



CA INTERMEDIATE

INCOME TAX

Concept Book

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PREFACE

A highly skilled professional team of CA Wallah works arduously to ensure that the students receive the best content for their CA-Intermediate exams.

A plethora of CA Study Material is available in the market but CA Wallah professionals at PW are continuously working to provide supreme quality study material for the CA-Intermediate students.

From the beginning, the content team comprising Subject Matter Experts, Content Creators, Reviewers, DTP operators, Proofreaders, and others is involved in shaping the material to their best knowledge and experience to produce powerful content for the students.

CA Wallah Faculties have adopted a novel style of presenting the content in easy-to-understand language and have provided the content team with expert guidance and supervision throughout the creation and curation of this book.

PW's CA Wallah strongly believes in conceptual and fun-based learning. CA Wallah provides highly exam-oriented content to bring quality and clarity to the students.

This book adopts a multi-faceted approach to mastering and understanding the concepts by having a rich diversity of questions asked in the CA-Intermediate examination and equipping the students with the knowledge for this highly competitive exam.

The main objective of this book is to provide an edge to your preparation with short & crisp yet high-quality content.

BOOK FEATURES

This book, especially designed for CA-Intermediate aspirants, contains:

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

ABOUT THE AUTHOR

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

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

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

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

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CHAPTER 1: BASIC CONCEPTS

Introduction

- In a **Welfare State**, the Government takes primary responsibility for the welfare of its citizens, as in matters of health care, education, employment, infrastructure, social security and other development needs. To facilitate these, **Government needs revenue**.
- The **taxation is the primary source of revenue** to the Government for incurring such public welfare expenditure.
- However, no one enjoys handing over his hard-earned money to the government to pay taxes. Thus, **taxes are compulsory or enforced contribution** to the Government revenue by public.
- Government may levy taxes on income, business profits or wealth or add it to the cost of some goods, services, and transactions.

Direct Tax and Indirect Tax

There are **two types** of taxes: Direct Tax and Indirect Tax

- Tax, of which incidence and impact fall on the same person, is known as Direct Tax, such as Income Tax.
- On the other hand, tax, of which incidence and impact fall on two different persons, is known as Indirect Tax, such as GST.

Direct Tax	Indirect Tax
• Incidence and impact fall on the same person	• Incidence and impact fall on two different persons
• Assessee, himself bears such taxes. Thus, it pinches the taxpayer.	• Tax is recovered from the assessee, who passes such burden to another person.
• Levied on income	• Levied on goods and services.
• E.g. Income Tax	• E.g. GST, Customs Duty, etc.
• Progressive in nature i.e., higher tax are levied on person earning higher income and vice versa.	• Regressive in nature i.e., all persons will bear equal wrath of tax on goods or service consumed by them irrespective of their ability.

Constitutional validity of taxes

The Constitution of India is the supreme law of India. It consists of a Preamble, 22 parts containing **444 articles** and **12 schedules**. Any tax law, which is not in conformity with the Constitution, is called ultra vires the Constitution and held as illegal and void. Some of the provisions of the Constitution are given below:

Article 265 of the Constitution lays down that no tax shall be levied or collected except by the authority of law. It means tax proposed to be levied must be within the legislative competence of the legislature imposing the tax .

Article 246 read with Schedule VII divides subject matter of law made by legislature into three categories:

- **Union list** (only Central Government has power of legislation on subject matters covered in the list)
- **State list** (only State Government has power of legislation on subject matters covered in the list)
- **Concurrent list** (both Central & State Government can pass legislation on subject matters).

Entry 82 of Union List – Taxes on income other than agricultural income i.e. Income-tax.

Entry 46 of State List – Gives power to state Govt to make laws on tax on Agriculture Income.

Administration of tax laws

- Both of the Boards have been constituted under the Central Board of Revenue Act, 1963.
- **CBDT** deals with levy and collection of all **direct tax**
- **CBIC** Deals with levy and collection of **Central indirect tax** .

Sources Of Income Tax Law In India

1. Income tax Act, 2025 (Amended up to date)

The provisions of income tax extends to the whole of India and became effective from 1/4/2026 (Sec. 1). It contains **536 sections & 16 schedules**. The Act contains provisions for determination of taxable income; determination of tax liability; procedure for assessment, appeals, penalties and prosecutions; and powers and duties of Income tax authorities.

2. The Finance Act (Annual Amendments)

- Every year, a Finance Bill is presented before the Parliament by the Finance Minister. The Bill contains various amendments which are sought to be made in the areas of direct and indirect taxes levied by the Central Government.
- When the Finance Bill is approved by both the Houses of Parliament and receives the assent of the President, it becomes the Finance Act. The provisions of such Finance Act are thereafter incorporated in the Income Tax Act.

3. Income tax Rules, 2026 (Amended up to date)

- As per Sec. 533, the **Board** may, subject to the **control of the Central Government**, make rules for the whole or any part of India **for carrying out the purposes of the Act**.
- Such rules are made applicable by notification in the Gazette of India.
- These rules were **first made in 2026** and are known as Income tax Rules, 2026.

4. Circulars and Notifications

Circulars

- Circulars are issued by the CBDT from time to time **to deal with certain specific problems and to clarify doubts** regarding the scope and meaning of certain provisions of the Act.
- Circulars are **issued for the guidance** of the officers and/or assessees.
- The **department is bound by the circular** While such circulars are **not binding on the assessee**s, they can take advantage of beneficial circular

Notifications

Notifications are issued by the Central Government to give effect to the provisions of the Act. The CBDT is also empowered to make and amend rules for the purposes of the Act by issue of notifications.

5. Judicial decision

- a) **Decision of the Supreme Court:** Any decision given by the Supreme Court shall be **applicable as law** till there is any change in law by the Parliament. Such decision shall be **binding on all** the Courts, Tribunals, Income tax authorities, assessee, etc.

- b) **Decisions given by a High Court or ITAT:** Decisions given by a High Court or ITAT are **binding on all** assessees and Income tax authorities, **which fall under their jurisdiction**, unless it is over ruled by a higher authority.

Levy of Income-tax

As per Section 4, **Income** of the **Tax year** of a person is **charged to tax** in the **FY succeeding such tax year**.

TAX YEAR [SECTION 3]

- **Tax Year means** the 12-month period of the **financial year** commencing on 1st April and ending on 31st March.
- Income earned in a tax year is assessed in the next year.
- It is **mandatory** for all assessee **to follow tax year** (from 1st April to 31st March) for Income-Tax purpose.

Business or profession newly set up during the financial year

In such a case, the tax year shall be the period beginning on the date of setting up of the business or profession and ending with 31st March of the said financial year.

If a source of income comes into existence in the said financial year, then, the tax year will **commence from the date** on which the **source of income** newly **comes into existence** and will end with 31st March of the financial year.

Example:

- Mr. A is running a business from 1993 onwards. The tax year will be 01.04.2026 to 31.03.2027
- Mr. A is CA, who has set up his profession on 01/07/2026. The tax year will be from 01.07.2026 to 31.03.2027

Cases where income of a tax year is assessed in same tax year

- Section 316- Shipping Business of Non-Residents (NR)** (Erstwhile Section 172)
If a non-resident's ship, carrying passengers, livestock, mail, or goods, arrives at an Indian port, the **ship cannot leave the port until all applicable taxes are paid**.
Example: A foreign shipping company's vessel arrives in Mumbai to deliver cargo. Before the ship can depart, it must settle any tax liabilities on the income earned from that voyage.

2. Section 316- Person Leaving India (Erstwhile Section 174)

If the Assessing Officer (AO) believes that an individual is leaving India with **no intention of returning**, the income earned by that person up until their expected departure date is taxed in the current year itself.

Example: Mr. X, an Indian resident, plans to move abroad permanently in October 2026. The AO may tax his income up to October 2026 in the same year i.e. 2026-27

3. Section 318- AOP/BOI/AJP Formed for a Specific Event or Purpose (Erstwhile Section 174)

If an Association of Persons (AOP), Body of Individuals (BOI), or Artificial Juridical Person (AJP) is created for a specific event or purpose, and the AO expects it to **dissolve within the same year**, the income up to the date of dissolution is taxed in that year.

Example: A group of investors forms an AOP to organize a one-time international sports event in India. If the event concludes in August 2026 and the AOP is dissolved, the income earned will be taxed in the same year i.e. 2026-27.

4. Section 319 - Persons Likely to Transfer Property to Avoid Tax (Erstwhile Section 175)

If the AO suspects that a **person is likely to sell, transfer, or dispose of assets to avoid paying taxes**, the AO can tax that person's total income in the current year itself.

Example: Mrs. Y plans to sell her property in December 2026 to avoid tax liabilities. If the AO suspects this, her income from the property sale might be taxed in the previous year 2024-25 itself.

5. Section 320 - Discontinued Business (Erstwhile Section 176)

If a business or profession is discontinued, the income earned up until the date of discontinuance may be taxed in the current year at the AO's discretion.

Example: A company decides to shut down its operations in India by September 2026. The income earned until the shutdown date can be taxed in the same year itself.

PERSON [SECTION 2(77)]

The term person includes the following:

- i) An Individual (Natural Person);
- ii) A Hindu Undivided Family (HUF);
Note: As per Hindu Law, HUF is a family, which consists of all males lineally descended from a common ancestor and includes their wives and daughters.
- iii) A Company;
- iv) A Firm (Including LLP);
- v) An Association of Persons (AOP) [any person can be members];
- vi) Body of Individuals (BOI) [Only individuals can be members];
- vii) A Local authority;
Ex: Nagar Nigam, Municipality, etc.
- viii) Every artificial juridical person not falling within any of the preceding categories.
Ex: Bar Council, Universities, etc.

ASSESSEE [SECTION 2(11)]

“Assessee” means,

- a. a person by whom **any tax or any other sum** of money (i.e., penalty or interest) **is payable** under this Act
- b. every person in respect of whom **any proceeding under this Act has been taken** (whether or not he is liable for any tax, interest or penalty) **for the assessment** of his income or loss or the Amount of refund due to him;
- c. a person who is **assessable in respect of income or loss of another person**;
- d. a person who is deemed to be an ‘**assessee in default**’ under any provision of this Act. *E.g.* A person, who was liable to deduct tax but has failed to do so, shall be treated as an ‘assessee in default’.

HEADS OF INCOME [SECTION 13] (Erstwhile Section 14)

According to Sec.13 of the Act, all income of a person shall be classified under the following five heads:

1. Salaries;
2. Income from house property;
3. Profits and gains of business or profession;
4. Capital gains;
5. Income from other sources.

For computation of income, all taxable income should fall under any of the five heads of income as mentioned above. If any type of income does not become part of any one of the above mentioned first four heads, it should be part of the 5th head, i.e. Income from other sources, which may be termed as the residual head.

Computation of Income

Step 1: Determine Residential Status

Step 2: Compute Income Under Each Head Of Income

Step 3: Apply Clubbing of Income Provisions

Step 4: Set-off/carry forward and set-off of losses as per the provisions of the Act

Step 5: After Applying Step 2, 3 & 4 You will arrive at Gross total Income

Step 6: Claim Deductions Under Section 123 to 154 if any from GTI
(Erstwhile 80C to 80U)

Step 7: Total Income (Taxable Income) is arrived after claiming deductions from GTI

Rounding off [Section 516]

Total Income and Tax payable shall be rounded off to the nearest multiple of 10.

Example:

a) If total income is ₹12,002 then it will become ₹12,000.

b) If total income is ₹12,007 then it will become ₹12,010.

