Short-term capital loss u/s 111A can be set-off against long term or short term capital gains. If it cannot be so set-off, it has to be carried forward to the next year for set-off against capital gains, if any, in that year. It can be carried forward for a maximum of eight assessment years, i.e., upto A.Y.2034-35, in this case, as specified u/s 74(1).	75,000

Question 20

Compute the total income of Mr. Praveen (aged 48), a resident Indian, from the following information relating to the financial year ended 31.3.2026. Also, show the items eligible for carry forward, Assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[MTP Q.]**

Particulars	₹
Income from salaries (Computed)	2,20,000
Loss from house property	2,50,000
Loss from toy business	1,30,000
Income from speculation business	40,000
Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000
Long-term capital loss from sale of listed shares in recognized stock exchange	1,10,000

TELEGRAM: CA NOTE HUB

(STT paid at the time of acquisition and sale of shares)	
Loss from card games	32,000
Income from betting (Gross)	45,000
Life Insurance Premium paid (10% of the capital sum assured)	50,000

Answer 20

Computation of total income of Mr. Praveen for the A.Y.2026-27

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property set-off against salary as per section 71(1) & 71(3A)	2,00,000	20,000
Profits and gains of business or profession		
Income from speculation business	40,000	
Less: Loss from toy business set off	40,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Long term capital loss on sale of listed shares on which STT is paid can be set off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable u/s 112A	1,10,000	
	1,40,000	
Less: Loss from toy business set off	90,000	50,000
Income from other sources		
Income from betting		45,000
Gross total income		**1,15,000**
Less: Deduction u/s 80C(life insurance premium paid)		20,000
Total income		**95,000**

Losses to be carried forward:

Particulars	₹
(1) Loss from house property (₹2,50,000 – ₹2,00,000)	50,000
(2) Loss from toy business (₹1,30,000 - ₹40,000 - ₹90,000)	Nil
(3) Loss from specified business covered by section 35AD	20,000

Notes:

(i) As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹2,00,000 only.

As per section 71B, balance loss not set-off can be carried forward to the next year for set- off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y. 2034-35, in this case.

(ii) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other

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income. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set-off against profits and gains of any specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business.

(iii) Business loss cannot be set off against salary income. However, business loss of ₹90,000 (₹1,30,000 – ₹40,000 set-off against income from speculation business) can be set-off against long-term capital gains from sale of urban land. Consequently, the taxable long-term capital gains would be ₹50,000.

(iv) Loss from card games can neither be set off against any other income, nor can it be carried forward.

(v) For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction u/s 80C in respect of life insurance premium paid has to be restricted to ₹20,000 [i.e., Gross Total Income of ₹1,15,000 – ₹50,000 (LTCG) – ₹45,000 (Casual income)].

(vi) Income from betting is chargeable at a flat rate of 30% u/s 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

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CHAPTER

Deductions from Gross Total Income

10

Question 1 [Sec 80C Deduction if Return file on time]

Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

(a) For grant of deduction u/s 80JJAA, filing of audit report in prescribed form is must for a corporate assessee; filing of return within the due date laid down in section 139(1) is not required.

(b) Filing of belated return u/s 139(4) of the Income-tax Act, 1961 will debar an assessee from claiming deduction u/s 80QQB if the assessee exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A) (i.e., he pays tax under the optional tax regime). **[SM Q.]**

Answer 1

(a) The statement is <u>not</u> correct. Section 80AC stipulates compulsory filing of return of income on or before the due date specified u/s 139(1), as a pre-condition for availing the benefit of deduction, inter alia, u/s 80JJAA.

(b) The statement is correct. As per section 80AC, the assessee has to furnish his return of income on or before the due date specified u/s 139(1), to be eligible to claim deduction under, inter alia, section 80QQB.

Question 2 [Sec 80C]

Compute the eligible deduction u/s 80C for A.Y.2026-27 in respect of life insurance premium paid by Mr. Ganesh during the P.Y.2025-26, the details of which are given hereunder if Mr. Ganesh has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) – **[SM Q.]**

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2025-26(₹)
(i)	30/3/2012	Self	8,00,000	48,000
(ii)	1/5/2018	Spouse	1,50,000	20,000
(iii)	1/6/2021	Handicapped son (section 80U disability)	4,00,000	80,000

Answer 2

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2025-26 (₹)	Deduct- ion u/s 80C for A.Y.2026-27 (₹)	Remark (restricted to % of sum assured) (₹)
(i)	30/3/2012	Self	8,00,000	48,000	48,000	20%
(ii)	1/5/2018	Spouse	1,50,000	20,000	15,000	10%

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	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2025-26 (₹)	Deduct- ion u/s 80C for A.Y.2026-27 (₹)	Remark (restricted to % of sum assured) (₹)
(iii)	1/6/2021	Handicapped son (section 80U disability)	4,00,000	80,000	60,000	15%
	Total				**1,23,000**	

Question 3 Pg 160(2) **[Sec 80U]**

The basic salary of Mr. A is ₹ 1,00,000 p.m. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. A and his employer, ABC Ltd., contribute 15% of basic salary to the pension scheme referred to in section 80CCD. Explain the tax treatment in respect of such contribution in the hands of Mr. A if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

What would be your answer if Mr. A pays tax under the default tax regime u/s 115BAC?

Answer 3

(i) Tax treatment in the hands of Mr. A in respect of employer's and own contribution to pension scheme referred to in section 80CCD, where Mr. A has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) [i.e., where Mr. A pays tax under the normal provisions of the Act]

(a) Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary" u/s 17(1)(viii). Therefore, ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000, will be included in Mr. A's salary.

(b) Mr. A's contribution to pension scheme is allowable as deduction u/s 80CCD(1). However, the deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay.

Therefore, "salary" for the purpose of deduction u/s 80CCD for Mr. A would be –

Particulars	₹
Basic salary = ₹ 1,00,000 × 12 =	12,00,000
Dearness allowance = 40% of ₹ 12,00,000 = ₹ 4,80,000	
50% of Dearness Allowance forms part of pay = 50% of ₹ 4,80,000	2,40,000
Salary for the purpose of deduction u/s 80CCD	14,40,000
Deduction u/s 80CCD(1) is restricted to 10% of ₹ 14,40,000 (as against actual contribution of ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000)	1,44,000
As per section 80CCD(1B), a further deduction of upto ₹ 50,000 is allowable. Therefore, deduction u/s 80CCD(1B) is ₹ 36,000 (₹ 1,80,000 - ₹ 1,44,000).	36,000

₹ 1,44,000 is allowable as deduction u/s 80CCD(1). This would be taken into consideration and be subject to the overall limit of ₹ 1,50,000 u/s 80CCE. ₹ 36,000 allowable as deduction u/s 80CCD(1B) is outside the overall limit of ₹ 1,50,000 u/s 80CCE.

In the alternative, ₹ 50,000 can be claimed as deduction u/s 80CCD(1B). The balance ₹ 1,30,000 (₹ 1,80,000- ₹ 50,000) can be claimed as deduction u/s 80CCD(1).

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(c) Employer's contribution to pension scheme would be allowable as deduction u/s 80CCD(2), subject to a maximum of 10% of salary. Therefore, deduction u/s 80CCD(2), would also be restricted to ₹ 1,44,000, even though the entire employer's contribution of ₹ 1,80,000 is included in salary u/s 17(1)(viii). However, this deduction of employer's contribution of ₹ 1,44,000 to pension scheme would be outside the overall limit of ₹ 1,50,000 u/s 80CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of ₹ 1,50,000.

(ii) Where Mr. A pays tax under the default tax regime u/s 115BAC

Mr. A would not be eligible for deduction u/s 80CCD(1)/(1B) in respect of his contribution to pension scheme under the default tax regime u/s 115BAC. However, he would be allowed deduction of ₹ 2,01,600, being 14% of salary [₹ 14,40,000, computed in (i) above] u/s 80CCD(2) in respect of employer contribution to pension scheme.

Question 4 [Sec 80C, 80CCC & 80CCE]

The gross total income of Mr. X for the A.Y.2026-27 is ₹ 8,00,000. He has made the following investments/payments during the F.Y.2025-26 –

	Particulars	₹
(1)	Contribution to PPF 80C	1,10,000
(2)	Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI 80C	45,000
(3)	Repayment of housing loan taken from Standard Chartered Bank 80C	25,000
(4)	Contribution to approved pension fund of LIC 80CCC	1,05,000

Compute the eligible deduction under Chapter VI-A for the A.Y.2026-27, if Mr. X exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). [SM Q.]

Answer 4

Computation of deduction under Chapter VI-A for the A.Y.2026-27

Particulars	₹
Deduction u/s 80C	
- Contribution to PPF	1,10,000
- Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
- Repayment of housing loan	25,000
	1,80,000
Restricted to ₹ 1,50,000, being the maximum permissible deduction u/s 80C	1,50,000
Deduction u/s 80CCC	
- Contribution to approved pension fund of LIC ₹ 1,05,000	1,05,000
	2,55,000
As per section 80CCE, the aggregate deduction u/s 80C, 80CCC and 80CCD(1) has to be restricted to ₹ 1,50,000	
Deduction allowable under Chapter VIA for the A.Y. 2026-27	**1,50,000**

Question 5 [Sec 80D]

Mr. A, aged 40 years, paid medical insurance premium of ₹ 20,000 during the P.Y. 2025-26 to insure his health as well as the health of his spouse. He also paid medical insurance premium of ₹ 47,000 during the year to insure the health of his father, aged 63 years, who is

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not dependent on him. He contributed ₹ 3,600 to Central Government Health Scheme during the year. He has incurred ₹ 3,000 in cash on preventive health check-up of himself and his spouse and ₹ 4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable u/s 80D for the A.Y. 2026-27 if Mr. A has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 5

Deduction allowable u/s 80D for the A.Y.2026-27

	Particulars	Actual Payment ₹	Maximum deduction allowable ₹
A.	**Premium paid and medical expenditure incurred for self and spouse**		
(i)	Medical insurance premium paid for self and spouse	20,000	20,000
(ii)	Contribution to CGHS	3,600	3,600
(iii)	Exp. on preventive health check-up of self & spouse	3,000	1,400
		26,600	**25,000**
B.	**Premium paid or medical expenditure incurred for father, who is a senior citizen**		
(i)	Mediclaim premium paid for father, who is over 60 years of age	47,000	47,000
(ii)	Expenditure on preventive health check-up of father	4,000	3,000
		51,000	**50,000**
	Total deduction u/s 80D (₹ 25,000 + ₹ 50,000)		75,000

Notes:

(1) The total deduction under A. (i), (ii) and (iii) above should not exceed ₹ 25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to ₹ 1,400, being (₹ 25,000 – ₹ 20,000 – ₹ 3,600).

(2) The total deduction under B. (i) and (ii) above should not exceed ₹50,000. Therefore, the expenditure on preventive health check-up for father would be restricted to ₹ 3,000, being (₹ 50,000 – ₹ 47,000).

(3) In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is ₹ 4,400 (i.e., ₹ 1,400 + ₹ 3,000), which is within the maximum permissible limit of ₹ 5,000.

Question 6 Pg 168(2) **[Sec 80D]**

Mr. Y, aged 40 years, paid medical insurance premium of ₹ 22,000 during the P.Y. 2025-26 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of ₹ 33,000 during the year to insure the health of his mother, aged 67 years, who is not dependent on him. He incurred medical expenditure of ₹ 20,000 on his father, aged 71 years, who is not covered under mediclaim policy. His father is also not dependent upon him. He contributed ₹ 6,000 to Central Government Health Scheme during the year. Compute the deduction allowable u/s 80D for the A.Y. 2026-27 if Mr. Y has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

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[Sec 80E]

Question 7

Mr. B has taken three education loans on April 1, 2025, the details of which are given below:

	Loan 1	Loan 2	Loan 3
For whose education loan was taken	B	Son of B	Daughter of B
Purpose of loan	MBA	B. Sc.	B.A.
Amount of loan (₹)	5,00,000	2,00,000	4,00,000
Annual repayment of loan (₹)	1,00,000	40,000	80,000
Annual repayment of interest (₹)	20,000	10,000	18,000

Compute the amount deductible u/s 80E for the A.Y.2026-27, assuming he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[SM Q.]

Answer 7

Deduction u/s 80E is available to an individual assessee in respect of any interest paid by him in the previous year in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination.

Therefore, interest repayment in respect of all the above loans would be eligible for deduction.

Deduction u/s 80E = ₹ 20,000 + ₹ 10,000 + ₹ 18,000 = ₹ 48,000.

Question 8

[Sec 80EE]

Mr. A purchased a residential house property for self-occupation at a cost of ₹ 45 lakh on 1.4.2018, in respect of which he took a housing loan of ₹ 35 lakh from Bank of India@11% p.a. on the same date. The loan was sanctioned on 28th March 2018. Compute the eligible deduction in respect of interest on housing loan for A.Y.2026-27 under the provisions of the Income-tax Act, 1961 assuming he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). Assuming that the entire loan was outstanding as on 31.3.2026 and he does not own any other house property.

[SM Q.]

Answer 8

Particulars	₹
Interest deduction for A.Y.2026-27	
(i) Deduction allowable while computing income under the head "Income from house property"	
Deduction u/s 24(b) ₹ 3,85,000 [₹ 35,00,000 × 11%]	
Restricted to	
(ii) Deduction under Chapter VI-A from Gross Total Income	2,00,000
Deduction u/s 80EE ₹ 1,85,000 (₹ 3,85,000 – ₹ 2,00,000)	
Restricted to	50,000

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Question 9 LDR Pg 176(2) **[Sec 80EEA & 80EEB]**

The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals, for A.Y. 2026-27 – **[SM Q.]**

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amount of loan taken	₹ 43 lakhs	₹ 45 lakhs	₹ 20 lakhs	₹ 15 lakhs
Loan taken from	Housing Finance HFC company ✓	Deposit taking NBFC ✗	Deposit taking NBFC ✓	Public sector bank
Date of sanction of loan	1.4.2021	1.4.2021	1.4.2021 ✓	before 30.3.2019 1.4.19
Date of disbursement of loan	1.5.2021	1.5.2021	1.5.2021	1.5.2019
Purpose of loan	Acquisition of residential house property for self-occupation	Acquisition of residential house property for self-occupation	Purchase of electric vehicle for personal use	Purchase of electric vehicle for personal use
Stamp duty value of house property	₹ 45 lakhs ✓	₹ 48 lakhs ✗	-	-
Cost of electric vehicle	-	-	₹ 22 lakhs	₹ 18 lakhs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for A.Y.2026-27 in the hands of Mr. A, Mr. B, Mr. C and Mr. D, if they have exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). Assume that there has been no principal repayment in respect of any of the above loans upto 31.3.2026.

Question 10 Pg 180(2) **[Various deductions]**

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

(i) Premium paid to insure the life of her major daughter (policy taken on 1.4.2018) (Assured value ₹ 1,80,000) – ₹ 20,000. 80C → 10% → 18,000

(ii) Medical Insurance premium for self – ₹ 12,000; Spouse – ₹ 14,000. 80D → 25K

(iii) Donation to a public charitable institution ₹ 50,000 by way of cheque. 80G (UD) 50%

(iv) LIC Pension Fund – ₹ 60,000. 80CCC 60,000

(v) Donation to National Children's Fund - ₹ 25,000 by way of cheque 80G → 100%

(vi) Donation to Prime Minister's Drought Relief Fund - ₹ 25,000 by way of cheque 80G →

(vii) Donation to approved institution for promotion of family planning - ₹ 40,000 by way of cheque 80G 100% (UD)

(viii) Deposit in PPF – ₹ 1,00,000 80C

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Compute the total income of Mr. Shiva for A.Y. 2026-27 if he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Question 11 [Sec 80GG]

Mr. Ganesh, a businessman, whose total income (before allowing deduction u/s 80GG) for A.Y.2026-27 is ₹ 4,60,000, paid house rent at ₹ 12,000 p.m. in respect of residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him u/s 80GG for A.Y.2026-27, if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 11

The deduction u/s 80GG will be computed as follows:

(i) Actual rent paid less 10% of total income

$$₹\,1,44,000\,(-)\frac{(10\times 4,60,000)}{100} = ₹\,98,000\,(A)$$

(ii) 25% of total income $= \frac{25\times 4,60,000}{100} = ₹\,1,15,000\,(B)$

(iii) Amount calculated at ₹ 5,000 p.m.= ₹ 60,000 (C)

Deduction allowable u/s 80GG [least of (i), (ii) and (iii)] = ₹ 60,000

Question 12 [Sec 80GGB]

During the P.Y. 2025-26, ABC Ltd., an Indian company,

(1) contributed a sum of ₹ 2 lakh to an electoral trust; and

(2) incurred expenditure of ₹ 25,000 on advertisement in a brochure of a political party.

Is the company eligible for deduction in respect of such contribution/expenditure, assuming that the contribution was made by cheque? If so, what is the quantum of deduction? **[SM Q.]**

Answer 12

An Indian company is eligible for deduction u/s 80GGB in respect of any sum contributed by it in the previous year to any political party or an electoral trust. Further, the word "contribute" in section 80GGB has the meaning assigned to it in section 293A of the Companies Act, 1956, and accordingly, it includes the amount of expenditure incurred on advertisement in a brochure of a political party.

Therefore, ABC Ltd. is eligible for a deduction of ₹ 2,25,000 u/s 80GGB in respect of sum of ₹ 2 lakh contributed to an electoral trust and ₹ 25,000 incurred by it on advertisement in a brochure of a political party.

It may be noted that there is a specific disallowance u/s 37(2B) in respect of expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure of ₹ 25,000 would be disallowed while computing business income/gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income u/s 80GGB.

Question 13 Pg 187(2) [Sec 80JJAA]

IMP. LDR.

Mr. A has commenced the business of manufacture of computers on 1.4.2025. He employed 350 new employees during the P.Y. 2025-26, the details of whom are as follows –

	No. of employees	Date of employment	Regular/ Casual	Total monthly emoluments per employee (₹)
(i)	75	1.4.2025	Regular PPF ✓	24,000 ✓
(ii)	125	1.5.2025	Regular PPF ✓	26,000 ✗
(iii)	50	1.8.2025	Casual PPF ✗	24,500

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(iv)	100	1.9.2025	Regular	24,000

The regular employees participate in recognized provident fund while the casual employees do not. Compute the deduction, if any, available to Mr. A for A.Y. 2026-27, if the profits and gains derived from manufacture of computers that year is ₹ 75 lakhs and his total turnover is ₹ 10.16 crores.

What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1.4.2025?

Question 14

[SM Q.]

[Sec 80QQB]

Mr. Aakash received royalty of ₹ 2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure incurred by him for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2025 is ₹ 2,30,000. The remaining amount was not remitted till 31st March, 2026. Compute the amount includible in the gross total income of Mr. Aakash and the amount of deduction which he will be eligible for u/s 80QQB if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Answer 14

[SM Q.]

The net royalty of ₹ 2,48,000 (i.e., royalty of ₹ 2,88,000 less ₹ 40,000, being expenditure to earn such income) is includible in gross total income.

Deduction u/s 80QQB:	₹
Royalty ₹ 2,88,000 x 15/18 = ₹ 2,40,000	
Restricted to	
Amount brought into India in convertible foreign exchange within the prescribed time	2,30,000
Less: Expenses already allowed as deduction while computing royalty income	40,000
Deduction u/s 80QQB	**1,90,000**

Question 15

[Sec 80C & 80TTB]

Mr. A, a resident individual aged 61 years, has earned business income (computed) of ₹ 1,35,000, lottery income of ₹ 1,20,000 (gross) during the P.Y. 2025-26. He also has interest on Fixed Deposit of ₹ 30,000 with banks. He invested an amount of ₹ 1,50,000 in Public Provident Fund account. What is the total income of Mr. A for the A.Y. 2026-27, if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[SM Q.]

Answer 15

Computation of total income of Mr. A for A.Y.2026-27

Particulars	₹	₹
Profits and gains of business or profession		1,35,000
Income from other sources		
- Interest on Fixed Deposit with banks		30,000
- lottery income		1,20,000
Gross Total Income		**2,85,000**

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Particulars	₹	₹
Less: **Deductions under Chapter VIA [See Note below]**		
U/s 80C		
- Deposit in Public Provident Fund	1,50,000	
U/s 80TTB		
- Interest on fixed deposits with banks	30,000	
	1,80,000	
Restricted to		1,65,000
Total Income		**1,20,000**

Note: In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction upto ₹ 50,000 u/s 80TTB.

Though the aggregate of deductions under Chapter VI-A is ₹ 1,80,000, however, the maximum permissible deduction cannot exceed the gross total income exclusive of long term capital gains taxable u/s 112 and section 112A, short-term capital gains covered u/s 111A and winnings from lotteries of the assessee.

Therefore, the maximum permissible deduction under Chapter VI-A = ₹ 2,85,000 – ₹ 1,20,000 = ₹ 1,65,000.

Question 16

[Various deductions]

Mr. Gurnam, aged 42 years, has salary income (computed) of ₹ 5,50,000 for the previous year ended 31.03.2026. He has earned interest of ₹ 14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. Gurnam for the assessment year 2026-27 from the following particulars, if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

(i) Life insurance premium paid to Birla Sunlife Insurance in cash amounting to ₹ 25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2019 and the sum assured on life of his dependent parents is ₹ 2,00,000.

(ii) Life insurance premium of ₹ 25,500 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is ₹ 3,50,000 and the life insurance policy was taken on 30.3.2012.

(iii) Life insurance premium paid by cheque of ₹ 22,500 for insurance of his life. The insurance policy was taken on 08.09.2018 and the sum assured is ₹ 2,00,000.

(iv) Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.

(v) ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid in cheque for preventive health check-up for his parents, who are senior citizens.

(vi) Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.

(vii) A sum of ₹ 5,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.

Answer 16 **[SM Q.]**

Computation of total income of Mr. Gurnam for the Assessment Year 2026-27

Particulars	₹	₹	₹
Income from salary			5,50,000
Interest on saving bank deposit			14,500

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Particulars	₹	₹	₹
Gross Total Income			**5,64,500**
Less: **Deduction under Chapter VIA**			
U/s 80C **(See Note 1)**			
Life insurance premium paid for life insurance of:			
- major son	25,500		
- self ₹ 22,500 restricted to 10% of ₹ 2,00,000	20,000	45,500	
U/s 80D **(See Note 2)**			
Premium paid for ₹ 26,000 health insurance of self and wife by cheque, restricted to	25,000		
Payment made for health check-up for parents	4,500	29,500	
U/s 80E			
For payment of interest on loan taken from bank for MBA course of his daughter		6,500	
U/s 80TTA (See Note 4)			
Interest on savings bank account ₹ 14,500 restricted to		10,000	91,500
Total Income			**4,73,000**

Notes:

(1) As per section 80C, no deduction is allowed in respect of premium paid for life insurance of parents, whether they are dependent or not. Therefore, no deduction is allowable in respect of ₹ 25,000 paid as premium for life insurance of dependent parents of Mr. Gurnam.

In respect of insurance policy issued on or after 01.04.2012, deduction shall be allowed for life insurance premium paid only to the extent of 10% of sum assured. In case the insurance policy is issued before 01.04.2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of sum assured.

Therefore, in the present case, deduction of ₹ 25,500 is allowable in full in respect of life insurance of Mr. Gurnam's son since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of ₹ 3,50,000. However, in respect of premium paid for life insurance policy of Mr. Gurnam himself, deduction is allowable only up to 10% of ₹ 2,00,000 since, the policy was issued on or after 01.04.2012 and the premium amount exceeds 10% of sum assured.

(2) As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person, deduction shall be allowed up to ₹ 25,000. Further, deduction up to ₹ 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction u/s 80D, the payment for health-checkup can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash.