Computation Of Tax Liability (Old Regime / Alternate Scheme / Normal Provisions)

In case of Individual / Hindu Undivided Family / AOP / BOI / Artificial Judicial Person opts u/s 202(4) to be taxed under old regime

A. Any other Individual & HUF or AOP/BOI or Artificial Judicial Person

Total Income	Tax Rate
On First ₹ 2,50,000	Nil
₹ 2,50,010 – ₹ 5,00,000	5%
₹ 5,00,010 – ₹ 10,00,000	20%
Above ₹ 10,00,000	30%

B. Resident individual of the age of 60 years or more at any time up to the end of relevant tax year but less than eighty years (senior citizen)

Total Income	Tax Rate
On First ₹ 3,00,000	Nil
₹ 3,00,010 – ₹ 5,00,000	5%
₹ 5,00,010 – ₹ 10,00,000	20%
Above ₹ 10,00,000	30%

C. Resident individual of the age of 80 years or more at any time up to the end of relevant tax year (Very senior citizen)

Total Income	Tax Rate
On First ₹ 5,00,000	Nil
₹ 5,00,010 - ₹ 10,00,000	20%
Above ₹ 10,00,000	30%

Note: Any resident individual whose 60th/80th birthday falls on 1st April 2027 shall be treated as having completed the age of 60/80 years on 31st March 2027. Therefore, such individual shall be entitled for higher basic exemption limit of ₹ 3,00,000 & ₹ 5,00,000.

DEFAULT TAX REGIME [Section 202] (Erstwhile Section 115BAC)

Tax On Income of Individuals / Hindu Undivided family / AOPs / BOIs / Artificial Judicial Person [Section 115BAC]

Income	Tax Rate
On First ₹ 4,00,000	Nil
More than ₹ 4,00,000 but up to ₹ 8,00,000	5%
More than ₹ 8,00,000 but up to ₹ 12,00,000	10%
More than ₹ 12,00,000 but up to ₹ 16,00,000	15%
More than ₹ 16,00,000 but up to ₹ 20,00,000	20%
More than ₹ 20,00,000 but up to ₹ 24,00,000	25%
Exceeding ₹ 24,00,000	30%

Health and Education Cess

If any tax is charged for any specific purpose, it is called Cess. Health and Education Cess shall be charged @ **4% on the amount of income tax.**

Surcharge

Surcharge is an **additional tax payable over and above the income tax.** Surcharge is levied as a percentage of income-tax, where total income exceeds ₹ 50 lakhs.

A. In case the Individual/HUF/AOP /BOI and Artificial Judicial Person pays tax under default tax regime under section 202

Income	Rate
Total income does not exceed ₹ 50 lacs	Nil
Total income exceeds ₹ 50 lacs but does not exceed ₹ 1 crore	10% of tax
Total income exceeds ₹ 1 crore but does not exceed ₹ 2 crores	15% of tax
Total income exceeds ₹2 crores including Income u/s 196,197 & 198 or dividend income then:	
• Income u/s 196,197 & 198 or dividend income	15% of tax
• Other Income is up to ₹ 2 crores	15% of tax
• Other Income is more than ₹ 2 crores	25% of tax

Analysis

S. No	Total Income (₹)	Income u/s 196,197 & 198 & dividend Income (₹)	Other Income (₹)	Surcharge On Tax on Special Income u/h CG & Dividend Income (%)	Surcharge On Tax On Other Income (%)
1	48 Lakhs	10 Lakhs	38 Lakhs	NA	NA
2	60 Lakhs	15 Lakhs	45 Lakhs	10%	10%
3	1.20 Cr.	20 Lakhs	1 Cr.	15%	15%
4	2.50 Cr.	60 Lakhs	1.90 Cr.	15%	15%
5	2.90 Cr.	70 Lakhs	2.20 Cr.	15%	25%
6	3.90 Cr.	1.20 Cr.	2.70 Cr.	15%	25%
7	5.80 Cr.	60 Lakhs	5.20 Cr.	15%	25%

B. In case the Individual/HUF/AOP /BOI and Artificial Judicial Person pays tax under optional regime (Old regime)

Income	Rate
Total income does not exceed ₹ 50 lacs	Nil
Total income exceeds ₹ 50 lacs but does not exceed ₹ 1 crore	10% of tax
Total income exceeds ₹ 1 crore but does not exceed ₹ 2 crores	15% of tax
Total income exceeds ₹ 2 crores including Income u/s 196,197 & 198 or dividend income then:	
• Income u/s 196,197 & 198 or dividend income	15% of tax
• Other Income is up to ₹ 2 crores	15% of tax

• Other Income is more than ₹ 2 crores but up to ₹ 5 crores	25% of tax
• Other Income is exceeding ₹ 5 crores	37% of tax

Analysis

S. No	Total Income (₹)	Income u/s 196, 197 & 198 & dividend Income (₹)	Other Income (₹)	Surcharge On Tax on Special Income u/h CG & Dividend Income (%)	Surcharge On Tax On Other Income (%)
1	48 Lakhs	10 Lakhs	38 Lakhs	NA	NA
2	60 Lakhs	15 Lakhs	45 Lakhs	10%	10%
3	1.20 Cr.	20 Lakhs	1 Cr.	15%	15%
4	2.50 Cr.	60 Lakhs	1.90 Cr.	15%	15%
5	2.90 Cr.	70 Lakhs	2.20 Cr.	15%	25%
6	3.90 Cr.	1.20 Cr.	2.70 Cr.	15%	25%
7	5.80 Cr.	60 Lakhs	5.20 Cr.	15%	37%
8	6 Cr.	1.50 Cr.	4.50 Cr.	15%	25%

Health & education cess shall be charged on the total of tax plus surcharge.

Note: An AOP consisting of only companies as members then Maximum Surcharge applicable is 15%.

Marginal Relief

- Marginal relief is provided if Tax liability increases more than the increase in income due to applicability of surcharge.
- Marginal relief = Increase in Tax – Increase in Income

Rebate [Section 156] (Erstwhile Section 87A)

A. Rebate Under Default Regime (New Regime)

a) If Total Income does not exceed 12 Lakhs

1. **Applicable to:** Resident Individual
2. **Quantum of Rebate:** Lower of the following:
 - a. 100% of tax liability as computed above; or
 - b. ₹ 60,000/-

b) If total income exceeds 12 Lakhs

If total income exceeds 12 Lakhs and income tax payable on such total income exceeds the amount by which the total income is in excess of 12 Lakhs

Then rebate shall be = Tax payable – Income in excess of 12 Lakhs

Note: Rebate shall be allowed from the incomes which are chargeable to tax at normal rates as per section 202. Rebate shall not be allowed from the incomes which are taxable at special rates like Section 196, 197, 198 & casual income.

B. Rebate Under Old Regime (Normal Provisions)

1. **Applicable to:** Resident Individual

2. **Conditions to be satisfied:** Total income of the assessee does not exceed ₹ 5,00,000.

3. **Quantum of Rebate:** Lower of the following:

- a. 100% of tax liability as computed above; or
- b. ₹ 12,500/-

Note: Rebate shall be allowed from all the incomes whether taxable at normal rates or special rates except LTCG u/s 198.

Taxability of Casual Income

- Casual income shall be taxable under the head **Other Sources** and it will be included in the gross total income and also total income but while computing tax liability, casual income shall be separated from total income and shall be taxable @ 30%.
- If any expense has been incurred to earn the casual income, then such expense shall not be allowed to deducted.
- Deductions under section 123 to 154 shall not be allowed from casual income.

Taxability of Capital Gains

1. Long Term Capital Gains

Section	Rate
197	12.5%
198 (Listed Equity Shares)	12.5%

However, capital gains u/s 198 are exempt up to ₹ 1,25,000 (aggregate).

2. Short Term Capital Gains

Section	Rate
---------	------

196 (Listed Equity Shares)	20%
Other STCG	Slab Rate

Deduction u/s 123 to 154 shall not be allowed from capital gain u/s 196, 197 & 198.

Special provision for resident individual / HUF

In case of a resident individual / HUF if total income excluding

- long term capital gains u/s 197 & 198 and
- short term capital gain covered under section 196,

is below the basic exemption limit (i.e 2,50,000/3,00,000/ 5,00,000), in such cases **unexhausted basic exemption limit shall be allowed from STCG u/s 196 or LTCG u/s 197 or LTCG u/s 198** as the case may be.

Unexplained money, investments, expenditure etc. [Section 195]

- Where in any tax year, assessee is found to be owner of any money, bullion, jewellery or other valuables or has made any investment which are not recorded in books of accounts or no explanation or unsatisfactory explanation about its nature and source is provided, then such money or investments shall be deemed to be the income of assessee.
- Such deemed income shall be taxed at the rate of **30% plus surcharge @25%** of tax. Thus, the **effective rate of tax** (including surcharge@25% of tax and cess@4% of tax and surcharge) is **39%**.
- No basic exemption or allowance or expenditure** shall be allowed to the assessee under any provision of the Income-tax Act, 2025 in computing such deemed income.
- Further, **no set off of any loss** shall be allowable against such income.

In case of Partnership Firm Including LLP and Local Authorities

Tax Rate	30%
Surcharge	12% provided total income is exceeding ₹ 1 crore.
Marginal Relief	Marginal relief shall be allowed if income has exceeded ₹ 1 crore.

In case of Domestic Company

Tax	30%. However, if Total Turnover or gross receipts of the previous year 2024-25 does not exceed 400 Crore then 25% Tax Shall be levied	
Surcharge	Income	Rate
	Exceeds 1 Crore but upto 10 Crore	7%
	Exceeds 10 Crore	12%
Marginal Relief	Allowed	

In Case of Foreign Company

Tax Rate	35%	
Surcharge	Income	Rate
	Exceeds 1 Crore but up to 10 Crore	2%
	Exceeds 10 Crore	5%
Marginal Relief	Allowed	

Note: Special rates for capital gains under sections 196,197& 198 would be applicable to foreign company also.

In case of Co-operative Societies

A. Normal Tax Rates

Income	Rate
First 10,000	10%
Next 10,000	20%
Balance	30%
Surcharge	
Income Exceeds 1 crore but up to 10 crore	7%
Income Exceeds 10 crore	12%

Note: Marginal Relief is allowed

MEANING OF AGRICULTURAL INCOME [Section 2(5)] (Erstwhile Section 2(1A))

1. Income from leasing out of agricultural land [Section 2(5)(a)] (Erstwhile Section 2(1A)(a))

If any person has given any **agricultural land on rent**, **rent so received** (either in **cash or in kind**) shall be considered to be **agricultural income** and shall be exempt from income tax.

However, if any **interest is recovered for late payment** of rent then such interest will be **taxable under head other sources**.

2. Income from Agricultural Operations [Section 2(5)(b)] (Erstwhile Section 2(1A)(b))

If any person is engaged in agricultural activities, income derived from such agricultural operations shall be considered to be **agricultural income**.

Agriculture Operation

Operation	Income
Only Basics Operations	Agriculture income
Basics Operations & Subsequent operations	Agriculture income
Only Subsequent operations	Non Agriculture income

Note:

- If any **shareholder has received dividend** from a company having income from agricultural activities, such dividend income shall **not be considered to be agricultural income**
- If any partnership firm has agricultural income and firm has paid any **salary or interest to the partners**, it will be **considered to be agricultural income** to the partners.

3. Any income derived from any building [Section 2(5)(c)] (Erstwhile Section 2(1A)(c))

Income from building shall be agriculture income if all the following conditions are satisfied.

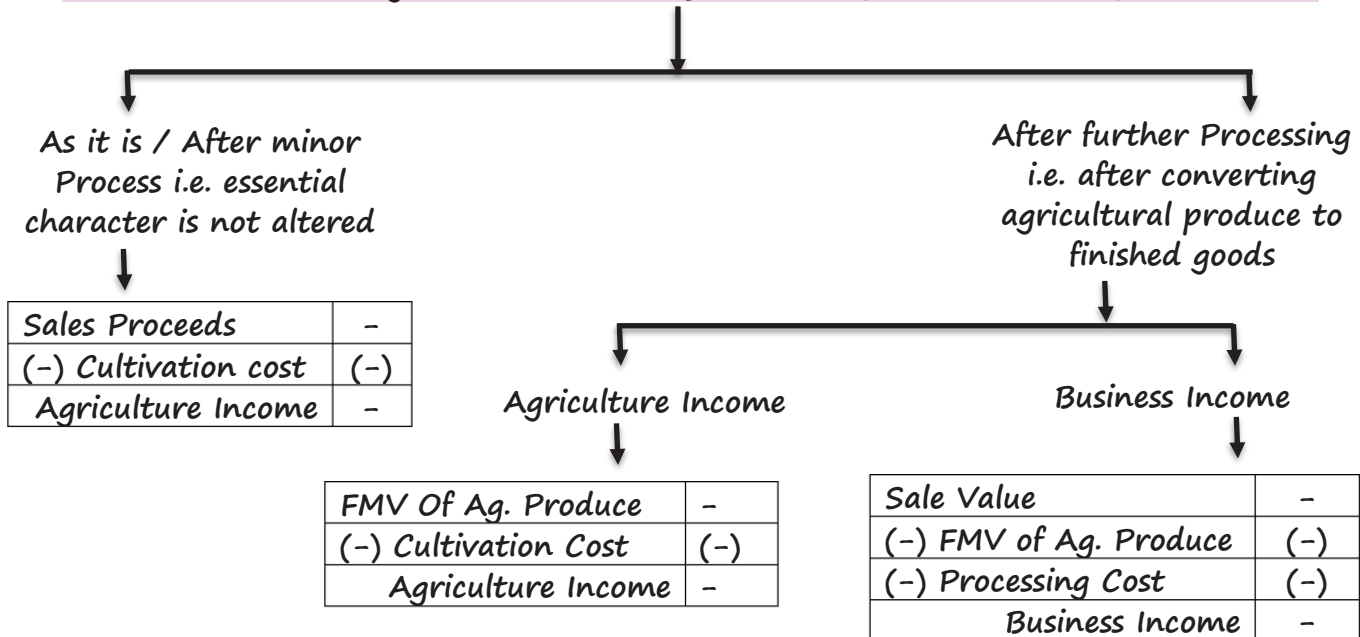
- The building is **on or in the immediate vicinity** of agricultural land.
- It is **occupied by the cultivator** or receiver of rent or revenue.
- It is used as a **dwelling house or as a store-house or other out-house**.
- The land is assessed to **land revenue** or it is situated in **rural area**.

Note: Income derived from **nursery** shall be deemed to be an **Agriculture income**.

Income which is partially agricultural and partially from business [Rule 271]

<i>Business</i>	<i>Agriculture %</i>	<i>Non- Agriculture %</i>
Manufacture of Rubber	65%	35%
Sale of coffee grown and cured by seller.	75%	25%
Sale of coffee grown, cured, roasted and grounded by seller in India with or without mixing chicory or other flavoring ingredients	60%	40%
Growing and manufacturing tea in India.	60%	40%

Sale of Agricultural Produce [Rule 270] (Erstwhile Rule 7)



Partial integration of agricultural income with non-agricultural income

Addition of agricultural income to non-agricultural income for computation of tax is known as partial integration.

Conditions

1. The assessee is an individual or HUF or BOI, or AOP or artificial juridical person.
2. Non-agricultural income exceeds basic exemption limit; and
3. Agricultural income exceeds ₹5,000.

<i>Step 1</i>	<i>Calculate tax on total income including agriculture income</i>	-
<i>Step 2</i>	<i>Calculate tax on (Basic Exemption Limit + Agriculture Income)</i>	-
<i>Step 3</i>	<i>Tax Payable Before Rebate u/s 156 or Surcharge (Step2 – Step3)</i>	-
<i>Step 4</i>	<i>Apply Rebate u/s 156 or Surcharge if TI exceeds 50 lacs</i>	-
<i>Step 5</i>	<i>Levy 4% HEC</i>	-
	<i>Tax Liability</i>	-

CHAPTER 2: RESIDENTIAL STATUS

- **Total income** of an assessee can be computed only **after ascertaining** the **residential status** of the assessee during the tax year, as **many provisions** under income tax act are **different** for **residents** and for **non-resident assessee**.
- **Citizenship and residential status** are both **different concepts**. A person may be a citizen of India but may be Non-resident for income tax purposes.
- **Residential status** is determined for **every tax year**; it is possible that person is **resident in one year** and **non-resident in another year**.

Residential status of individuals [Section 6(2) / 6(13] (Erstwhile 6(1)/(6))

Section 6(2), an individual is said to be resident, if he satisfies any one of the following two basic conditions:

- (i) He stays in India for **182 days or more** during the **relevant tax year (RTY)**
- (ii) He stays in India for **60 days or more** in **RTY** and also for **365 days or more** during **4 years preceding the RTY**.

Note:

1. Period of **stay** may not be **continuous**.
2. Date of **departure** and **arrival** both shall be considered for **stay in India**.

Example 01

Riya citizen of UK visited India during FY 2026-27 from 19.9.26 – 15.11.26

Her stay for last 4 years is as follows:

2025-26	100d	2023-24	200d
2024-25	50d	2022-23	150d

Determine the residential Status of Riya during TY 2026-27

Solution

As per Section 6(2), Individual shall be considered as resident if any of the following 2 conditions are satisfied:

- a) Individual must be in India for **182 days or more** during **relevant tax year** i.e. **2026-27** or

- b) Individual must be in India for 60 days or more during relevant tax year i.e. 2026-27 & must be in India for 365 days or more during 4 TY immediately preceding relevant tax year

As Riya is in India for 58 days in TY 2026-27 and hence, she is Non-Resident as she did not satisfy any of the above-mentioned conditions.

Additional Condition

Section 6(13), An individual is said to be a resident and ordinarily resident if he satisfies both the following conditions:

- (i) He is a resident in any 2 out of last 10 tax year, and
- (ii) His total stay in India in the last 7 years is 730 days or more.

Example 02

Mr. X visit India for 110d every year since 2001. Determine Residential Status for TY 2025-26.

Solution

As per Section 6(2), Individual shall be considered as resident if any of the following 2 conditions are satisfied:

- a) Individual must be in India for 182 days or more during relevant tax year i.e. 2026-27 or
- b) Individual must be in India for 60 days or more during relevant tax year i.e. 2026-27 & must be in India for 365 days or more during 4 TY immediately preceding relevant tax year

As Mr. X is in India for 110 days in TY 2026-27 and he is in India for 440 days i.e. (110×4) in last 4 preceding tax years. Hence, he is resident as he satisfied 2nd condition.

If Mr. X satisfy both of following additional conditions, he shall be considered as ordinarily resident

- a) He must be in India for 730 days or more during 7 TY immediately preceding relevant tax year and
- b) He must be resident in India for at least 2 TY out of 10 Immediately preceding TY.

As Mr. X is in India for 770 days i.e. (110×7) in last 7 years and he is resident in TY 2025-26 & TY 2024-25. Therefore, he satisfied both the additional conditions.

Hence, he shall be R-OR for TY 2026-27

Example 03

Mr. X visit India for 100d every year since 2021-22 before that he never visited India. Determine Residential status for FY 2026-27.

Solution

As per Section 6(2), Individual shall be considered as resident if any of the following 2 conditions are satisfied:

- a) Individual must be in India for 182 days or more during relevant tax year i.e. 2026-27 or
- b) Individual must be in India for 60 days or more during relevant tax year i.e. 2026-27 & must be in India for 365 days or more during 4 TY immediately preceding relevant tax year

As Mr. X is in India for 100 days in TY 2026-27 and he is in India for 400 days i.e. (100×4) in last 4 preceding tax years. Hence, he is resident as he satisfied 2nd condition.

If Mr. X satisfy both of following additional conditions, he shall be considered as ordinarily resident

- a) He must be in India for 730 days or more during 7 TY immediately preceding relevant tax year and
- b) He must be resident in India for at least 2 TY out of 10 Immediately preceding TY.

As Mr. X is in India for 400 days i.e. (100×4) in last 7 years.

Hence, he shall be R-NOR for TY 2026-27 as he did not satisfy both the additional conditions.

Category 1: Section 6(3) Exceptions to the basic condition - Check only 182 days

1. If an Indian Citizen leaves India for the purpose of employment
2. If an Indian Citizen leaves India as a crew member of Indian Ship.

Note: As per rule 8, Date of Joining and Date of Signing Off As per continuous discharge certificate shall be considered as outside India in the case of crew member of foreign going Ship.

Example 04

Mr. X (Indian Citizen) is a Crew member of foreign going Indian vessel.

Date of joining 15.07.2026

Date of signing off 10.11.2026

Last 4 year stay in India 400 days

Last 7 year stay in India 790 days

He was Resident in each of last 5 year.

Determine Residential Status of FY 2025-26

Solution

As per Section 6(2), Individual shall be considered as resident if any of the following 2 conditions are satisfied:

- a) Individual must be in India for 182 days or more during relevant tax year i.e. 2026-27 or
- b) Individual must be in India for 60 days or more during relevant tax year i.e. 2026-27 & must be in India for 365 days or more during 4 TY immediately preceding relevant tax year

No. of Days Outside India = 15/07/26 – 10/11/26
 = 17+31+30+31+10
 = 119 days

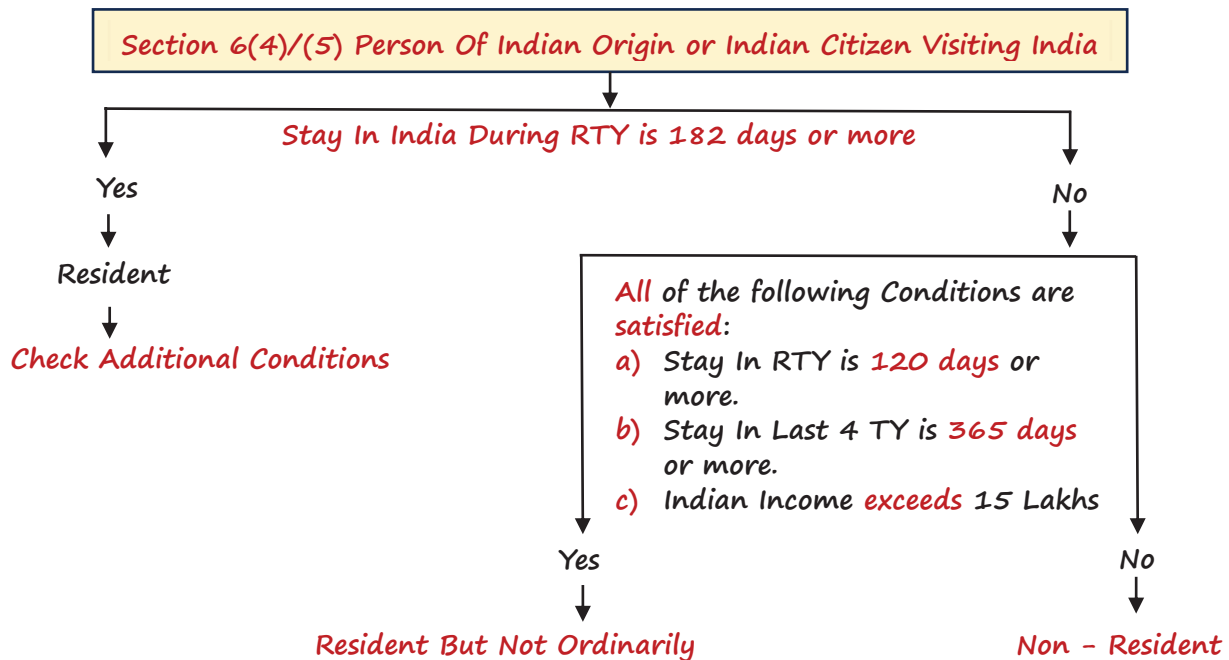
No. of Days Stay in India = 365 – 119
 = 246 days

As Mr. X is in India for 246 days in TY 2026-27. Hence, he is resident as he satisfied 1st condition.