Therefore, in the present case, in respect of premium of ₹ 26,000 paid for health insurance of self and wife, deduction would be restricted to ₹ 25,000. Since the limit of ₹ 25,000 has been exhausted against medical insurance premium, no deduction is allowable for preventive health check- up for self and wife. However, deduction of ₹ 4,500 is allowable in respect of health check-up of his parents, since it falls within the limit of ₹ 5,000.

(3) No deduction shall be allowed u/s 80G in case the donation is made in cash of a sum exceeding ₹ 2,000. Therefore, deduction u/s 80G is not allowable in respect of **cash donation** of ₹ 5,000 made to an institution approved for the purpose of section 80G for promotion of family planning.

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(4) As per section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of ₹ 10,000. Therefore, deduction of ₹ 10,000 is allowable from the gross total income of Mr. Gurnam, though the interest from savings bank account is ₹ 14,500.

Question 17 [Various deductions]

Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

(i) During the financial year 2025-26, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction u/s 80E.

(ii) Subscription to notified bonds of NABARD would qualify for deduction u/s 80C.

(iii) In order to be eligible to claim deduction u/s 80C, investment /contribution/ subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.

(iv) Where an individual repays a sum of ₹ 30,000 towards principal and ₹ 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable u/s 80E is ₹ 44,000.

(v) Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received ₹ 7 lakhs on 1.5.2025, being amount standing to the credit of Mr. Satish in his NPS Account, in respect of which deduction has been allowed u/s 80CCD to Mr. Satish in the earlier previous years. Such amount received by her as a nominee on closure of the account is deemed to be her income for A.Y.2026-27.

(vi) Mr. Vishal, a Central Government employee, contributed ₹ 50,000 towards Tier II account of NPS. The same would be eligible for deduction u/s 80CCD. He has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[SM Q.]

Answer 17

(i) The statement is correct. The deduction u/s 80E available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative. For this purpose, relative means, inter alia, spouse and children of the individual. Therefore, Mr. Amit will get the deduction u/s 80E in respect of interest on loan availed by him for his son's higher education. It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction u/s 80E.

(ii) The statement is correct. U/s 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction u/s 80C.

(iii) The statement is <u>not</u> correct. There is no stipulation u/s 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.

(iv) The statement is <u>not</u> correct. Deduction u/s 80E is in respect of interest paid on education loan. Hence, the deduction will be limited to ₹14,000.

(v) The statement is <u>not</u> correct. The proviso to section 80CCD(3) provides that the amount received by the nominee, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee. Hence, amount received by Mrs. Sheela would not be deemed to be her income for A.Y. 2026-27.

(vi) The statement is <u>not</u> correct. Contribution to Tier II account of NPS would qualify for deduction u/s 80C and not section 80CCD.

Question 18 [Sec 80DD]

Examine the allowability of the following, if he has exercised the option of shifting out of the

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default tax regime provided u/s 115BAC(1A).

(i) Rajan, a resident Individual has to pay to a hospital for treatment ₹ 62,000 and spent nothing for life insurance or for maintenance of dependent disabled.

(ii) Raja, a resident Indian, has spent nothing for treatment in the previous year and deposited ₹ 25,000 with LIC for maintenance of dependent disabled.

(iii) Kamal, a resident Individual has incurred ₹ 20,000 for treatment and ₹ 25,000 was deposited with LIC for maintenance of dependent disabled.

(iv) Payment of ₹ 50,000 by cheque to an electoral trust by an Indian company. **[SM Q.]**

Answer 18

(i) The deduction of ₹ 75,000 u/s 80DD is allowed, irrespective of the amount of expenditure incurred or paid by the assessee. If the expenditure is incurred in respect of a dependent with severe disability, the deduction allowable is ₹ 1,25,000.

(ii) The assessee Rajan has deposited ₹ 25,000 for maintenance of dependent disabled. The assessee is, however, eligible to claim ₹ 75,000 since the deduction of ₹ 75,000 is allowed, irrespective of the amount deposited with LIC. In the case of dependent with severe disability, the deduction allowable is ₹ 1,25,000.

(iii) Section 80DD allows a deduction of ₹ 75,000 irrespective of the actual amount spent on maintenance of a dependent disabled and/or actual amount deposited with LIC. Therefore, the deduction will be ₹ 75,000 even though the total amount incurred/ deposited is only ₹ 45,000. If the dependent is a person with severe disability the quantum of deduction is ₹ 1,25,000.

(iv) Amount paid by an Indian Company to an electoral trust is eligible for deduction u/s 80GGB from gross total income, since such payment is made otherwise than by way of cash.

Question 19 **[Various deductions]**

For the A.Y. 2026-27, the Gross total income of Mr. Chaturvedi, a resident in India, was ₹ 8,18,240 which includes long-term capital gain of ₹ 2,45,000 taxable u/s 112 and Short-term capital gain of ₹ 58,000. The Gross total income also includes interest income of ₹ 12,000 from savings bank deposits with banks and ₹ 40,000 interest on fixed deposits with banks. Mr. Chaturvedi has invested in PPF ₹ 1,20,000 and also paid a medical insurance premium ₹ 51,000. Mr. Chaturvedi also contributed ₹ 50,000 to Public Charitable Trust eligible for deduction u/s 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Chaturvedi, who is 70 years old as on 31.3.2026, in a tax efficient manner.

Answer 19

Computation of total income and tax liability of Mr. Chaturvedi for the A.Y. 2026-27 under default tax regime

Particulars	₹
Gross total income incl. long term capital gain	8,18,240
Less: **Deductions under Chapter VI-A**	-
No deduction would be available under default tax regime u/s 115BAC	
Total income	**8,18,240**
Tax on total income	
LTCG ₹ 2,45,000 x 12.5%	30,625
Balance total income ₹ 5,73,240	8,662
	39,287
Add: Health and Education cess @4%	1,571
Total tax liability	**40,858**

Rebate u/s 87A
(i) 8662
(ii) 60000
(+) u/s. H&EC
1225

Total Tax Liability 31850

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Particulars	₹
Total tax liability (Rounded off)	**40,860**

Computation of total income and tax liability of Mr. Chaturvedi for the A.Y. 2026-27 under the optional tax regime (i.e., the normal provisions of the Act)

Particulars	₹	₹
Gross total income incl. long term capital gain		8,18,240
Less: Long term capital gain		2,45,000
		5,73,240
Less: **Deductions under Chapter VI-A**		
U/s 80C in respect of PPF deposit	1,20,000	
U/s 80D (it is assumed that premium of₹ 51,000 is paid by otherwise than by cash. The deduction would be restricted to ₹ 50,000, since Mr. Chaturvedi is a senior citizen)	50,000	
U/s 80G **(See Notes 1 & 2 below)**	17,662	
U/s 80TTB **(See Note 3 below)**	50,000	2,37,662
Total income (excluding long term capital gains)		**3,35,578**
Total income (including long term capital gains)		**5,80,578**
Total income (rounded off)		**5,80,580**
Tax on total income (including long-term capital gains of ₹ 2,45,000)		
LTCG ₹ 2,45,000 x 12.5%		30,625
Balance total income ₹ 3,35,580 **(See Note 4 below)**		1,779
		32,404
Add: Health and Education cess @4%		1,296
Total tax liability		**33,700**

Since the tax liability is lower under the optional tax regime (i.e., normal provisions of the Act) as compared to the default tax regime, Mr. Chaturvedi should exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Notes:

1. **Computation of deduction u/s 80G:**

Particulars	₹
Gross total income (excluding long term capital gains)	5,73,240
Less : Deduction u/s 80C, 80D & 80TTB	2,20,000
	3,53,24
10% of the above	35,324
Contribution made	50,000
Lower of the two eligible for deduction u/s	35,324

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Deduction u/s 80G – 50% of ₹ 35,324	**17,662**

2. Deduction u/s 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding ₹ 2,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.
3. Deduction of upto ₹ 50,000 u/s 80TTB is allowed to a senior citizen if gross total income includes interest income on bank deposits, both fixed deposits and savings account.
4. Mr. Chaturvedi, being a senior citizen is eligible for a higher basic exemption of ₹ 3,00,000.

Question 20 [Various deductions]

Mr. Rajmohan whose gross total income was ₹ 6,40,000 for the financial year 2025-26, furnishes you the following information:

(i) Stamp duty paid on acquisition of residential house (self-occupied) - ₹ 50,000.
(ii) Five year post office time deposit -₹ 20,000.
(iii) Donation to a recognized charitable trust ₹ 25,000 which is eligible for deduction u/s 80G at the applicable rate.
(iv) Interest on loan taken for higher education of spouse paid during the year - ₹ 10,000.

Compute the total income of Mr. Rajmohan for the AY 2026-27, if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 20

Computation of total income of Mr. Rajmohan for the A.Y.2026-27

Particulars	₹	₹
Gross Total Income		6,40,000
Less: **Deduction under Chapter VI-A**		
U/s 80C		
Stamp duty paid on acquisition of residential house	50,000	
Five year time deposit with Post Office	20,000	
	70,000	
U/s 80E		
Interest on loan taken for higher education of spouse, being a relative.	10,000	
U/s 80G (See Note below)		
Donation to recognized charitable trust (50% of ₹ 25,000)	12,500	92,500
Total Income		**5,47,500**

Note: In case of deduction u/s 80G in respect of donation to a charitable trust, the net qualifying amount has to be restricted to 10% of adjusted total income, i.e., gross total income less deductions under Chapter VI-A except 80G. The adjusted total income is, therefore, ₹ 5,60,000 (i.e. 6,40,000 – ₹ 80,000), 10% of which is ₹ 56,000, which is higher than the actual donation of ₹ 25,000. Therefore, the deduction u/s 80G would be ₹ 12,500, being 50% of the actual donation of ₹ 25,000.

Question 21 [Various deductions]

Compute the eligible deduction under Chapter VI-A for the A.Y. 2026-27 of Ms. Roma, aged 40 years, who has a GTI of ₹ 15,00,000 for the A.Y. 2026-27 she has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) and provides the following information about her investments/payments during the P.Y. 2025-26: **[SM Q.]**

Sl. No.	Particulars	Amount (₹)
1.	Life Insurance premium paid (Policy taken on 31-03-2012 and	35,000

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Sl. No.	Particulars	Amount (₹)
	sum assured is ₹ 4,40,000)	
2.	Public Provident Fund contribution	1,50,000
3.	Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000
4.	Payment to L.I.C. Pension Fund	1,40,000
5.	Mediclaim Policy taken for self, wife and dependent children, premium paid by cheque	30,000
6.	Medical Insurance premium paid by cheque for parents (Senior Citizens)	52,000

Answer 21

Computation of eligible deduction under Chapter VI-A of Ms. Roma for A.Y. 2026-27

Particulars	₹	₹
Deduction u/s 80C		
Life insurance premium paid ₹ 35,000 (allowed in full since the same is within the limit of 20% of the sum assured, the policy being taken before 1.4.2012)	35,000	
Public Provident Fund	1,50,000	
Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000	
	2,05,000	
Restricted to a maximum of ₹ 1,50,000	**1,50,000**	
Deduction u/s 80CCC for payment		
towards LIC pension fund	1,40,000	
	2,90,000	
As per section 80CCE, aggregate deduction under, inter alia, section 80C and 80CCC, is restricted to		1,50,000
Deduction u/s 80D		
Payment of medical insurance premium of ₹ 30,000 towards medical policy taken for self, wife and dependent children restricted to	25,000	
Medical insurance premium paid ₹ 52,000 for parents, being senior citizens, restricted to	50,000	75,000
Eligible deduction under Chapter VI-A		**2,25,000**

Question 22 [Various deductions]

Compute the deduction available to Mr. Dhyanchand under Chapter VI-A for A.Y.2026-27. Mr. Dhyanchand, aged 65 years, is working with ABC Ltd. His income comprises of salary of ₹ 18,50,000 and interest on fixed deposits of ₹ 75,000. He submits the following particulars of investments and payments made by him during the previous year 2025-26, assume he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

- Deposit of ₹ 1,50,000 in public provident fund
- Payment of life insurance premium of ₹ 62,000 on the policy taken on 01.4.2017 to insure his life (Sum assured – ₹ 4,00,000).