If Mr. X satisfy both of following additional conditions, he shall be considered as ordinarily resident

- a) He must be in India for 730 days or more during 7 TY immediately preceding relevant tax year and
- b) He must be resident in India for at least 2 TY out of 10 Immediately preceding TY.

As Mr. X is in India for 790 days in last 7 years and also resident in other Tax years. Hence, he shall be R-OR for TY 2026-27.



Deemed Resident [Section 6(7)] (Erstwhile Section 6(1A))

Individual Shall be **NOR** if all of the following conditions are satisfied:

- a) Individual is **Indian Citizen**
- b) Total income excluding income from foreign sources but including foreign business/Professional income whose control/Setup is in India, exceeds 15 Lakh.
- c) Such person is **not paying Tax In any Country** due to his domicile, residence or similar nature.

Residential status of HUF [Section 6(9)/(13)] (Erstwhile Section 6(2)/6(6))

Section 6(9), an HUF would be **resident** in India if **C&M** of its affairs is situated **wholly or partly in India**. Otherwise, non-resident.

Section 6(13), An HUF is said to be **ROR** if Karta satisfies both additional conditions, Otherwise **NOR**

Example 05

R and Sons is a HUF in which **Mr. R** is Karta

R and his family reside in Australia since 1.4.2013

R visit India for 105 days every year to manage affairs of his business in Noida.

Determine Residential Status of HUF and his Karta Mr. R for TY 2026-27

Solution**Determination of Residential Status of HUF**

Since, Control and Management of HUF is partly in India as Karta visits India to manage the affairs of business. Therefore, HUF shall be resident for TY 2026-27. If Karta satisfies both of the following additional conditions, the HUF shall be considered as ordinarily resident.

- a) He must be in India for 730 days or more during 7 TY immediately preceding the relevant tax year and
- b) He must be resident in India for at least 2 TY out of 10 immediately preceding TY.

As Mr. R is in India for 735 days (i.e. 105×7) in last 7 years and also resident in any 2 out of last 10 tax years.

Hence, HUF shall be R-OR for TY 2026-27 as Karta is satisfying both the additional conditions.

Determination of Residential Status of Karta (Mr. R)

As per Section 6(2), Individual shall be considered as resident if any of the following 2 conditions are satisfied:

- a) Individual must be in India for 182 days or more during relevant tax year i.e. 2026-27 or
- b) Individual must be in India for 60 days or more during relevant tax year i.e. 2026-27 & must be in India for 365 days or more during 4 TY immediately preceding relevant tax year.

As Mr. R is in India for 105 days in TY 2026-27 and he is in India for 420 days i.e. (105×4) in last 4 preceding tax years. Hence, he is resident as he satisfies 2nd condition.

Since, Mr. R also satisfies both the additional conditions

Hence, he shall be R-OR for TY 2026-27.

Example 06

R & sons is a HUF in which Mr. R is Karta who resides in Australia since 1.4.2012. During FY 2026-27, Mr. R visits India for 50 days to manage affairs of business and take some important policy matters.

R was visiting India for 200 days every year till last year i.e. FY 2025-26.

Determine Residential Status of R and sons and Karta R for TY 2026-27.

Solution

Determination of Residential Status of HUF

Since, Control and Management of HUF is partly in India as Karta visits India to manage the affairs of business. Therefore, HUF shall be resident for TY 2026-27

If Karta satisfy both of following additional conditions, the HUF shall be considered as ordinarily resident

- a) He must be in India for 730 days or more during 7 TY immediately preceding relevant tax year and
- b) He must be resident in India for at least 2 TY out of 10 Immediately preceding TY.

As Mr. R is in India for 1400 days (i.e. 200×7) in last 7 years and also resident in any 2 out of last 10 tax years.

Hence, HUF shall be R-OR for TY 2026-27 as Karta is satisfying both the additional conditions.

Determination of Residential Status of Karta (Mr. R)

As per Section 6(1), Individual shall be considered as resident if any of the following 2 conditions are satisfied:

- a) Individual must be in India for 182 days or more during relevant tax year i.e. 2026-27 or
- b) Individual must be in India for 60 days or more during relevant tax year i.e. 2026-27 & must be in India for 365 days or more during 4 TY immediately preceding relevant tax year

As Mr. R is in India for only 50 days during TY 2026-27

Therefore, He shall be Non-Resident for TY 2026-27

Residential status of partnership firm or BOI or AOP [Section 6(9)]

Resident if Control & Management is wholly or partially in India, otherwise Non-Resident.

Residential Status Of Company [Section 6(10)] (Erstwhile Section 6(3))

Indian Company shall Always be a Resident.

Foreign company shall be a Resident if POEM (Place of effective management) is in India

Scope of Total Income or Tax Incidence [Section 5]

Income accrue or arise / deemed To Accrue or Arise	Income Received / Deemed To Be Received	Income
India	India	Indian
India	Outside India	Indian
Outside India	India	Indian
Outside India	Outside India	Foreign

Income	ROR	NOR	NR
Indian	Taxable	Taxable	Taxable
Foreign	Taxable	Non – Taxable Exception: Following Foreign Incomes are Taxable. 1. Business Income – Business Controlled from India. 2. Professional Income – Profession Set Up in India	Non – Taxable

Income deemed to accrue or arise in India [Section 9]

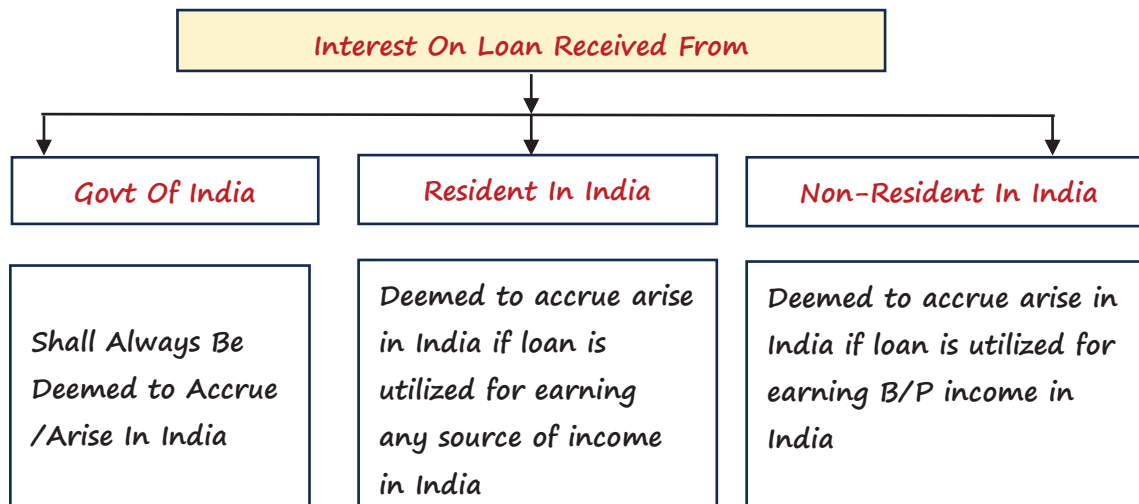
1. Any income accruing or arising to an assessee in any place outside India whether directly or indirectly

(a) Through or from any business connection in India.

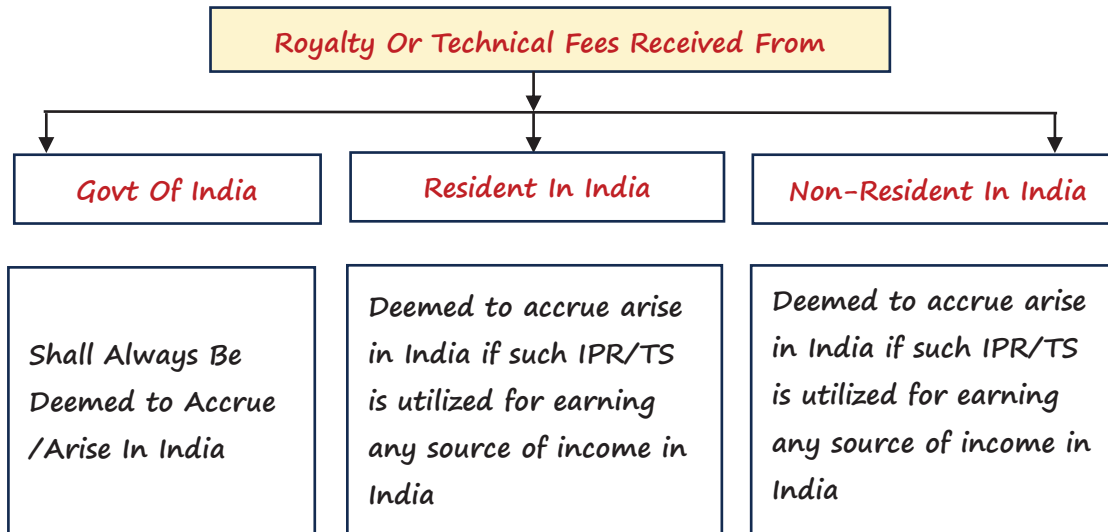
However, Following shall not be considered as business connection in India:

- Purchase for export.
- Collection of news in India for transmission outside India.
- Shooting of film in India by foreign citizen or by a firm who doesn't have any partner who is Indian citizen/resident in India or by a company who doesn't have any shareholder who is a Indian citizen/resident in India.

- In case of **foreign company** engaged in the business of mining of diamonds from the activities which are confined to **display of uncut and unassorted diamonds** in any special zone notified by CG.
 - (b) Through or from **any property, any asset or source of income in India** or
 - (c) Through or from the transfer of **a capital asset situated in India** would be deemed to accrue or arise in India.
2. Income, which falls under the head "**Salaries**", deemed to accrue or arise in India, if it is **earned in India**. Salary payable for **service rendered in India** would be treated as earned in India.
 3. Income from '**Salaries**' which is **payable by the Government to a citizen of India** for **services rendered outside India** would be deemed to accrue or arise in India. However, **allowances and perquisites** paid or allowed outside India by the Government to an Indian citizen for services rendered outside India is **exempt**. (Schedule III, Table: Sl. No. 9)
 4. **Dividend paid by Indian company outside India.**
 5. **Interest On Loan**



6. Royalty Or fees from technical services



IPR = Intellectual Property Rights.

TS = Technical Services.

CHAPTER 3A: INCOME UNDER HEAD SALARIES

Important Concepts Relating To Salaries

1. **Employer-employee relationship:** Every payment made by an employer to his employee for service rendered would be chargeable to tax as salaries.
2. **Full-time or part-time employment:** It does not matter whether the employee is a full-time employee or a part time.
3. **Foregoing of salary:** Once salary accrues, the subsequent waiver by the employee does not absolve him from liability to income tax. Such a waiver is only an application and hence, chargeable to tax.
4. **Surrender of salary:** If salary is surrendered to CG under voluntary surrender of salaries act then such salary is exempt while computing his taxable income.
5. **Salary paid tax-free:** This, in other words, means that the employer bears the burden of the tax on the salary of the employee. In such a case, the income from salaries in the hands of the employee will consist of his salary income and also the tax on this salary paid by the employer.
6. **Place of accrual of salary:** salary earned in India is deemed to accrue or arise in India even if it is paid outside India or it is paid or payable after the contract of employment in India comes to an end.