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- Deposit of ₹ 45,000 in a five year term deposit with bank.
- Contributed ₹ 2,10,000, being 15% of his salary (basic salary plus dearness allowance, which forms part of retirement benefits) to the NPS of the Central Government. A matching contribution was made by ABC Ltd.
- On 1.4.2025, mediclaim premium of ₹ 1,08,000 and ₹ 80,000 paid as lumpsum to insure his and his wife (aged 58 years) health, respectively for four years
- Incurred ₹ 46,000 towards medical expenditure of his father, aged 85 years, not dependent on him. No insurance policy taken for his father.
- He spent ₹ 6,000 for the preventive health-check up of his wife.
- He has incurred an expenditure of ₹ 90,000 for the medical treatment of his mother, being a person with severe disability.

Answer 22 **[MTP Q.]**

Deduction available to Mr. Dhyanchand under Chapter VI-A for A.Y.2026-27

Section	Particulars	₹	₹
80C	Deposit in public provident fund	1,50,000	
	Life insurance premium paid ₹ 62,000 (deduction restricted to ₹ 40,000, being 10% of ₹ 4,00,000, which is the sum assured, since the policy was taken on or after 01.04.2012)	40,000	
	Five year term deposit with bank	45,000	1,50,000
		2,35,000	
	Restricted to		1,40,000
80CCD(1)	Contribution to NPS of the Central Government, ₹ 1,60,000 [₹ 2,10,000 – ₹ 50,000, being deduction u/s 80CCD(1B)], restricted to 10% of salary [₹ 2,10,000 x 10/15] **[See Note 1]**		
			2,90,000
80CCE	Aggregate deduction under section 80Cand 80CCD(1), ₹ 2,90,000, but restricted to		1,50,000
80CCD(1B)	₹ 50,000 would be eligible for deduction in respect of contribution to NPS of the Central Government		50,000
80CCD(2)	Employer contribution to NPS, restricted to 10% of salary **[See Note 2]**		1,40,000
80D	(i) (a) Medical insurance premium for self and his wife, deduction would be equal to ₹ 47,000 (₹ 27,000 + ₹ 20,000), being 1/4th of lumpsum premium, since policies would be in force for four previous years.	47,000	
	(b) Preventive health check up₹ 6,000 for wife restricted to ₹ 3,000 (₹ 50,000 - ₹ 47,000, since maximum allowable deduction is ₹ 50,000 in case assessee or one of the family member is senior citizen)	3,000	
		50,000	
	(ii) Medical Expenditure for his father would be fully allowed as deduction, since no insurance policy is taken	**46,000**	

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Section	Particulars	₹	₹
	on his name		
	Total of (i) and (ii)		**96,000**
80DD	Deduction of ₹ 1,25,000 in respect of expenditure on medical treatment of his mother, being a person with severe disability would be allowed irrespective of the fact that amount of expenditure incurred is ₹ 90,000		1,25,000
80TTB	Interest on fixed deposits with bank of ₹ 75,000, deduction restricted to		50,000
Deduction under Chapter VI-A			**6,11,000**

Notes:

(1) The deduction u/s 80CCD(1B) would not be subject to overall limit of ₹ 1.50 lakh u/s 80CCE. Therefore, it is more beneficial for Mr. Dhyanchand to claim deduction u/s 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of ₹ 1,60,000 can be claimed as deduction u/s 80CCD(1), subject to a maximum limit of 10% of salary i.e. ₹ 1,40,000.

(2) The entire employer's contribution to notified pension scheme has to be first included under the head "Salaries" while computing gross total income and thereafter, deduction u/s 80CCD(2) would be allowed, subject to a maximum of 10% of salary. Deduction u/s 80CCD(2) is also not subject to the overall limit of ₹ 1,50,000 u/s 80CCE.

Question 23

[Various deductions]

Deepak is retired Government Officer, aged 65 years, resides in Hyderabad, derived following income:

	₹
Pension	6,60,000
Interest from bank on fixed deposits (Gross)	55,000

Compute the total income of Mr. Deepak for the assessment year 2026-27 from the following particulars assume he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

(i) Life insurance premium paid by cheque ₹ 22,500 for insurance of his life. The insurance policy was taken on 08-09-2016 and the sum assured is ₹ 2,00,000.

(ii) Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.

(iii) Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.

(iv) A sum of ₹ 15,000 donated in cash to an institution approved for the purpose of section 80G for promoting family planning.

[MTP Q.]

Answer 23

Computation of total income of Mr. Deepak for A.Y.2026-27

Particulars	₹	₹
Income under the head "Salaries"		
Pension	6,60,000	
Less: Standard deduction u/s 16(ia) Lower of ₹ 50,000 or actual salary/pension	50,000	6,10,000

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Particulars	₹	₹
Income from Other Sources		
Interest from bank on fixed deposit (Gross)		55,000
Gross Total Income		**6,65,000**
Less: Deduction under Chapter VI-A		
Deduction u/s 80C		
LIC premium of ₹ 22,500 (restricted to 10% of ₹ 2,00,000, being the sum assured, as the policy is taken after 31.3.2012)	20,000	
Deduction u/s 80D		
Premium for health insurance for self and his wife paid by cheque, allowed upto ₹ 50,000 since Mr. Deepak is a senior citizen	26,000	
Deduction u/s 80E		
Interest on loan taken from bank for MBA course pursued by his Daughter	6,500	
Deduction u/s 80G		
Donation to an approved institution for promoting family planning not allowed since the amount exceeding ₹ 2,000 is paid in cash	Nil	
Deduction u/s 80TTB		
Interest on fixed deposit with bank allowable as deduction upto₹50,000, since Mr. Deepak is a senior citizen	50,000	
		1,02,500
Total Income		**5,62,500**

Question 24 [Sec 80DD]

Mr. X is a resident individual. He deposits a sum of ₹ 50,000 with Life Insurance Corporation every year for the maintenance of his disabled grandfather who is wholly dependent upon him. The disability is one which comes under the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available u/s 80DD for the A.Y. 2026-27 assume he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

What will be the deduction if Mr. X had made this deposit for his dependant father? **[SM Q.]**

Answer 24

Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction u/s 80DD. The deduction is available if the individual assessee incurs any expense for a "dependant" disabled person. Grandfather does not come within the meaning of "dependant" as defined u/s 80DD.

If the expense was incurred for a dependant disabled person, Mr. X will be entitled to claim a deduction of ₹ 75,000 u/s 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be ₹ 1,25,000.

TELEGRAM: CA NOTE HUB

Question 25 [Sec 10AA SEZ]

Y Ltd. furnishes you the following information for the year ended 31.3.2026:

Particulars	₹ (in lacs)
Total turnover of Unit A located in Special Economic Zone	100
Profit of the business of Unit A	30
Export turnover of Unit A received in India in convertible foreign exchange on or before 30.9.2026	50
Total turnover of Unit B located in Domestic Tariff Area (DTA)	200
Profit of the business of Unit B	20

Compute deduction u/s 10AA for the A.Y. 2026-27, assuming that Y Ltd. commenced operations in SEZ and DTA in the year 2020-21. [SM Q.]

Question 26 [Sec 10AA SEZ]

Rudra Ltd. has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). The company provides the following details for the previous year 2025-26.

Particulars	Rudra Ltd. (₹)	Unit in DTA (₹)
Total Sales	6,00,00,000	2,00,00,000
Export Sales	4,60,00,000	1,60,00,000
Net Profit	80,00,000	20,00,000

Calculate the eligible deduction u/s 10AA of the Income-tax Act, 1961, for the Assessment Year 2026-27, If both the units were set up and start manufacturing from 22-05-2016. [SM Q.]

Question 27 [Sec 10AA SEZ]

Mr. Ramesh furnishes the following particulars for the previous year 2025-26 in respect of an industrial undertaking established in "Special Economic Zone" in March 2019. It began manufacturing in April 2019.

Particulars	₹
Total sales	85,00,000
Export sales [proceeds received in India till 30th September, 2025]	45,00,000
Domestic sales	40,00,000
Profit from the above undertaking	20,00,000

Export Sales of F.Y. of 2025-26 include freight and insurance of ₹ 5 lacs for delivery of goods outside India. Compute the amount of deduction available to Mr. Ramesh u/s 10AA for A.Y. 2026-27. [MTP Q.]

Answer 27

Computation of deduction u/s 10AA for A.Y. 2026-27

Since A.Y. 2026-27 is the 7th assessment year from A.Y. 2020-21, relevant to the previous year 2019-20, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the conditions specified in section 10AA are fulfilled.

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$$= \text{Profit of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ} \times 50\%}{\text{Total Turnover of Unit in SEZ}}$$

$$= 20,00,000 \times \frac{40,00,000}{80,00,000} \times 50\% = 5,00,000$$

Working Note:

	₹
Export Turnover	
Sale proceeds received in India	45,00,000
Less: Freight and insurance for delivery of goods outside India to be excluded from export turnover	5,00,000
	40,00,000
Total turnover	85,00,000
Less: Freight and insurance not includible [Since freight and insurance has been excluded from export turnover, the same has to be excluded from total turnover also].	5,00,000
	80,00,000

Question 28 **[Sec 10AA SEZ]**

M/s Rajveer, a proprietorship has two units namely, Unit X and Unit Y. Unit X located in Special Economic Zone and Unit Y in Domestic Tariff Area (DTA). The following are the details for the financial year 2025-26:

Particulars	Unit Y (₹)	M/s Rajveer (₹)
Total sales	50,00,000	85,00,000
Export sales	28,00,000	55,00,000
Domestic sales	22,00,000	30,00,000
Net Profit	4,00,000	10,00,000

Total Sales of F.Y. 2025-26 include freight of ₹ 5 lacs for delivery of goods outside India with respect to Unit X.

Both the units were set up and started manufacturing from 20.6.2020. Compute the amount of deduction available to M/s Rajveer u/s 10AA for the A.Y. 2026-27.

[RTP Nov-21 Q.]

Answer 28

Computation of deduction u/s 10AA for A.Y. 2026-27

Since A.Y. 2026-27 is the 6th assessment year from A.Y. 2021-22, relevant to the previous year 2021-22, in which the SEZ unit began manufacturing of articles or things or provide any services, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things or from services, assuming all the other conditions specified in section 10AA are fulfilled.

$$= \text{Profit of Unit in SEZ} \times \frac{\text{Export Turnover of Unit in SEZ}}{\text{Total Turnover of Unit in SEZ}} \times 50\%$$

TELEGRAM: CA NOTE HUB

$= 6,00,000 \times \frac{22,00,000}{30,00,000} \times 50\% = 2,20,000$

Working Note:

Computation of total sales, export sales and net profit of Unit X

Particulars	M/s Rajveer (₹)	Unit Y (₹)	Unit X (₹)
Total sales	85,00,000	50,00,000	35,00,000
Export sales	55,00,000	28,00,000	27,00,000
Domestic sales	30,00,000	22,00,000	8,00,000
Net Profit	10,00,000	4,00,000	6,00,000
Export Turnover			
Sale proceeds			27,00,000
Less: Freight not includible in export turnover			5,00,000
			22,00,000
Total turnover			35,00,000
Less: Freight not includible [Since freight has been excluded from export turnover, the same has to be excluded from total turnover also].			5,00,000
			30,00,000

Total = 25 Questions

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Notebook = Advance Tax = 201
TDS & TCS = 224

CHAPTER 11

Advance Tax, Tax Deduction at Source and Introduction to Tax Collection at Source

Question 1 [TDS u/s 192]

Mr. A, the employer, pays gross salary including allowances and monetary perquisites amounting to ₹ 7,30,000 to his General Manager. Besides, the employer provides non-monetary perquisites to him whose value is estimated at ₹ 1,20,000. The General Manager is exercising the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act. What is the tax implication in the hands of Mr. A, the employer and General Manager, the employee?

Answer 1

	₹
Gross salary, allowances and monetary perquisites	7,30,000
Non-Monetary perquisites	1,20,000
	8,50,000
Less: Standard deduction u/s 16(ia)	50,000
	8,00,000
Tax Liability	75,400
Average rate of tax (₹ 75,400 / ₹ 8,00,000 × 100)	9.425%

Mr. A can deduct ₹ 75,400 at source from the salary of the General Manager at the time of payment.

Alternatively, Mr. A can pay tax on non-monetary perquisites as under – Tax on non-monetary perquisites = 9.425% of ₹ 1,20,000 = ₹ 11,310

Balance to be deducted from salary = ₹ 64,090

If Mr. A pays tax of ₹ 11,310 on non-monetary perquisites, the same is not a deductible expenditure as per section 40(a). The amount of tax paid towards non-monetary perquisite by the employer, however, is not chargeable to tax in the hands of the employee as per section 10(10CC).

Question 2 [TDS u/s 194A]

Examine the TDS implications u/s 194A in the cases mentioned hereunder–

(i) On 1.10.2025, Mr. Harish made a six-month fixed deposit of ₹ 12 lakh@9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2025.

(ii) On 1.6.2025, Mr. Ganesh made three nine months fixed deposits of ₹ 3 lakh each, carrying interest@9% p.a. with Dwarka Branch, Janakpuri Branch and Rohini Branch of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2026.

(iii) On 1.10.2025, Mr. Rajesh started a six months recurring deposit of ₹ 2,00,000 per month@8% p.a. with PQR Bank. The recurring deposit matures on 31.3.2026. **[SM-Q]**

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2L x 8% x 6/12 = 8000
2L x 8% x 5/12 = 6666/6667
2L x 8% x 4/12 = 5333
2L x 8% x 3/12 = 4000
2L x 8% x 2/12 = 2667
2L x 8% x 1/12 = 1333
28000

Answer 2

(i) ABC Co-operative Bank has to deduct tax at source@10% on the interest of ₹ 54,000 (9% × ₹ 12 lakh × ½) u/s 194A. The tax deductible at source u/s 194A from such interest is, therefore, ₹ 5,400.

(ii) XYZ Bank has to deduct tax at source@10% u/s 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 60,750 [3,00,000 × 3 × 9% × 9/12], which exceeds the threshold limit of ₹ 50,000. Since XYZ Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of ₹ 60,750 exceeds the threshold limit of ₹ 50,000, tax has to be deducted@10% u/s 194A.

(iii) No tax has to be deducted u/s 194A by PQR Bank on the interest of ₹ 28,000 falling due on recurring deposit on 31.3.2025 to Mr. Rajesh, since such interest does not exceed the threshold limit of ₹ 50,000

Question 3

[TDS u/s 194C]

ABC Ltd. makes the following payments to Mr. X, a contractor, for contract work during the P.Y.2025-26–

₹ 20,000 on 1.5.2025

₹ 25,000 on 1.8.2025

₹ 28,000 on 1.12.2025

On 1.3.2026, a payment of ₹ 30,000 is due to Mr. X on account of a contract work.

Discuss whether ABC Ltd. is liable to deduct tax at source u/s 194C from payments made to Mr. X.

Answer 3 **[SM Q.]**

In this case, the individual contract payments made to Mr. X does not exceed ₹ 30,000. However, since the aggregate amount paid to Mr. X during the P.Y. 2025-26 exceeds ₹ 1,00,000 (on account of the last payment of ₹ 30,000, due on 1.3.2026, taking the total from ₹ 73,000 to ₹ 1,03,000), the TDS provisions u/s 194C would get attracted. Tax has to be deducted@1% on the entire amount of ₹ 1,03,000 from the last payment of ₹ 30,000 and the balance of ₹ 28,970 (i.e., ₹ 30,000 – ₹ 1,030) has to be paid to Mr. X.

Question 4

[TDS u/s 194C]

Moon TV, a television channel, made payment of ₹ 50 lakhs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source u/s 194C? Discuss.

Also, examine whether the provisions of tax deduction at source u/s 194C would be attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house.

Answer 4 **[SM Q.]**

In this case, since the programme is produced by the production house as per the specifications given by Moon TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definition of the term 'work' u/s 194C. Therefore, the payment of ₹ 50 lakhs made by Moon TV to the production house would be subject to tax deduction at source u/s 194C.

If, however, the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house, there is no contract for ''carrying out any work'', as required in section 194C(1). Therefore, such payment would not be liable for tax deduction at source u/s 194C.

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Question 5 [TDS u/s 194C]

Certain concessions are granted to transport operators in the context of cash payments u/s 40A(3) and deduction of tax at source u/s 194-C. Elucidate. **[SM Q.]**

Answer 5

Section 40A(3) provides for disallowance of expenditure incurred in respect of which payment or aggregate of payments made to a person in a day exceeds ₹ 10,000, and such payment or payments are made otherwise than by account payee cheque or account payee bank draft or use of electronic clearing system through bank account or through other prescribed electronic modes.

However, in case of payment made to transport operators for plying, hiring or leasing goods carriages, the disallowance will be attracted only if the payment made to a person in a day exceeds ₹ 35,000. Therefore, payment or aggregate of payments up to ₹ 35,000 in a day can be made to a transport operator otherwise than by way of account payee cheque or account payee bank draft or use of electronic system through bank account or through other prescribed electronic modes, without attracting disallowance u/s 40A(3).

U/s 194C, tax had to be deducted in respect of payments made to contractors at the rate of 1%, in case the payment is made to individual or Hindu Undivided Family or at the rate of 2%, in any other case.

However, no deduction is required to be made from any sum credited or paid or likely to be credited or paid during the previous year to the account of a contractor, during the course of the business of plying, hiring or leasing goods carriages, if the following conditions are fulfilled:-

(1) He owns ten or less goods carriages at any time during the previous year.

(2) He is engaged in the business of plying, hiring or leasing goods carriages;

(3) He has furnished a declaration to this effect along with his PAN.

Question 6 (Pg 241)(2) [TDS u/s 194DA]

Examine the applicability of the provisions for tax deduction at source u/s 194DA in the following cases -

450000
(375000)
75000
× 2% = 1500

(i) Mr. X, a resident, is due to receive ₹ 4.50 lakhs on 30.06.2025, towards maturity proceeds of LIC policy taken on 1.7.2022, for which the sum assured is ₹ 4 lakhs and the annual premium is ₹ 1,25,000. 125000 × 3 = 375000

(ii) Mr. Y, a resident, is due to receive ₹ 3.95 lakhs on 31.3.2026 on LIC policy taken on 31.3.2012, for which the sum assured is ₹ 3.50 lakhs and the annual premium is ₹ 26,100. 350000 × 20% = 70000 > 26100 → Exempt

(iii) Mr. Z, a resident, is due to receive ₹ 95,000 on 1.8.2025 towards maturity proceeds of LIC policy taken on 1.8.2018 for which the sum assured is ₹ 90,000 and the annual premium was ₹ 10,000. 95000 < 100000 → exempt **[SM Q.]**

Question 7 [Sec 194-I]

XYZ Ltd. pays ₹ 50,000 per month as rent to the Mr. Kishore for a building in which one of its branches is situated. Discuss whether TDS provisions u/s 194-I are attracted.

Answer 7

Section 194-I, which governs the deduction of tax at source on payment of rent, exceeding ₹ 50,000 p.m., is applicable to all taxable entities except individuals and HUFs, whose total sales, gross receipts or turnover from the business or profession carried on by him does not exceed ₹ 1 crore in case of business and ₹ 50 lakhs in case of profession during the financial year immediately preceding financial year in which such rent was credited or paid, is liable to deduct tax at source.

Since the rent paid by XYZ Ltd. to Mr. Kishore does not exceeds ₹ 50,000 per month, the provisions of section 194-I for deduction of tax at source are not attracted.

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Question 8 Pg 252(2) [Sec 194-IB]

Mr. X, a salaried individual, pays rent of ₹ 55,000 per month to Mr. Y from June, 2025 for immovable property. Is he required to deduct tax at source? If so, when is he required to deduct tax? Also, compute the amount of tax to be deducted at source. Would your answer change if Mr. X vacated the premises on 31st December, 2025? Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X? **[SM Q.]**

Question 9 [Sec 194J]

XYZ Ltd. makes a payment of ₹ 28,000 to Mr. Ganesh on 2.8.2025 towards fees for professional services and another payment of ₹ 25,000 to him on the same date towards fees for technical services. Discuss whether TDS provisions u/s 194J are attracted. **[SM Q.]**

Answer 9

TDS provisions u/s 194J would not get attracted, since the limit of ₹ 50,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. Ganesh towards fees for professional services and fees for technical services during the P.Y.2025-26.

Question 10 Pg 256 (2) [Sec 194C, 194M, 194H]

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS applicable in each case. Assume that all payments are made to residents. **[SM Q.]**

	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y.2025-26
1	Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores in the P.Y.2024-25	Contract Payment for repair of residential house	₹ 5 lakhs
		Payment of commission to Mr. Vallish for business purposes	₹ 80,000 in November, 2025
2.	Mr. Rajesh, a wholesale trader whose turnover was ₹ 95 lakhs in P.Y. 2024-25.	Contract Payment for reconstruction of residential house (made during the period January- March, 2026)	₹ 20 lakhs in January, 2026, ₹ 15 lakhs in Feb 2026 and ₹ 20 lakhs in March 2026.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house in March, 2026	₹ 51 lakhs
4.	Mr. Dheeraj, a pensioner	Contract payment made during October-November 2025 for reconstruction of residential house	₹ 48 lakhs

Question 11 Pg 248 (2) [Capital Gain & IFOS]

Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of ₹ 60 lakh and ₹ 15 lakh, respectively, to Mr. Y on 1.8.2025. He has purchased the house property and the land in the year 2024 for ₹ 40 lakh and ₹ 10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2025, is ₹ 85 lakh and ₹ 20 lakh for the house property and rural agricultural land, respectively. Examine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X and Mr. Y are resident Indians.

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Question 12 **[Sec 194P]**

Mr. Sharma, a resident Indian aged 77 years, gets pension of ₹ 52,000 per month from the UP State Government. The same is credited to his savings account in SBI, Lucknow Branch. In addition, he gets interest@8% on fixed deposit of ₹ 20 lakh with the said bank. Out of the deposit of ₹ 20 lakh, ₹ 2 lakh represents five year term deposit made by him on 1.4.2025. Interest on savings bank credited to his SBI savings account for the P.Y.2025-26 is ₹ 9,500.

(1) From the above facts, compute the total income and tax liability of Mr. Sharma for the A.Y. 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

(1) What would be the amount of tax deductible at source by SBI, assuming that the same is a specified bank? Is Mr. Sharma required to file his return of income for A.Y.2026-27, if tax deductible at source has been fully deducted? Examine.

(2) Would your answer to Q.2 be different if the fixed deposit of ₹ 20 lakh was with Canara Bank instead of SBI, other facts remaining the same? **[SM Q.]**

Answer 12

(1) **Computation of total income of Mr. Sharma for A.Y.2026-27**

Particulars	₹	₹
I Salaries		
Pension (52,000 x 12)	6,24,000	
Less: Standard deduction u/s 16(ia)	50,000	
		5,74,000
II Income from Other Sources		
Interest on fixed deposit (₹ 20 lakh x 8%)	1,60,000	
Interest on savings account	9,500	1,69,500
Gross total income		**7,43,500**
Less: **Deductions under Chapter VI-A**		
U/s 80C		
Five year term deposit (₹ 2 lakh, restricted to ₹ 1.5 lakh)	1,50,000	
U/s 80TTB		
Interest on fixed deposit and savings account, restricted to 50,000, since Mr. Sharma is a resident Indian of the age of 77 years.	50,000	2,00,000
Total Income		**5,43,500**
Computation of tax liability for A.Y.2026-27		
Tax payable [₹ 43,500 x 20% + ₹ 10,000]		18,700
Add: Health and Education Cess@4%		748
Tax liability		**19,448**
Tax liability (rounded off)		**19,450**

(2) SBI, being a specified bank, is required to deduct tax at source u/s 194P (after considering the tax, if any, deducted on pension u/s 192) and remit the same to the Central Government. In such a case, Mr. Sharma would not be required to file his return of income u/s 139.