Basis Of Charge [Section 15] (Erstwhile Section 15)

- Any salary due from an employer during the tax year shall be taxable even if it has not actually been paid.
- Sometimes salary is paid in advance before it becomes due. Such advance salary is taxable in the year of receipt itself.

Note: Where advance salary has already been taxed in the year of receipt, it shall not be taxed again when it subsequently becomes due.

- Arrears of salary shall be taxable in the year of receipt if they were not taxed earlier.

Note: Any salary, bonus, commission or remuneration received by a partner from the partnership firm shall not be regarded as salary for the purposes of Section 15.

Allowances

Allowance is a fixed monetary amount paid by the ER to EE for meeting some particular expenses, whether personal or official. These allowances are generally taxable unless a specific exemption has been provided in respect of such allowances.

1. Fully Taxable Allowances

Servant Allowance	Fixed Medical Allowance	Meal Allowance
Dearness allowance.	City Compensatory Allowance	Non-Practicing Allowance
Entertainment allowance	Telephone Allowance	Project allowance (personal research)

2. Fully exempted allowances

Following allowances are fully exempted from tax:

- A. Allowances paid to Supreme Court and High Court Judges.
- B. Any salary or allowance or perquisites paid to the employees of UNO.
- C. Any allowances or perquisites paid or allowed by Government of India to Indian citizen for rendering services outside India.

3. Official Allowances

For The Following Allowances, amount received or actually spent by Employee, whichever is lower shall be exempt from tax

Allowances Exempt only under Old Regime

RA-HUT	Helper Allowance
Research & Development Allowance (R & D)	Uniform Allowance
Academic Allowance	Transfer Allowance

Allowances Exempt under both Regimes

DTC	Travelling Allowance
Daily Allowance	Conveyance Allowance

4. Allowances For Personal Nature

Following Exemption is allowed only under old regime (under default regime no exemption is allowed for personal nature allowances)

- A. **Children Education Allowance:** exempt upto ₹3,000 p.m. per child upto two child.
 - B. **Hostel Allowance:** exempt upto ₹9,000 p.m. per child upto two children.
 - C. **Transport Allowance:** Fully Taxable. However, if granted to employee, who is blind or orthopedically handicapped with disability of lower extremities is exempt under both regimes upto
 - 1. **Metro Cities:** Rs. 15,000 plus dearness allowance thereon per month
 - 2. **Other Cities:** Rs. 8,000 plus dearness allowance thereon per month
 - D. **Outstation Allowance:** Granted to an employee working in any transport system to meet his personal expenditure. It is exempt to the extent of least of the following:
 - (i) 70% of the allowance received
 - (ii) ₹25,000 p.m.
 - E. **Underground Allowance:** Allowance to the employees who are working in the mines. It is exempt upto 15% of Basic Pay
 - F. **Tribal Area Allowance:** exempt upto ₹1500 p.m
 - G. **Other notified allowances:**
 - (i) Compensatory modified field area allowance. upto ₹ 8,000 p.m. is exempt.
 - (ii) Compensatory field area allowance. upto ₹ 13,500 p.m. is exempt.
 - (iii) Island Duty allowance is exempt upto specified % of basic pay
 - (iv) Counter insurgency allowance. upto ₹ 22,000 p.m. is exempt.
 - (v) Special Compensatory highly active field area allowance. upto ₹ 22,000 p.m. is exempt.
5. **House Rent Allowance** [Section 11(1) read with S.No 11 of Schedule III & Rule 279] (Erstwhile Section 10(13A) & Rule 2A)
- Exemption is allowed only under old regime (under default regime no exemption is allowed for HRA)

- House rent allowance is **exempt to the extent of the least** of the following:
 - (i) (Rent Paid – 10% of Retirement benefit salary)
 - (ii) **50%** of retirement benefit salary in case of **Mumbai, Kolkata, Chennai, Delhi, Bangalore, Pune, Ahmedabad or Hyderabad.**

Or

- 40%** of retirement benefit salary in case of **any other place.**
- (iii) House rent **allowance received**

Meaning of Salary for HRA (also known as Retirement Benefit salary)

Basic Salary + DA (RB) + Commission (% of TO)

Note: If There Is Change In HRA, Salary, Rent Paid and Location of Accommodation, then Exemption shall be computed separately for each such Change.

Deduction From Gross Salaries [Section 19] (Erstwhile Section 16)

A. Professional Tax – Allowed only under Old Regime

- Employee will be allowed to claim deduction of professional tax paid by him
- If the amount has been paid by the employer on behalf of the employee, it will be first included in gross salary and subsequently deduction is allowed
- If the amount is due but not paid, deduction is not allowed.

B. Standard Deduction – Allowed under Both Regimes

A deduction of 50,000 or the amount of the gross salary, whichever is less is allowed in case of old regime.

However, Deduction of 75,000 or the amount of gross salary, whichever is less is allowed in case of default regime

C. Gratuity

- Gratuity Received During Employment Is Fully Taxable and no deduction is allowed u/s 19.
- Gratuity Received at the time of retirement is taxable and deduction allowed u/s 19 as follows:

Employee	[Allowed under Both Regime]
Government	Entire gratuity received is allowed as deduction u/s 19.
Other EE covered under POGA	Least Of Following is allowed as deduction: a) ₹ 20 Lakh b) Gratuity Received c) $15/26 \times \text{Last Drawn Salary} \times \text{CY}$ Note: 1. CY = Completed year or part thereof in excess of 6m 2. Last Drawn Salary = Basic + DA
Other EE Not covered under POGA	Least Of Following is allowed as deduction: a) ₹ 20 Lakh b) Gratuity Received c) $1/2 \times \text{Avg Salary} \times \text{CY}$ Note: 1. CY = Completed year 2. Salary = Basic + DA(RS) + Commission (%) 3. Avg Salary = 10m Avg Salary Immediately Preceding "month" of Retirement

Note: If EE had received the gratuity from previous ER and any amount of gratuity was allowed as deduction earlier then ceiling limit of 20 lakhs shall be reduced by the amount so allowed as deduction.

D. Pension

- a) **Uncommuted Pension** – Fully Taxable and **no deduction** is allowed u/s 19
- b) **Commuted Pension** received is taxable and deduction shall be allowed as follows:

Received By	[Allowed under Both Regime]
Govt. EE	Entire commuted pension received is allowed as deduction u/s 19.
Non Govt. EE	Gratuity Received : $1/3$ of Total Pension Is allowed as deduction Gratuity Not Received : $1/2$ of Total Pension Is allowed as deduction

$$\text{Total Pension} = [\text{Commuted Pension} \div \text{Commutation \%}]$$

E. Retrenchment Compensation – [Allowed under Both Regime]

Retrenchment compensation shall be added to gross salary and deduction shall be allowed for Least of the following:

- a) Compensation actually received
- b) ₹ 5,00,000
- c) $15/26 \times \text{Average Pay} \times \text{Completed years of service and part thereof in excess of 6 months.}$

F. Voluntary Retirement Compensation – [Allowed under Both Regime]

Voluntary retirement compensation shall be added to gross salary and deduction shall be allowed for Least of the following:

- (i) Compensation received
- (ii) ₹ 5,00,000

G. Leave Encashment (Exempt)- [Allowed under Both Regime]

1. Leave Encashed During Employment Is Fully Taxable and no deduction shall be allowed.
2. Leave encashment received at the time of retirement shall be added to gross salary and entire amount received shall be allowed as deduction in case of Government EE.
3. Leave encashment received at the time of retirement to Non-Government EE shall be added to gross salary and deduction shall be allowed for Least of the following:
 - a) Leave Encashment Received.
 - b) ₹ 25,00,000
 - c) $10m \times \text{Average Salary}$
 - d) $\text{Leave @ credit (in months)} \times \text{Average Salary}$

Note:

(i) Leave @ Credit (In Months)

Leaves Available For Completed Year (Max= 30 leaves per Year)	xx
(-) Leaves Availed During Employment	xx
(-) Leaves Encashed During Employment	xx
Leaves @ credit (in days)	xx

	÷ 30 days
Leaves @ credit (in months)	xx

- (ii) Salary = Basic + DA(RB) + Commission (% of TO)
- (iii) Avg Salary= 10m Avg Salary Immediately Preceding “Day” of Retirement.
- (iv) If EE had received the leave encashment from previous ER and any amount of such encashment was allowed as deduction in earlier then ceiling limit of 25 lakhs shall be reduced by the amount so allowed as deduction.

Provident Fund - [Allowed under Both Regime]

Particulars	SPF	RPF	URPF	PPF
ER Contribution	EXEMPT	Exempt Up to 12% of RBS	Taxable at the time of withdrawal	Not Applicable
EE Contribution	Deduction u/s 123	Deduction u/s 123	No Deduction allowed u/s 123	Deduction u/s 123
Interest Credited	EXEMPT (See Note 3)	Exempt Up to 9.5% (See Note 3)	Taxable at the time of withdrawal	EXEMPT
Withdrawal	EXEMPT	EXEMPT (See Note 1)	See Note 2	EXEMPT

Note

- Exempt, If any of the following condition satisfied:
 - 5 years of continuous service with same employer
 - retires before rendering 5 years of service because of ill health, contraction or discontinuance of employer's business or reason beyond the control of the employee
 - on cessation of employment with existing ER, accumulated balance in RPF is transferred to new employer or transferred to his NPS account referred to in section 124

2. Withdrawal from URPF shall be treated as follows:

ER Contribution	EE Contribution	Int On EE Cont.	Int On ER Cont.
Taxable u/h salary	Exempt	Taxable u/h Other Source	Taxable u/h Salary

3. Int on EE's Contribution towards SPF/RPF

- a) Exemption shall not be available for interest accrued during the TY to the extent it relates to the contribution made by EE exceeding ₹ 2,50,000 in any TY on or after 1/4/2021 → Taxable u/h other sources
- b) However, if ER do not contribute in that fund then exemption in respect of interest is allowed up to ₹ 5,00,000 instead of ₹ 2,50,000.

TAXABILITY OF PERQUISITES

1. Rent Free or Concessional accommodation Section 17(1) Rule 15

	Particulars	Amount
Step 1	Value Of Accommodation	
	Case 1: Accommodation Is owned by Employer	
	Specified % of Salary (See Note 1)	xx
	Case 2: Accommodation Is Taken on Rent by Employer	
	Rent Paid by the ER or 10% of Salary – whichever is lower.	xx
	Case 3: Government Employees (Central or State Government)	
	License Fee determined by the Government	xx
Step 2	Add: 10% p.a. of Cost Of Asset (If Asset is owned by ER)	xx
Step 3	Add: Hire Charges paid by the ER (Asset taken on rent by ER)	xx
Step 4	Less: Amount Recovered From EE	xx

Note 1

Population	% Of Salary
Exceeds 40 Lakhs	10%
Exceeds 15 Lakhs but up to 40 Lakhs	7.5%
Upto 15 Lakhs	5%

a) *Meaning of Salary Rent free accommodation salary shall include:*

- (i) Basic pay
- (ii) Dearness Allowance/Dearness Pay. If it forms part of salary for retirement benefits as per service agreement.
- (iii) Taxable portion of all allowances.
- (iv) Bonus /Commission /Fees etc.
- (v) Leave salary (when the employee is in employment)

It will not include

- (i) Taxable portion of perquisites whether monetary or non-monetary
- (ii) Taxable portion of provident fund
- (iii) Any payment after retirement like gratuity/ commuted pension or provident fund etc.
- (iv) Arrear of salary or advance salary

Note: Salary only for the period for which rent free accommodation is provided shall be taken into consideration

Accommodation provided at two places

If any employee has been transferred and employer has provided him accommodation at the new place also, in such cases only one of the accommodation shall be taxable having lower perquisite value but only for a period of 90 days (three months) and thereafter both of the accommodations shall be taxable

Accommodation provided in a hotel

Perquisite value shall be 24% of salary or actual expenditure incurred whichever is less.