(3) If the fixed deposit of ₹ 20 lakh is with a bank other than SBI, which is the bank where his pension is credited, then, Mr. Sharma would not qualify as a "specified senior citizen",

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consequent to which SBI would not be liable to deduct tax u/s 194P. In this case, Mr. Sharma would have to file his return of income u/s 139, since his total income (without giving effect to deduction under Chapter VI-A) exceeds the basic exemption limit.

It may be noted that in this case, TDS provisions u/s 192 would, in any case, be attracted in respect of pension income. Further, Canara Bank would, be liable to deduct tax@10% u/s 194-A on interest on fixed deposit, since the same exceeds ~~₹ 50,000~~ ₹1,00,000.

Question 13 Pg 260(2) **[Sec 194Q & ~~206C(1H)~~]**

Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y.2024-25 was ₹ 12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y.2025-26 was ₹ 95 lakh (₹ 20 lakh on 1.6.2025, ₹ 25 lakh on 12.8.2025, ₹ 22 lakh on 23.11.2025 and ₹ 28 lakh on 25.3.2026). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date. Mr. Agarwal's turnover for F.Y.2024-25 was ₹ 15 crores.

(1) Based on the above facts, examine the TDS/TCS implications, if any, under the Income-tax Act, 1961.

(2) Would your answer be different if Mr. Gupta's turnover for F.Y.2024-25 was ₹ 8 crores, all other facts remaining the same?

(3) Would your answer to (1) and (2) change, if PAN has not been furnished by the buyer or seller, as required? **[SM Q.]**

Question 14 **[Interest on TDS late deduction and Payment]**

An amount of ₹ 40,000 was paid to Mr. X on 1.7.2025 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 50,000 was due to Mr. X on 28.2.2026, from which tax@10% (amounting to₹ 9,000) on the entire amount of ₹ 90,000 was deducted. However, this tax of ₹ 9,000 was deposited only on 22.6.2026. Compute the interest chargeable u/s 201(1A). **[SM Q.]**

Answer 14

Interest u/s 201(1A) would be computed as follows –

Particulars	₹
1% on tax deductible but not deducted i.e., 1% on ₹ 4,000 for 8 months	320
1½% on tax deducted but not deposited i.e. 1½% on ₹ 9,000 for 4 months	540
	860

Question 15 **[TDS Various section]**

Ashwin doing manufacture and wholesale trade furnishes you the following information:

Total turnover for the financial year **[SM Q.]**

Particulars	₹
2024-25	1,05,00,000
2025-26	95,00,000

Examine whether tax deduction at source provisions are attracted for the below said expenses incurred during the financial year 2025-26:

Particulars	₹
Interest paid to UCO Bank on 15.8.2025 TDS X	41,000
94C Contract payment to Raj (2 contracts of ₹ 12,000 each) on 12.12.2025 TDS X	24,000

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Shop rent paid (one payee) on 21.1.2026 250000/12 = 20833	2,50,000
194H Commission paid to Balu on 15.3.2026 TDS X	7,000

Answer 15

As the turnover of business carried on by Ashwin for F.Y. 2024-25, has exceeded ₹ 1 crore, he has to comply with the tax deduction provisions during the financial year 2025-26, subject to, the exemptions provided for under the relevant sections for applicability of TDS provisions.

Interest paid to UCO Bank

TDS u/s 194A is not attracted in respect of interest paid to a banking company.

Contract payment of ₹ 24,000 to Raj for 2 contracts of ₹ 12,000 each

TDS provisions u/s 194C would not be attracted if the amount paid to a contractor does not exceed ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions u/s 194C are not attracted in this case.

Shop Rent paid to one payee – Tax has to be deducted@10% u/s 194-I if the monthly payment does not exceed Rs. 50,000 per month. In the instant case, it is assumed that the monthly rent is less than Rs. 50k and therefore TDS is not attracted

Commission paid to Balu – No, tax has to be deducted u/s 194H in this case as the commission does not exceed ₹ 20,000.

Question 16 **[TDS Various section]**

Compute the amount of tax deduction at source on the following payments made by M/s. S Ltd. during the financial year 2025-26 as per the provisions of the Income-tax Act, 1961.

[SM Q.]

Sr. No.	Date	Nature of Payment
(i)	1-10-2025	Payment of ₹ 2,00,000 to Mr. R, a transporter who owns 8 goods carriages throughout the previous year and furnishes a declaration to this effect alongwith his PAN.
(ii)	1-11-2025	Payment of fee for technical services of ₹ 25,000 and Royalty of ₹ 20,000 to Mr. Shyam who is having PAN.
(iii)	30-06-2025	Payment of ₹ 25,000 to M/s X Ltd. for repair of building.
(iv)	01-01-2026	Payment of ₹ 2,00,000 made to Mr. A for purchase of diaries made according to specifications of M/s S Ltd. However, no material was supplied for such diaries to Mr. A by M/s S Ltd or its associates.
(v)	01-01-2026	Payment of ₹ 2,30,000 made to Mr. Bharat for compulsory Acquisition of his house as per law of the State Government. <50L
(vi)	01-02-2026	Payment of commission of ₹ 14,000 to Mr. Y.

Answer 16

(i) No tax is required to be deducted at source u/s 194C by M/s S Ltd. on payment to transporter Mr. R, since he satisfies the following conditions:

(1) He owns ten or less goods carriages at any time during the previous year.

(2) He is engaged in the business of plying, hiring or leasing goods carriages;

(3) He has furnished a declaration to this effect along with his PAN.

(ii) As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for technical services and royalty, individually, exceeds ₹ 50,000 during the financial year. In the given case, since, the individual payments for fee of technical services i.e., ₹ 25,000 and royalty ₹ 20,000 is less than ₹ 50,000 each, there is no liability to deduct tax at source. It is assumed that no other payment towards fees for technical services and royalty were made during the year to

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Mr. Shyam.

(iii) Provisions of section 194C are not attracted in this case, since the payment for repair of building on 30.06.2025 to M/s. X Ltd. is less than the threshold limit of ₹ 30,000.

(iv) According to section 194C, the definition of "work" does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or associate of such customer.

Therefore, there is no liability to deduct tax at source in respect of payment of ₹ 2,00,000 to Mr. A, since the contract is a contract for 'sale'.

(v) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is responsible for deduction of tax at source if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 5,00,000.

In the given case, no liability to deduct tax at source is attracted as the payment made does not exceed ₹ 5,00,000.

(vi) As per section 194H, tax is deductible at source if the amount of commission or brokerage or the aggregate of the amounts of commission or brokerage credited or paid during the financial year exceeds ₹ 20,000.

Since the commission payment made to Mr. Y does not exceed ₹ 20,000, the provisions of section 194H are not attracted.

Question 17 [TDS Various section]

Examine the applicability of TDS provisions and TDS amount in the following cases:

(a) Rent paid for hire of machinery by B Ltd. to Mr. Raman ₹ 2,60,000 on 27.9.2025. (Sept month only)

(b) Fee paid on 1.12.2025 to Dr. Srivatsan by Sundar (HUF) ₹ 35,000 for surgery performed on a member of the family. Personal nature → TDS ✗

(c) ABC and Co. Ltd. paid ₹ 19,000 to one of its Directors as sitting fees on 01-01-2026. ✗ 10% = 1900

[SM Q.]

Answer 17

(a) Since the rent paid for hire of machinery by B. Ltd. to Mr. Raman exceeds Rs₹ 50,000 for September, the provisions of section 194-I for deduction of tax at source are attracted.

The rate applicable for deduction of tax at source u/s 194-I on rent paid for hire of plant and machinery is 2%, assuming that Mr. Raman had furnished his permanent account number to B Ltd.

Therefore, the amount of tax to be deducted at source: = ₹ 2,60,000 x 2% = ₹ 5,200.

Note: In case Mr. Raman does not furnish his permanent account number to B Ltd., tax shall be deducted @ 20% on ₹ 2,60,000, by virtue of provisions of section 206AA. = 52000

(b) As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if the total sales, gross receipts or turnover form the business or profession exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession, as the case may be, in the financial year preceding the current financial year and such payment made for professional services is not exclusively for the personal purpose of any member of Hindu Undivided Family.

Section 194M, provides for deduction of tax at source by a HUF (which is not required to deduct tax at source u/s 194J) in respect of fees for professional service if such sum or aggregate of such sum exceeds ₹ 50 lakhs during the financial year.

In the given case, the fees for professional service to Dr. Srivatsan is paid on 1.12.2025 for a personal purpose, therefore, section 194J is not attracted. Section 194M would have been attracted, if the payment or aggregate of payments exceeded ₹ 50 lakhs in the P.Y.2025-26. However, since the payment does not exceed ₹ 50 lakh in this case, there is no liability to deduct

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tax at source u/s 194M also.

(c) Section 194J provides for deduction of tax at source @10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible u/s 192. The threshold limit of ₹ 50,000 upto which the provisions of tax deduction at source are not attracted in respect of every other payment covered u/s 194J is, however, not applicable in respect of sum paid to a director.

Therefore, tax@10% has to be deducted at source u/s 194J in respect of the sum of ₹ 19,000 paid by ABC Ltd. to its director.

Therefore, the amount of tax to be deducted at source: = ₹ 19,000 x 10% = ₹ 1,900

Question 18 [TDS Various section]

Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2025-26:

(1) Payment made by a company to Mr. Ram, sub-contractor, ₹ 3,00,000 with outstanding balance of ₹ 1,20,000 shown in the books as on 31-03-2026.

(2) Winning from horse race ₹ 1,50,000 paid to Mr. Shyam, an Indian resident.

(3) ₹ 2,00,000 paid to Mr. A, a resident individual, on 22-02-2026 by the State of Uttar Pradesh on compulsory acquisition of his urban land. **[SM Q.]**

Answer 18

(1) Provisions of tax deduction at source u/s 194C are attracted in respect of payment by a company to a sub-contractor. U/s 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% in case the payment is made to an individual.

Since the aggregate amount credited or paid during the year is ₹ 4,20,000, tax is deductible @ 1% on ₹ 4,20,000.

Tax to be deducted = ₹ 4,20,000 x 1% = **₹ 4,200**

(2) U/s 194BB, tax is to be deducted at source, if the winnings from horse races exceed ₹ 10,000 per winning. The rate of deduction of tax at source is 30%.

Hence, tax to be deducted = ₹ 1,50,000 x 30% = **₹ 45,000.**

(3) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 5,00,000.

In the given case, there is no liability to deduct tax at source as the payment made to Mr. A does not exceed ₹ 5,00,000.

Question 19 [Interest on deferment of Advance Tax instalment]

Briefly discuss the provisions relating to payment of advance tax on income arising from capital gains and casual income. **[SM Q.]**

Answer 19

The proviso to section 234C contains the provisions for payment of advance tax in case of capital gains and casual income.

Advance tax is payable by an assessee on his/its total income, which includes capital gains and casual income like income from lotteries, crossword puzzles, etc.

Since it is not possible for the assessee to estimate his capital gains, or income from lotteries etc., it has been provided that if any such income arises after the due date for any instalment, then, the entire amount of the tax payable (after considering tax deducted at source) on such capital gains or casual income should be paid in the remaining instalments of advance tax, which are due.

Where no such instalment is due, the entire tax should be paid by 31st March of the relevant financial

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year.

No interest liability on late payment would arise if the entire tax liability is so paid.

Note: In case of casual income the entire tax liability is fully deductible at source @30% u/s 194B and 194BB. Therefore, advance tax liability would arise only if the surcharge, if any, and health and education cess@4% in respect thereof, along with tax liability in respect of other income, if any, is ₹ 10,000 or more.

Question 20 [Interest on short payment Advance Tax]

Mr. Jay having total income of ₹ 8,70,000, did not pay any advance tax during the previous year 2025-26. He wishes to pay the whole of the tax, along with interest if any, on filing the return in the month of July, 2026. What is total tax which Mr. Jay has to deposit as self-assessment tax along with interest, if he files the return on 29.07.2026? Assume that he opt out from default regime u/s 115BAC. **[Past RTP Q.]**

Answer 20

Obligation to pay advance tax arises in every case, where the advance tax payable is ₹ 10,000 or more. As a consequence of such failure, assessee may be charged with interest u/s 234B and 234C.