However, Perquisite shall not be taxable if both of the following conditions are satisfied:

- a) Hotel accommodation is for a period not exceeding in aggregate 15 days
- b) Employee has been transferred from one place to another

2. Sweat Equity Share/ESOP

- a) *Perquisite* = FMV on Exercise Date – Amount Paid by Employee

b) FMV should be taken on the **date** on which **option is exercised** by the EE.

3. Payments Of Life Insurance Premium By The Employer

Premium so paid shall be **taxable**. However, premium paid for **personal accident policy** or for **staff group insurance** scheme shall be **exempt**.

4. Amount or the aggregate of amounts of any contribution made to the account of the assessee by employer in a recognized provident fund/NPS/approved superannuation fund [Section 17(1)(h)]

The amount or aggregate of amounts of any contribution made

- a) in a recognized provident fund
- b) in NPS referred to in section 124
- c) in an approved superannuation fund

by the employer to the account of the assessee, to the extent it exceeds ₹ 7,50,000 shall be considered as perquisites

5. Annual accretion to the balance at the credit of the recognized provident fund/NPS/approved superannuation fund which relates to the employer's contribution and included in total income [Section 17(1)(h)]

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

Where,

TP = Taxable Perquisite

PC = Amt or agg. of amt of ER's contribution in excess of ₹ 7.5 lakh

PC1 = Amt or agg. of amt of ER's contribution in excess of ₹ 7.5 lakh for earlier years

TP1 = Agg. of taxable perquisite under section 17(1)(i) for earlier year

R = Int / Fav. g.

Other Perquisites Section 17(1)(e) & Rule 15(5)

1. Interest free or concessional loans

Perquisite shall be calculated as:

- Sum of Monthly Outstanding balance x (SBI Rate – ER Rate) x 1/12
- **Exception:** No perquisite shall be computed in following cases if loan is given to EE or any member of his household:

- a) where **aggregate amount** of all such loan during a particular year is upto ₹2,00,000
- b) If employer has given **loan for treatment of specified disease** given under rule 18, there is no perquisite value

Note:

Member of household = Spouse, children & their spouses, parents, servants and dependents.

2. Facility of travelling, touring, accommodation (holiday home) etc.

- a) Perquisite value shall be **actual expenditure incurred** by the employer, reduced by the amount recovered from the employee
- b) If the employee is on **official tour** and any **Family member** has **accompanied** him, perquisite value is **amount spent on Family Member**
- c) If official tour was **extended for personal purpose**, expenditure for the **extended part** of the tour shall be **taxable**.

3. Free food or refreshment

- a) Free refreshments Tea or Non-Alcoholic Beverages / Snacks during working hours are Exempt.
- b) **Free meals taxable** as follows:

$$\text{Perquisite} = (\text{Cost of Meal} - \text{Amount Recovered}).$$

However, **perquisite up to ₹ 200 per meal is exempt under OLD REGIME.**

4. Gifts to the employees

- a) Cash Gift = Fully Taxable
- b) Kind Gift = Exempt Up to Rs 15,000 p.a.

5. Credit card facility

Perquisite Value = Amount spent for personal use of employee.

6. Club facilities

Perquisite Value = Amount spent for personal use of employee.

7. Use of employer's assets by the employees

Asset	Perquisite
Laptop / Computer / Mobile	NIL
Other	10% p.a. of actual cost of such asset (or hire charges paid by ER) Less: amount recovered from EE

8. Sale Of Movable Asset

Rule 5(a)(viii)

Particulars	Amt	Asset	Dep
Cost of Asset	-	Computer & Peripherals	50 % WDV
(-) Depreciation	-	Motor Vehicle	20% WDV
(-) Amount Recovered From EE	-	Other Asset	10% SLM
Taxable Value	-		

Note: Depreciation in all cases is charged For Complete Year.

9. Any other benefit Rule 5(a)(ix)

Perquisite = Cost to the employer – Amount Recovered

Note: If the employer has provided **telephone facility including the mobile phone**, it will be **exempt**. However, if any telephone allowance has been received, then it shall be fully taxable.

Medical Facility [Section 17(2)] (Erstwhile Section 17(2))

A. In India

Expenses Incurred/ Facility Provided By ER	Treatment
In ER Hospital	Exempt
In Govt. Hospital	Exempt
In Approved hospital For Specified Disease	Exempt
Health Insurance Premium of EE & Family Member	Exempt
Any other	Taxable

B. Outside India

Expenses Incurred by ER	Treatment
Stay Abroad	Exempt up to Permitted By RBI
Treatment Abroad	Exempt up to Permitted By RBI

Travel Abroad	
a) GTI > 8L	Fully Taxable
b) GTI ≤ 8L	Fully Exempt

Note:

- Exemption is allowed for medical treatment of EE, Spouse, Children, Dependent family member (Parents, Brother & Sister)
- Exemption of stay and travel abroad is for patient and one attendant only.
- Exemption is allowed for COVID-19 treatment subject to conditions notified by CG.

Leave Travel Concession [Schedule III Table S.N. 8] (Erstwhile Sec 10(5))
[Allowed Only under OLD Regime]

Journey Performed By	Maximum Exemption
Air	Economy Fare
Other Than Air	1st Class AC Fare Of Railway
Places Not connected By Rail	
a) Recognized Transport System (RTS) Exist	Deluxe/First Class Fare of RTS
b) No Recognized Transport System (RTS) Exist	30/- per KM Travelled

Notes:

- Ceiling on number of journeys:** The exemption shall be available to an individual two times in each block of four calendar year (current block is 2023-26)
- “Family”, shall include—**
 - the spouse and children, however exemption shall be allowed maximum 2 children but in case of multiple birth after the birth of one child, exemption is allowed for all the children.
 - wholly or mainly dependent parents, brothers and sisters

Perquisites Are Taxable Only In The Hands Of Specified Employees

Meaning of specified Employees

An employee is treated as a Specified Employee if he satisfies any one of the following conditions during the tax year:

- a) If the employee is a director of the employer company
- b) If the employee has a 20% or more voting power in the company
- c) If the employee's monetary salary exceeds 4,00,000.

1. Gardener/watchman/ sweeper or any other servant

Perquisite = Amount Spent by ER less Amount Recovered from EE

If the above servants are employed by the EE and wages of such servants are paid or reimbursed by the ER, it will be perquisites for all EEs.

2. Gas/Electricity or Water Facility

Particulars	Perquisite
ER has his own business	Manufacturing cost to the employer
Sourced From Third Party	Amount Paid To Third Party

Amount recovered from EE Shall be Deducted for calculating perquisites.

If **connection** of gas/electricity/water is in the **name of EE** & **expenses** on the supplies are **met by the ER**, it is an obligation of the EE being discharged by the ER & therefore this is perquisite **taxable in hands of all EEs**.

3. Education facility

Nature Of Expenditure	Perquisite
Training of Employees	Not Taxable
Education to Family Member	Fully Taxable
Education to Children of Employees	
a) school maintained by the ER or the school sponsored by the ER	Cost of education IN similar locality / institution as reduced by amount recovered from EE. If the Cost of Education per Child does not exceed ₹ 3,000 p.m. then such benefit is Not Taxable , otherwise fully taxable.
b) Other Schools	Cost to the Employer as reduced by amount recovered from EE

4. Transport Facilities

- ER business is carriage of goods or passengers
- Perquisite = FMV of benefit - Amount Recovered From EE
- However, nothing shall be taxable in case of EE of an airline & railways.

5. Motor car facility

Valuation of Motor Car facility			
Car Owned By ER And Used By EE			
Purpose	Expenses Met By	Perquisite Value	
Partly Official And Partly Personal (Amount Recovered From Ee Is Ignored)	Employer	Small Car- ₹5,000 Pm Big Car- ₹7,000 Pm	For Driver - ₹3,000 Pm
Partly Official And Partly Personal (Amount Recovered From Ee Is Ignored)	Employee	Small Car- ₹2,000 Pm Big Car- ₹3,000 Pm	For Driver - ₹3,000 Pm
Personal	Employer	Expenses Incurred By ER	-
		+ Driver Salary	-
		+ 10% P.A. Of Cost Of Car	-
		+ Hire Charges Of Car	-
		(-) Amount Recovered From EE	-
		Perquisite Value	-
Car Owned By EE & Used By EE			
Purpose	Expenses Met By	Perquisite Value	
Partly Official And Partly Personal	Employer	Expenses Incurred By ER	-
		+ Driver Salary	-
		(-) Fixed Official Expense	
		Small Car (Per month)	(₹5,000)
		Big Car (Per month)	(₹7,000)
		Driver (Per month)	(₹3,000)
		Perquisite Value	-

Personal	Employer	Expenses Incurred By ER	-
		+ Driver Salary	-
		(-) Amount Recovered From EE	(-)
		Perquisite Value	-

Note

1. More than one motor car is provided to the employee for official/personal use then Any 1 car shall be treated as used for partly official and partly personal purpose and other car(s) shall be treated as used for personal.
2. If car is used for 100% official use, then it shall not be considered as perquisite.

Other Vehicle		
Purpose	Expenses Met By	Perquisite Value
Partly Official And Partly Personal	Employer	Expenditure By Employer - ₹ 3,000 P.M

Profits in lieu of salary [Section 18]

1. Compensation from Employer or Former Employer

Any compensation received or receivable from an employer or former employer at the time of termination of employment, or due to a change in the terms and conditions of employment is taxable.

2. Amount Received Before Joining or After Leaving Employment

Any amount received from a person Before joining employment with that person, or after leaving employment with that person, whether received in lump sum or otherwise, is taxable.

3. Any sum received under keyman insurance Policy.

CHAPTER 3B: INCOME U/H HOUSE PROPERTY

Basis Of Charge [Section 20] (Erstwhile Section 22)

1. Property should consist of **any building** or land appurtenant thereto
2. Assessee must be the **owner** or Deemed Owner
3. HP Must be **used for any purpose except business or profession** of Assessee

Note: Annual value of HP held as SIT will also be taxable under this head. However, as per Section 21(5) NAV of HP held as SIT **shall be Nil for 2 years** from the end of FY in which completion certificate is issued, if Not Let Out for such period.

Computation Of Income Under House Property

Particulars	Rs.
Gross Annual Value (GAV)	-
Less: Municipal Tax (MT) Paid by Owner	-
Net Annual Value (NAV)	-
Less: Standard Deduction u/s 22(1)(a)	-
Less: Interest On Capital Borrowed u/s 22(1)(b) – Due Basis	-
Income U/H House Property	-

Note: Municipal Taxes

1. Deducted from GAV if paid by Owner during previous year.
2. Deductible in year of Payment even if they relate to past/future years.

Calculation Of Gav [Section 21]

1. Fair Rent	-
2. Municipal Value	-
3. Standard Rent	-
4. Expected Rent (Higher of 1 or 2 but restricted to 3)	-
5. Actual rent Received or Receivable	-
6. GAV (Higher of 4 or 5)	-

Case A. Income Of House Lying Vacant For Some Period [Section 21(2)]
(Erstwhile 23(1)(C))

1. Calculate Expected Rent (ER) for whole year
2. Calculate Actual Rent (AR) for Let out period
3. Compare Expected Rent and AR

Situation 1: If $AR > ER$, then $GAV = AR$.