In the given case, since Mr. Jay did not deposit any amount of advance tax during the previous year, he will need to pay the total tax due on his income along with interest for default in payment of advance tax [u/s 234B] and interest for deferment of advance tax [u/s 234C] before filing of his return.

Total tax due on returned income of ₹ 8,70,000 is ₹ 89,960 [(20% of ₹ 3,70,000 + ₹ 12,500) + cess@4%]

Interest u/s 234B

Interest u/s 234B is attracted - a) When the assessee, who is liable to pay advance tax has failed to pay such tax; or b) Where the advance tax paid by the assessee is less than 90% of the assessed tax.

Since, Mr. Jay did not pay any amount as advance tax, interest u/s 234B at 1% per month or part of the month will be levied beginning from 1st April of the following year i.e., 01.04.2026 till the time he deposits the whole tax under self- assessment.

Interest will be levied on tax liability of ₹ 89,900 (rounded off to nearest hundred, ignoring fraction) at 1% for four months i.e., from 1st April to 29th July.

The interest u/s 234B amount to ₹ 3,596

Interest u/s 234C

Assessees, other than assessees who declare profits and gains in accordance with provision of section 44AD(1) or section 44ADA(1), are liable to pay advance tax in 4 installments during the previous year. Section 234C is attracted, if the actual installment paid by the assessee is the less than the amount required to be paid by him on such instalments. The interest shall be calculated at 1% per month or part of the month for short payment or non-payment of each instalment.

In the given scenario, since Mr. Jay, did not deposit any amount as advance tax, the interest u/s 234C is calculated as under –

Date of Instalment	Specified % of estimated tax	Amount due and unpaid (rounded off to nearest ₹ 100, ignoring fraction)	Period	Interest @ 1%
15th June 2025	15%	13,400	3 months	402
15th September 2025	45%	40,400	3 months	1,212
15th December 2025	75%	67,400	3 months	2,022
15th March 2026	100%	89,900	1 month	899

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Total interest u/s 234C	**4,535**

Mr. Jay needs to pay ₹ 98,091 as total of tax and interest on or before filing of return in the month of July, 2026.

Question 21 [TDS Various section]

Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.

(i) Mr. Kunal received a sum of ₹ 10,20,000 on 28.02.2026 as pre-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.

(ii) Indian Bank sanctioned and disbursed a loan of ₹ 12 crores to B Ltd. on 31-12-2025. B Ltd. paid a sum of ₹ 1,20,000 as service fee to Indian Bank for processing the loan application.

(iii) Mr. Agam, working in a private company, is on deputation for 5 months (from October, 2025 to February, 2026) at Mumbai where he pays a monthly house rent of ₹ 32,000 for those five months, totalling to ₹ 1,60,000. Rent is paid by him on the first day of the relevant month. **[MTP Q.]**

Answer 21

TDS implications

(i) On pre-mature withdrawal from EPF

No tax is deductible u/s 192A even though the employee, Mr. Kunal, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health. Hence, Rule 8 of Part A of the Fourth Schedule is applicable in this case.

(ii) On payment of service fee to bank

Even though service fee is included in the definition of "interest" u/s 2(28A), no tax is deductible at source u/s 194A, since the service fee is paid to a banking company, i.e., Indian Bank.

(iii) On payment of rent by a salaried individual

Mr. Agam, a salaried individual, is not liable to deduct tax at source @2% u/s 194-IB on ₹ 1,60,000 (being rent for 5 months from October 2025 to February 2026) from the rent of ₹ 32,000 payable on 1st day of every month, since the monthly rent does not exceed ₹ 50,000.

Question 22 [Advance Tax Instalment]

Determine the advance tax payable by Mr. Deepak with their due dates for the assessment year 2026-27. (5 marks) **[MTP Q.]**

	Amount (₹)
Total estimated tax payable	5,50,000
TDS (deductible but not deducted)	X 70,000
TCS (collected)	(-) ✓ 20,000

530000

Answer 22

Computation of Advance Tax Payable for the A.Y 2026-27

Particulars	₹
Tax Payable	5,50,000
Less: TDS (deductible but not deducted), cannot be reduced for computing advance tax liability	Nil

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Less: TCS	20,000
Net Tax Payable	**5,30,000**

Due dates for payment of advance tax

Due date of installment	Amount payable
On or before 15th June, 2025	**₹ 79,500** [15% of ₹ 5,30,000]
On or before 15th September, 2025	**₹ 1,59,000** [₹ 2,38,500 (45% of ₹ 5,30,000) less ₹ 79,500, (amount paid in earlier installment)]
On or before 15th December, 2025	**₹ 1,59,000** [₹ 3,97,500 (75% of ₹ 5,30,000) Less ₹ 2,38,500 (amount paid in earlier installment or installments)]
On or before 15th March, 2026	**₹ 1,32,500,** [₹ 5,30,000 (whole amount of advance tax liability less ₹ 3,97,500 (amount paid in earlier installment or installments)]

Question 23 [TDS Various section]

Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.

(i) Ms. Sarla received a sum of ₹ 95,000 on 30th September 2025 towards maturity proceeds of LIC taken on 1st October 2019 for which sum assured was ₹ 80,000 and annual premium was ₹ 10,000.

(ii) Mr. Rohit transferred a residential house property to Mr. Arun for ₹ 45 lacs. The stamp duty value of such property is ₹ 55 lacs.

(iii) Akash (P) Limited pays the following amounts to Mr. Santosh during previous year 2025-26:

(a) ₹ 22,000 towards fee for professional services

(b) ₹ 18,000 towards royalty.

(iv) Payment of ₹ 1,75,000 made to Mr. Ankit for purchase of bag according to specifications of M/s. Packaging Limited. However, no material was supplied for such bag by Packaging Limited or its associates to Mr. Ankit.

(v) ABC Private Limited pays ₹ 12,000 to Ms. Deepika, its director, on 1.5.2025 towards sitting fee which is not taxable u/s 192.

(vi) Rashi Limited is engaged by Jigar Limited for the sole purpose of business of operation of call centre. On 18-03-2026, the total amount credited by Jigar Limited in the ledger account of Rashi Limited is ₹ 70,000 regarding service charges of call centre. The amount is paid through cheque on 28-03-2026 by Jigar Limited.

(vii) Ms. Mohit won a lucky draw prize of ₹ 21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer. **[MTP Q.]**

Answer 23

(i) **On payment of LIC maturity proceeds** - The annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of ₹ 95,000 would not be exempt u/s 10(10D) in the hands of Ms. Sarla. However, tax deduction provisions u/s 194-DA are not attracted since the maturity proceeds are less than ₹ 1 lakh.

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(ii) **On payment of sale consideration for purchase of residential house property** – U/s 194-IA if consideration or SDV is ₹ 50 lakhs or more than TDS applicable @1% on consideration or SDV whichever is higher. In this case TDS applicable @1% on ₹ 55 lakhs.

(iii) **On payment of fee for professional services and royalty** – U/s 194J, the threshold limit of ₹ 50,000 is specified separately for, inter alia, fees for professional services and royalty. Therefore, Akash (P) Limited is not required to deduct tax at source u/s 194J either on fee of ₹ 22,000 for professional services or on royalty of ₹ 18,000 paid to Mr. Santosh, since the payment under each category does not exceed the independent threshold ₹ 50,000 specified thereunder.

(iv) **On payment for purchase of bag according to specifications** - As per section 194C, the definition of "work" does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or its associate, being a person related to the customer in such manner as defined u/s 40A(2)(b).

Therefore, M/s Packaging Limited is not required to deduct tax at source in respect of payment of ₹ 1,75,000 to Mr. Ankit, for purchase of bag according to its specifications, since it did not supply the material for such bag and nor was the material supplied by any of its associates. Hence, the contract is a contract for 'sale' and not a works contract.

(v) **On payment of sitting fees to the director** - ABC Private Limited is required to deduct tax at source @10% on sitting fees of ₹ 12,000 paid to its director, since the threshold limit of ₹ 50,000 u/s 194J is not applicable in respect of fees paid to a director of a company.

(vi) **On payment of call centre service charges** - Since Rashi Limited is engaged only in the business of operation of call centre, Jigar Limited is required deduct tax at source@2% on the amount of ₹ 70,000 u/s 194J on 18.3.2026 i.e., at the time of credit of call centre service charges to the account of Rashi Limited, since the said date is earlier than the payment date i.e., 28.3.2026.

(vii) **On payment of prize winnings of ₹ 21,000** -Tax is deductible @ 30% u/s 194B by M/s. Maximus Retail Ltd.., from the prize money of ₹ 21,000 payable to the customer, since the per winning exceed ₹ 10,000.

Question 24 [TDS Various section]

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS and amount required to be deducted at source as applicable in each case. Assume that all payments are made to residents.

S. No.	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y. 2025-26 (Amt. in ₹)
(A)	Mr. Kale, receiving pension from Central Government	Contractual payment made during April 2025 for reconstruction of his residential house in Arunachal Pradesh	52,50,000
(B)	Mr. Rahul, a wholesale trader of spices whose turn-over was ₹ 5 crores F.Y. 2024-25	Contract payment for construction of office godown during January to March 2026 to Mr. Akhilesh, an individual	50,00,000
(C)	Mr. Golu, an individual carrying garment trading business with turnover of	Payment of commission to Mr. Vinay for securing a contract from a big business house in	1,20,000

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S. No.	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y. 2025-26 (Amt. in ₹)
	₹ 95 lakhs in F.Y. 2024-2025	November 2025	
(D)	XYZ Urban Co-operative bank	Payment by way of cash withdrawal, by ABC & Co. a partnership firm, amounting ₹ 1.2 crores during Financial Year 2025-26. ABC & Co. has filed its tax returns for the last 3 financial years with in time.	1,20,00,000

Question 25

[TDS/TCS Various section]

(a) State in brief the applicability of provisions of tax deduction at source, the rate and amount of tax deduction in the following cases for the financial year 2025-26 under Income-tax Act, 1961. Assume that all payments are made to residents:

(i) Mr. Mahesh has paid ₹ 6,00,000 on 15.10.2025 to M/s Fresh Cold Storage Pvt. Ltd. for preservation of fruits and vegetables. He is engaged in the wholesale business of fruits & vegetable in India having turnover of ₹ 3 Crores during the previous year 2024-25.

(ii) Mr. Ramu, a salaried individual, has paid rent of ₹ 60,000 per month for house property to Mr. Shiv Kumar from 1st July, 2025 to 31st March, 2026. Mr. Shiv Kumar has not furnished his Permanent Account Number.

(b) Examine the following transactions with reference to applicability of the provision of tax collected at source and the rate and amount of the TCS for the Assessment year 2026-27.

(i) Mr. Kalpit bought an overseas tour programme package for Singapore for himself and his family of ₹ 5 lakhs on 01-06-2025 from an agent who is engaged in organising foreign tours in course of his business. He made the payment by an account payee cheque and provided the permanent account number to the seller. Assuming Kalpit is not liable to deduct tax at source under any other provisions of the Act.

(ii) Mr. Anu doing business of textile as a proprietor. His turnover in the business is ₹ 11 crores in the previous year 2024-25. He received payment against sale of textile goods from Mr. Ram of ₹ 75 lakhs against the sales made to him in the previous year and preceding previous years. (Assuming all the sales are domestic sales and Mr. Ram is neither liable to deduct tax on the purchase from Mr. Anu nor he deducted any tax at source).

Answer 25

(a) (i) The arrangement between Mr. Mahesh, the customer, and M/s. Fresh Cold Storage Pvt. Ltd., the cold storage owner, is basically contractual in nature and main object of the cold storage is to preserve perishable goods by mechanical process and storage of such goods is only incidental. Hence, the provisions of section 194C will be applicable to the amount of ₹ 6 lakh paid by Mr. Mahesh to the cold storage company[1].

Accordingly, tax has to be deducted@2% on ₹ 6 lakh.

1 *Circular No. 1/2008 dated 10.1.2008.*

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TDS u/s 194C = 2% x ₹ 6 lakh = ₹ 12,000

(ii) Mr. Ramu, being a salaried individual, has to deduct tax at source @ 2% u/s 194-IB on the annual rent paid by him from the last month's rent (rent of March, 2026), since the rent paid by him exceeds ₹ 50,000 p.m.

Since his landlord Mr. Shiv Kumar has not furnished his PAN to Mr. Ramu, tax has to be deducted @ 20% instead of 2%.

However, the same cannot exceed ₹ 60,000, being rent for March, 2026.

TDS u/s 194-IB = ₹ 5,40,000 (₹ 60,000 x 9) x 20% = ₹ 1,08,000, but restricted to ₹ 60,000, being rent for March, 2026.

(b) (i) Tax @ 5% is required to be collected u/s 206C by the seller of an overseas tour programme package, from Mr. Kalpit, being the buyer of an overseas tour package, even if payment is made by account payee cheque.

Accordingly, tax has to be collected@5% on ₹ 5 lakh.

TCS = 5% x ₹ 5 lakh = ₹ 25,000

(ii) Section 206C (1H) has been omitted from FY 2025-26. Accordingly, no TCS provisions are attracted.

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CHAPTER 12

Provisions for Filing return of Income and Self Assessment

Question 1 [Return Filing 139(1)]

Paras aged 55 years is a resident of India. During the F.Y. 2025-26, interest of ₹ 2,88,000 was credited to his Non-resident (External) Account with SBI. ₹ 30,000, being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also earned ₹ 3,000 as interest on this saving account. Is Paras required to file return of income?

What will be your answer, if he has incurred ₹ 3 lakhs as travel expenditure of self and spouse to US to stay with his married daughter for some time?

Answer 1

An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A or exemption under section or section 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e. ₹ 3,00,000 under default tax regime u/s 115BAC(1A) and ₹ 2,50,000 if exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) (for A.Y. 2026-27).

Computation of total income of Mr. Paras for A.Y. 2026-27

Particulars	₹
Income from other sources	
Interest earned from Non-resident (External) Account ₹ 2,88,000	NIL
[Exempt under section 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account]	
Interest on fixed deposit with SBI	30,000
Interest on savings bank account	3,000
Gross Total Income	**33,000**
Less: Deduction under Chapter VI-A (not available under the default tax regime under section 115BAC)	-
Total Income	**33,000**

In case he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A), he would be eligible for deduction of ₹ 3,000 under section 80TTA. Accordingly, his total income would be ₹ 30,000. However, in both regimes, total income of ₹ 33,000, before giving effect to deductions under Chapter VI-A, would be considered.

Since the total income of Mr. Paras for A.Y.2026-27, before giving effect to the deductions under Chapter VI-A, is less than the basic exemption limit in both regimes, he is not required to file return of income for A.Y.2026-27.

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Note: In the above solution, interest of ₹ 2,88,000 earned from Non-resident (External) account has been taken as exempt on the assumption that Mr. Paras, a resident, has been permitted by RBI to maintain the aforesaid account. However, in case he has not been so permitted, the said interest would be taxable. In such a case, his total income, before giving effect to, *inter alia,* the deductions under Chapter VI-A, would be ₹ 3,21,000 (₹ 30,000 + ₹ 2,88,000 + ₹ 3,000), which is higher than the basic exemption limit of ₹ 3,00,000 or ₹ 2,50,000, as the case may be. Consequently, he would be required to file return of income for A.Y.2026-27.

If he has incurred expenditure of ₹ 3 lakhs on foreign travel of self and spouse, he has to mandatorily file his return of income on or before the due date under section 139(1), even if his income is less than the basic exemption limit.

Question 2 [Return Filing 139(3)/139(4)/(139(5)]

Explain with brief reasons whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:

(i) Belated return filed under section 139(4).

(ii) Return already revised once under section 139(5).

(iii) Return of loss filed under section 139(3). **[SM Q.]**

Answer 2

Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

(i) A belated return filed under section 139(4) can be revised.

(ii) A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier. It implies that a return of income can be revised more than once within the prescribed time.

(iii) A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).

Question 3 [TRP]

Mrs. Hetal, an individual engaged in the business of Beauty Parlour, has got her books of account for the financial year ended on 31st March, 2026 audited under section 44AB. Her total income for the assessment year 2026-27 is ₹ 6,35,000. She wants to furnish her return of income for assessment year 2026-27 through a tax return preparer. Can she do so? **[SM Q.]**

Answer 3

Section 139B provides a scheme for submission of return of income for any assessment year through a Tax Return Preparer. However, it is not applicable to persons whose books of account are required to be audited under section 44AB. Therefore, Mrs. Hetal cannot furnish her return of income for A.Y.2026-27 through a Tax Return Preparer.

Question 4 [Verifying of Return]

State with reasons whether you agree or disagree with the following statements:

(a) Return of income of Limited Liability Partnership (LLP) could be verified by any partner.

(b) Time limit for filing return under section 139(1) in the case of Mr. A having total turnover of ₹ 160 lakhs (₹ 100 lakhs received in cash) for the year ended 31.03.2026, whether or not opting to offer presumptive income under section 44AD, is 31st October, 2026. **[SM Q.]**

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Answer 4

(a) Disagree

The return of income of LLP should be verified by a designated partner.

Any other partner can verify the Return of Income of LLP only in the following cases:-

(i) where for any unavoidable reason such designated partner is not able to verify the return, or,

(ii) where there is no designated partner.

(b) Disagree

In case Mr. A opts to offer his income as per the presumptive taxation provisions of section 44AD, then, the due date under section 139(1) for filing of return of income for the year ended 31.03.2026, shall be 31st July, 2026.

In case, Mr. A does not opt for presumptive taxation provisions under section 44AD, he has to get his accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore, in which case, the due date for filing return would be 31st October, 2026.

Question 5 **[[Return Filing 139(4)/139(5)]**

Mr. Vineet exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) and submits his return of income on 12-09-2026 for A.Y 2026-27 consisting of income under the head "Salaries", "Income from house property" and bank interest. On 21-12-2026, he realized that he had not claimed deduction under section 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income. Can he do so? Examine. Would your answer be different if he discovered this omission on 21-03-2027? **[SM Q.]**

Answer 5

Vineet has filed his original return of income for assessment year 2025-26 within the due date specified in section 139(4) for filing belated return. Since Mr. Vineet has income only under the heads "Salaries", "Income from house property" and "Income from other sources", he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2026-27 under section 139(1), in his case, is 31st July, 2026. Since Mr. Vineet had submitted his return only on 12.9.2026, the said return is a belated return under section 139(4).

As per section 139(5), a return furnished under section 139(1) or a belated return u/s 139(4) can be revised. Thus, a belated return under section 139(4) can also be revised. Therefore, Mr. Vineet can revise the return of income filed by him under section 139(4) in December 2026, to claim deduction under section 80TTA, since the time limit for filing a revised return is three months prior to the end of the relevant assessment year, which is 31.12.2026.

However, he cannot revise return had he discovered this omission only on 21.03.2027, since it is beyond 31.12.2026.

Question 6 **[PAN 139A & Verifying Return u/s 140]**

Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

(i) The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable.

(ii) Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family. **[SM Q.]**

Answer 6

(i) True: Section 139A(2) provides that the Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.

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(ii) False: Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

Question 7 [Return Filing 139(3)]

Explain the term "return of loss" under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required? **[SM Q.]**

Answer 7

A return of loss is a return which shows certain losses. Section 80 provides that the losses specified therein cannot be carried forward, unless such losses are determined in pursuance of return filed under the provisions of section 139(3).

Section 139(3) states that to carry forward the losses specified therein, the return should be filed within the time specified in section 139(1).

Following losses are covered by section 139(3):

- business loss to be carried forward under section 72(1),
- speculation business loss to be carried forward under section 73(2),
- loss from specified business to be carried forward under section 73A(2).
- loss under the head "Capital Gains" to be carried forward under section 74(1); and
- loss incurred in the activity of owning and maintaining race horses to be carried forward under section 74A(3)

However, loss from house property to be carried forward under section 71B and unabsorbed depreciation under section 32 can be carried forward even if return of loss has not been filed as required under section 139(3).

Question 8 [PAN u/s 139A]

Mr. Aakash has undertaken certain transactions during the F.Y.2025-26, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents – **[SM Q.]**

S. No.	Transaction
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2025-26 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash
3.	Payment of ₹ 80,000 by ECS through bank account for acquiring the debentures of A Ltd., an Indian company
4.	Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives
5.	Applied to SBI for issue of credit card.

Answer 8

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2025-26 by account payee cheque to LIC for insuring life of self and spouse	No, since the amount paid does not exceed ₹ 50,000 in the F.Y.2025-26.
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash	Yes, since the amount paid in cash exceeds ₹ 50,000

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	Transaction	Is quoting of PAN mandatory in related documents?
3.	Payment of ₹ 80,000, by ECS through bank account, for acquiring the debentures of A Ltd., an Indian company	Yes, since the amount paid for acquiring debentures exceeds ₹ 50,000. Mode of payment is not relevant in this case.
4.	Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives	No, since the amount was paid by account payee cheque, quoting of PAN is not mandatory even though the payment exceeds ₹ 50,000
5.	Applied to SBI for issue of credit card.	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.

Question 9 [Return u/s 139(4) & Consequences]

Mr. Sudarshan, due to inadvertent reasons, failed to file his Income-tax return for the assessment year 2026-27 on or before the due date of filing such return of income.

(i) Can he file the above return after due date of filing return of income? If yes, which is the last date for filing the above return?

(ii) What are the consequences of non-filing the return within the due date under section 139(1)? **[RTP M-20 Q.]**

Answer 9

If any person fails to furnish a return within the time allowed to him under section 139(1), he may furnish the belated return for any previous year at any time -

(i) 3 months prior to the end of the relevant assessment year; or

(ii) before the completion of the assessment,

whichever is earlier.

The last date for filing return of income for A.Y.2026-27, therefore, is 31st December 2026. Thereafter, Mr. Sudarshan cannot furnish a belated return after this date.

Consequences for non-filing return of Income within the due date under section 139(1)

Carry forward and set-off of certain losses: Business loss, speculation business loss, loss from specified business under section 35AD, loss under the head "Capital Gains"; and loss from the activity of owning and maintaining race horses, would not be allowed to be carried forward for set-off against income of subsequent years, where a return of income is not furnished within the time allowed under section 139(1).

Interest under section 234A: Interest under section 234A@1% per month or part of the month for the period commencing from the date immediately following the due date under section 139(1) till the date of furnishing of return of income is payable, where the return of income is furnished after the due date.

Fee under section 234F: Fee of ₹ 5,000 would be payable under section 234F, if the return of income is not filed on or before the due date specified in section 139(1). However, such fee cannot exceed ₹ 1,000, if the total income does not exceed₹ 5,00,000.

Question 10 [Late Filing Fees & 139AA Aadhar Number]

(i) What is the fee for default in furnishing return of income u/s 234F?

(ii) To whom the provisions of section 139AA relating to quoting of Aadhar Number do not apply? **[MTP Q.]**

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Answer 10

(i) Fee for default in furnishing return of income u/s 234F

Where a person, who is required to furnish a return of income under section 139, fails to do so within the prescribed time limit under section 139(1), he shall pay, by way of fee, a sum of ₹5,000. However, such fee cannot exceed ₹ 1,000, if the total income does not exceed ₹ 5,00,000.

(ii) Persons to whom provisions of section 139AA relating to quoting of Aadhar Number does not apply

The provisions of section 139AA relating to quoting of Aadhar Number would not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

(i) residing in the States of Assam, Jammu & Kashmir and Meghalaya;

(ii) a non-resident as per Income-tax Act, 1961;

(iii) of the age of 80 years or more at any time during the previous year;

(iv) not a citizen of India.