Situation 2: If $AR < ER$ due to vacancy i.e. $AR + VR \geq ER$, then $GAV = AR$.

Situation 3: If $AR < ER$ due to other reason i.e. $AR + VR < ER$, then $GAV = ER$

#VR = Vacancy Rent

Case B. Income Of House Let Out For Part Of The Year & Self Occupied For Part Of The Year [Section 21(1)/(6)] (Erstwhile Section 23(1)/(2))

1. Calculate Expected Rent (ER) for whole year
2. Calculate Actual Rent (AR) for Let out period
3. $GAV = \text{Higher of ER Or AR}$.

Case C. Self-Occupied/Unoccupied House Property (For Maximum 2 House Property) [Section 21(6)] (Erstwhile Section 23(2))

1. $GAV = \text{Nil}$ for 2 houses
2. Deduction of MT Paid shall not be allowed
3. Thus $NAV = \text{Nil}$
4. Interest on capital borrowed allowed subject to maximum 2,00,000 or 30,000 as the case may be. (Only in case of old regime)

Note: Under default regime, no deduction is allowed for interest on capital borrowed of Self occupied property. Hence, income of Self occupied property shall always be nil under default regime.



Case D. More Than 2 House Self Occupied

1. Any 2 Houses Shall be considered as Self occupied and dealt with accordingly.
2. Remaining house(s) shall be Deemed to be Let Out and its GAV Shall be Expected Rent.

Case E. Part (Portion) Of The House If Let Out and Other Part (Portion) Is Self-Occupied

Let Out (LO) Portion	Self-Occupied Portion
Compute income of let out portion normally considering Following: - ER shall be Computed for part of property LO. - MT Allowed for the part of property LO. - ICB shall be Allowed for the part of property LO. (Suppose 60% portion is LO and 40% is SO, then above 3 points shall be calculated for 60% only)	- GAV = Nil - Deduction of MT Paid shall not be allowed - Thus NAV = Nil - ICB Shall be allowed for the part of property SO only under old regime (Subject to Max 30,000/2,00,000)

Treatment Of Unrealised Rent [Rule 21] (Erstwhile Rule 4)

Actual rent received/receivable should not include unrealised rent if all the conditions are satisfied:

- Tenancy is *bona fide*.
- defaulting tenant has *vacated HP*
- defaulting tenant is *not in occupation of another HP* Of Assessee
- Assessee *initiated legal steps* to recover unrealized rent or satisfy AO that such will be useless.

Tax Liability In Respect Of Arrears Of Rent / Recovery Of Unrealised Rent [Section 23] (Erstwhile Section 25a)

- Recovery of unrealized rent or arrears of rent received shall be *taxable in the year of receipt* u/h HP whether or not assessee owns HP in that year or not.
- Standard *deduction of 30% is allowed* from such recovery.

Statutory Deduction [Section 22(1)(A)] (Erstwhile Section 24(A))

Section 22(1)(a), assessee shall be allowed a notional expenditure equals to 30% of NAV

Interest On Capital Borrowed [Section 22(1)(B)] (Erstwhile Section 24(B))

1) Pre- Construction Period Interest

It is the interest paid **before the year** in which **construction is completed**. Pre period interest is accumulated and allowed in **5 installments** from the year in which construction is completed.

E.g. Loan is taken on 15/7/2022; construction is completed on 25/4/2025. In this case interest for the period 15/7/2022 to 31/4/2025 shall be accumulated and allowed in 5 installments from 2025-26 till 2029-30.

2) Current Year interest (Relevant TY) – Allowed in **same year** on **due basis**.

Note:

1. Interest on loan is allowed as deduction if it is taken for the purpose of construction, purchase, repair, renovation, reconstruction etc. of house property.
2. Loan can be raised from **banks, FI, NBFC, friends, family etc.**
3. Interest is allowed on **due basis**.
4. **Interest on fresh loan** taken to repay original loan taken for house property shall be **allowed** as deduction.
5. **Brokerage/commission** for Arrangement of loan is **Not allowed**.
6. **Interest on unpaid interest** is **Not allowed**.
7. If loan is taken from o/s India, Interest is deductible only if **TDS is deducted**.

Restriction Of Deduction In Case Of Self Occupied House Property

Assessee gets the higher deduction of ₹2,00,000 only if all 4 conditions are met —

1. Loan must be for **buying or constructing** a house property.
2. Loan must be taken **on or after 1st April 1999**.
3. The buying/construction must be **completed within 5 years** — counted from the end of the financial year in which the loan was taken. (e.g. loan in FY 2022-23 → must complete by 31st March 2028)
4. Assessee must **submit a certificate** from lender confirming how much interest is paid.

If any condition fails → deduction drops to ₹30,000.

Note:

1. Aggregate amount of interest in the case of first and second self-occupied houses shall not exceed ₹2,00,000
2. ICB in respect of SO property is allowed only under old regime.

Co-Owned House Property [Section 24] (Erstwhile Section 26)

Co-owned Property Is Let Out	Co-owned Property is Self Occupied
1. Calculate income of let out property normally as a single owner. 2. Income so calculated shall be divided between each co-owner on the basis of ownership right.	1. Calculated for each co-owner separately. 2. NAV= Nil 3. Each co-owner is entitled for deduction of ICB of Rs.30,000 or Rs.2 lakh respectively (only in case of old regime)

Deemed Owner [Section 25] (Erstwhile Section 27)

Transfer of HP to Spouse for Inadequate consideration	Transferor Spouse is deemed to be owner of HP transferred. However, if Transferred under an agreement to live apart, then transferee spouse shall be considered as owner
Transfer of HP to Minor Child for inadequate consideration	Transferor is deemed as owner of HP. However, HP is transferred to a minor married daughter, then deemed ownership not applied.
Member of a Co-operative Society	Member to whom a building or part thereof is allotted or leased under a House Building Scheme of a society / company / association, shall be deemed to be owner of that building
Person in possession of a property	If possession is received for part performance of the contract, then person having the possession is deemed owner for income tax purpose

<i>Holder Of Impartible Estate</i>	<i>Deemed as owner of all properties in the estate</i>
<i>Lease for 12 years or more</i>	<i>A person who acquires any building by way of lease for a period of 12 years or more shall be deemed to be the owner of that building.</i>

CHAPTER 3C: PROFITS & GAINS FROM BUSINESS & PROFESSION

Basis of Charge [Section 26] (Erstwhile Section 28)

1. The profit and gains of any business or profession carried at any time during the relevant PY.
However, income from letting out of a residential house or a part of the house by the owner is chargeable to tax under the head "Income from house property".
2. Export incentives (Cash assistance/ sale of import licence/ duty drawback)
3. Profit on sale of Duty Entitlement Pass Book or Duty Free Replenishment Certificate.
4. Any compensation or other payment due to or received by any person, with respect to termination or modification of terms and conditions of any business contract.
5. The value of any benefit or perquisite arising from business or Profession whether
 - a) Convertible into money or not; or
 - b) In cash or in kind or partly in cash or partly in kind.
6. Any interest, salary, bonus, commission or remuneration, received by a partner of a firm from such firm.
7. Non - competing fees
 - a) for not carrying out any activity in relation to any Business
 - b) not sharing any know-how, patent, copyright, trademark, licence, franchise or any other business or commercial right
8. Any sum received by ER under a Keyman insurance policy
9. Income from speculative transaction
10. If any person has converted any inventory or stock in trade into a capital asset (Business Income = FMV on Date of Conversion)

Meaning of Speculative Transaction

It means a transaction in which a contract for the purchase or sale of any commodity including stocks and shares, is settled otherwise than by the actual delivery.

TELEGRAM: CANOTEHUB*Transactions not deemed to be speculative transactions*

The following forms of transactions shall not be deemed to be speculative transaction:

- a) *Hedging contract* in respect of raw materials or merchandise or stocks and shares
- b) *Forward contract*
- c) *Trading in derivatives.*
- d) *Trading in commodity derivatives* which is chargeable to commodities transaction tax.

However, the requirement of chargeability of commodities transaction tax is not applicable in respect of trading in agricultural commodity derivatives.

How to Compute PGBP [Section 27] (Erstwhile Section 29)

The income referred to in section 26 shall be computed in accordance with the provisions contained in *sections 28 to 60*, except Section 58.

Rent, Rates, Taxes, Repairs and Insurance of Premises, Machinery, Plant or Furniture [Section 28] (Erstwhile Section 30&31)

Deduction is allowed for expenses related to premises, machinery, plant, or furniture used in business:

- a) *Insurance premium* for protection against damage or loss
- b) Taxes like land revenue, *municipal taxes*, and local rates
- c) *Rent* → if the premises is taken on lease (tenant)
- d) *Repairs of premises* (non-capital):
 - If *owner* → current repairs allowed
 - If *tenant* and responsible for repairs → current repairs allowed.
- e) Repairs of machinery, plant, or furniture (only current repairs, not capital)

Note:

1. *Capital repairs incurred by the owner are not allowed as a deduction but instead, assessee can claim depreciation on such repairs.*
2. *Capital repairs incurred by tenant is treated as deemed asset and depreciation is allowed to tenant.*
3. *If assessee is owner of building, then assessee cannot claim notional rent.*
4. *If asset is partly used for business, only proportionate deduction is allowed.*

Deduction related to Employee Welfare [Section 29] (Erstwhile Section 36)

The following sums shall be allowed to assessee (being employer)

1. ER contribution to

- a) Statutory Provident Fund
- b) Recognized Provident Fund
- c) Approved superannuation fund
- d) Approved gratuity fund

Allowed subject to the provisions of Section 37 i.e. if paid up to RFD

2. ER Contribution to NPS referred u/s 124, lower of following shall be allowed as deduction:

- i) Amount contributed
- ii) 14% of Salary

Salary Includes

- Basic Salary
- DA (If forms the part of Retirement Benefit)

3. Sum received by the assessee (being Employer) from his employees as contribution to certain funds (PF/ESI/Superannuation fund), Shall be allowed as deduction if credited to account of employee in the relevant fund/funds on or before the due date of filing of return of income under section 263(1) for the tax year.

4. Provision made for the purpose of making contribution towards approved gratuity fund or for the purpose of payment of any gratuity that has become payable during that tax period shall be allowed as deduction

Deduction certain Premium [Section 30] (Erstwhile Section 36)

Insurance Premium

- a) Stock/stores (including livestock)
- b) Medical Insurance of EE (provided not paid in cash)

Deduction For Bad Debts & Provision For Bad Debts [Section 31] (Erstwhile Section 36)

1. Bad Debts

- **Bad debts written off** from the books of accounts – **allowed** as a deduction, provided Such debts have been taken into account for computing income of Tax Year or any earlier Tax Year.
- If the **amount ultimately recovered is less than the difference between the debt and the amount written off** (Deduction Claimed), the **deficiency is deductible** in the year of ultimate recovery.

Example: Assume a company has an outstanding debt of ₹1,00,000 from a customer. In Year 1, It writes off ₹80,000 as a bad debt, which is allowed as a deduction. Remaining unrecovered balance is ₹20,000 Not written Off. In Year 3, the company manages to recover only ₹15,000 from the debtor and decides to close the account permanently. The deficiency is ₹5,000 (₹20,000 – ₹15,000) deductible in the tax year in which the ultimate recovery occurs (Year 3).

- **Provision for bad debts is not allowed** as a deduction.

2. Bad Debts recovered –

- Income of recovery year, whether or not business or profession is in existence.
- Amount Taxable = **Bad Debts Recovered in excess of not written off.**

Example: Suppose Bad debts are ₹50,000 but assessee has written off only ₹30,000 (i.e. ₹20,000 not written off). Now suppose recovery is of ₹36,000.

Taxable Amount = ₹36,000 – ₹20,000 = ₹16,000

If the recovery is of ₹16,000, then nothing shall be taxable.

Note: If a debt, which has not been recognized in the books but has been taken into account in the computation of income as per the notified ICDSs, has become irrecoverable, it can still be claimed as bad debts since it shall be deemed that the debt has been written off as irrecoverable.

Other Deductions [Section 32] (Erstwhile Section 36)

The following expenses are allowed to be debited in the profit & Loss Account

- a) **Bonus Or Commission Paid to the EEs** [not payable as dividend], subject to section 37.

Note: there is no restriction on the amount of the bonus, it may exceed the bonus payable under the Payment of Bonus Act, 1965

b) Interest On Loan taken for business or profession.

However, if a loan is taken from a scheduled bank or financial institution including NBFC, deduction is allowed subject to section 37.

Note: loan taken for asset – Interest prior to the date the asset is put to use is capitalized and depreciation is allowed.

c) Discount on Zero coupon bonds is allowed on a pro-rata basis over the life of ZCB.

Example 01

Zero Coupon Bonds issued @ ₹25/bond

Face Value = ₹100/Bond

No. of bonds = 1,00,000 bonds

It is redeemable after 20 years

Calculate deduction u/s 36.

Solution

Amount of Discount = $(100 - 25) \times 1,00,000 = 75,00,000/-$

Deduction u/s 32 = $75,00,000 / 20 \text{ years} = 3,75,000/-$ each year

d) Family planning promotion Expenditure is allowed to company assessee as follows

Revenue Expenditure	Full
Capital Expenditure	In 5 Installments

If Sufficient profit is not available then expenditure (R/C) shall be deducted to the extent of profit available.

e) STT/CTT paid is allowed as deduction if securities/commodities are held as stock in trade.

f) Deduction is allowed in respect of **animals** which have been **used in the business** and have **died or become permanently useless**.

Amount of deduction = Cost of Buying – Amount realized on sale

- g) Amount of expenditure incurred by a co-operative society for purchase of sugarcane at price equal to or less than fixed or approved by the Government shall be allowable as deduction.

- h) Marked to market Loss or other Expected loss

As per ICDS	Allowed on the basis of actual settlement
Other	Not allowed as per Section 36

Depreciation [Section 33] (Erstwhile Section 32)

1. Conditions for claiming Depreciation

- Asset must be **owned by the assessee**, wholly or partly.
- Asset must be **used for the purpose of business or profession**.
- Asset must be **used during the tax year** by assessee.
- Asset must be **put to use**

If any of these conditions are not satisfied, then depreciation shall not be allowed.

Note:

- It is **mandatory** for Assessee to claim depreciation.
- Depreciation is allowed when asset is put to use and not when it is ready to use. However, in case of **standby equipment**, fire extinguisher and machinery spares, **depreciation shall be allowed** even if they are kept for ready to use.

2. Methods Of Depreciation

- Normal Depreciation for Block of Assets on WDV basis
- Additional Depreciation for Eligible Asset
- Asset Wise Depreciation for An Undertaking Engaged in Generation or Generation & Distribution of Power

3. Section 2(17): Block of Assets

It means a **group of assets falling within a class of assets** in respect of which **same rate of depreciation** is charged, comprising:

- Tangible assets**, being building, plant and machinery or furniture
- Intangible assets**, being know how, patents, copyrights, trademarks or other business or commercial rights **except Goodwill**.

4. Rate Of Depreciation

Building	
----------	--

• Residential Purpose Building other than Hotel	5%
• Non-Residential Purpose Building including Hotel	10%
• Temporary erections	40%
• Tube wells (included in building)	10%
Furniture and Fittings	10%
Machinery and Plant	
• Machinery and Plant (General including oil wells)	15%
• Motor cars	
• Used in a business of running them on hire (Taxis, buses etc)	
Generally	30%
Acquired and Put to Use between 23/8/19 – 31/3/20	45%
• Other than Used in a business of running them on hire	
Generally	15%
Acquired and Put to Use between 23/8/19 – 31/3/20	30%
• Ships	20%
• Mobile Phone and EPABX	15%
• Office appliances	15%
• Aeroplanes and renewable energy devices like Windmill	40%
• Computers including computer software and computer peripherals	
• Books & Annual Publications	
Intangible assets other than Goodwill	25%

5. WDV For Charging Depreciation

Particulars	Amount
Opening WDV of Block	xxx
Add: Assets acquired During the previous year	
Put To Use for 180 days or more	xxx
Put To Use for Less than 180 days	xxx
Not Put To Use	xxx
Less: Money Payable on assets which are sold, discarded or amount of scrap value	(xxx)
Closing WDV Before Depreciation	xxx
Less: Depreciation actually Allowed	xxx

Note:

- WDV cannot be negative.
- WDV in hands of successor shall be WDV in hands of previous owner in case other than death.

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- c) Money payable means sale price of asset and shall include insurance, salvage or compensation on accrual basis.
- d) No expense on transfer will be adjusted against Money Payable.
- e) Revaluation of asset is irrelevant in Income Tax Act.

Example 02

Block 15%	₹
Opening WDV (A/B/C) as on 01-04-2026	10,00,000

Following assets are purchased & Put to use as follows :-

Assets	Value	Date of Purchase	Date of Put to Use
D	₹5,00,000	01/07/2026	01/08/2026
E	₹6,00,000	01/08/2026	16/08/2026
F	₹7,00,000	01/12/2026	14/05/2027

On 01/03/2027 asset B was sold for ₹4,00,000

Calculate depreciation for TY 2026-27 & Opening WDV for TY 2027-28

Solution**Calculation of depreciation (Block 15%)**

Particulars	₹
Opening WDV (A/B/C) on 01/04/2026	10,00,000
Add: Purchased & Put to use during the year	
D 5,00,000	
E 6,00,000	11,00,000
Add: Purchased but not put to use during year (F)	7,00,000
Less: Asset sold or discarded (B)	(4,00,000)
Closing WDV (A/C/D/E/F)	24,00,000
Depreciation [15% x (24,00,000 - 7,00,000)]	(2,55,000)
Opening WDV (A/C/D/E/F) on 01/04/2027	21,45,000
Add: Purchased & Put to use during the year	Nil
Less: Asset sold or discarded	Nil
Closing WDV as on 31/03/2028	21,45,000
Depreciation [15% x 21,45,000]	3,21,750

Example 03

Block 15%	₹
Opening WDV (A/B/C) as on 1/4/2026	15,00,000

Following assets are purchased & Put to use as follows :-

Assets	Value	Date of Purchase	Date of Put to Use
D	₹6,00,000	01/07/2026	01/08/25
E	₹4,00,000	01/03/2027	01/04/26

On 15/12/2026 asset C was sold for ₹2,50,000

Calculate depreciation for TY 2026-27 & Opening WDV for next year.

Solution

Calculation of depreciation (Block 15%)

Particulars	₹
Opening WDV (A/B/C) on 01/04/2026	15,00,000
Add: Purchased & Put to use during the year (D)	6,00,000
Add: Purchased but not put to use during year (E)	4,00,000
Less: Asset sold or discarded (C)	(2,50,000)
Closing WDV (A/B/D/E)	22,50,000
Depreciation [15% x (22,50,000-4,00,000)]	(2,77,500)
Opening WDV (A/C/D/E/F) on 01/04/2027	19,72,500

Example 04

Suppose in above example , Machine E was sold instead of machine C for 2,50,000.

Calculate Depreciation for TY 2026-27

Solution

Calculation of depreciation (Block 15%)

Particulars	₹
Opening WDV (A/B/C) on 01/04/2026	15,00,000
Add: Purchased & Put to use during the year (D)	6,00,000
Add: Purchased but not put to use during year (E)	4,00,000
Less: Asset sold or discarded (E)	(2,50,000)
Closing WDV (A/B/C/D)	22,50,000
Depreciation [15% x 22,50,000]	(3,37,500)
Opening WDV on 01/04/2027	19,12,500

6. Depreciation allowed at Half Rate

Depreciation will be **restricted to 50%** of the normal depreciation, if the following conditions are satisfied:

1. Asset is purchased and put to use in the same Tax Year.
2. Period of put to use for less than 180 days during the Tax Year.

Example 05

Block 15%	₹
Opening WDV (A/B/C) as on 1/4/2026	10,00,000

Following assets are purchased & Put to use as follows :-

Assets	Value	Date of Purchase	Date of Put to Use
D	₹5,00,000	15/07/2026	01/08/2026
E	₹6,00,000	15/09/2026	05/10/2026

Asset B and C was sold for ₹7,00,000. Calculate depreciation for TY 2026-27

Solution**Calculation of depreciation (Block 15%)**

Particulars	₹
Opening WDV (A/B/C) on 01/04/2026	10,00,000
Add: Purchased & Put to use during the year	
Put to use for 180 days or more: D - 5,00,000	
Put to use for less than 180 days: E - 6,00,000	11,00,000
Add: Purchased but not put to use during year	Nil
Less: Asset sold or discarded (B/C)	(7,00,000)
Closing WDV (A/D/E)	14,00,000
Half rate of depreciation: E = 7.5% x 6,00,000	45,000
Full rate of depreciation: Remaining Block (14,00,000 - 6,00,000) x 15%	1,20,000
Total Depreciation	1,65,000

Example 06

Block 15%	₹
Opening WDV (A/B/C) as on 1/4/2026	10,00,000

Following assets are purchased & Put to use as follows :-

Assets	Value	Date of Purchase	Date of Put to Use
P	₹2,00,000	16/07/26	18/08/26
Q	₹3,00,000	15/09/26	31/10/26
R	₹4,00,000	01/01/27	05/05/27

S	₹1,00,000	01/07/27	31/12/27
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Following Assets were sold :-

1. B sold for ₹1,00,000 on 31/12/2026
2. C sold for ₹70,000 on 31/01/2028

Calculate depreciation for TY 2026-27 & TY 2027-28

Solution

Calculation of depreciation (Block 15%) for TY 2026-27

Particulars	₹
Opening WDV (A/B/C/D) on 01/04/2026	10,00,000
Add: Purchased & Put to use during the year	
Put to use for 180 days or more: P - 2,00,000	
Put to use for less than 180 days: Q - 3,00,000	5,00,000
Add: Purchased but not put to use during year (R)	4,00,000
Less: Asset sold or discarded (B)	(1,00,000)
Closing WDV (A/C/D/P/Q/R)	18,00,000
Half rate of depreciation: $7.5\% \times 3,00,000$	22,500
Full rate of depreciation: $(18,00,000 - 3,00,000 - 4,00,000) \times 15\%$	1,65,000
Total Depreciation	1,87,500

Calculation of depreciation (Block 15%) for TY 2027-28

Particulars	₹
Opening WDV (A/C/D/P/Q/R) on 01/04/2027	16,12,500
Add: Purchased & Put to use during the year	
Put to use for 180 days or more: Nil	
Put to use for less than 180 days: S - 1,00,000	1,00,000
Add: Purchased but not put to use during year	Nil
Less: Asset sold or discarded (C)	(70,000)
Closing WDV (A/D/P/Q/R/S)	16,42,500
Half rate of depreciation: $S = 7.5\% \times 1,00,000$	7,500
Full rate of depreciation: $(16,42,500 - 1,00,000) \times 15\%$	2,31,375
Total Depreciation	2,38,875

7. When No Depreciation Shall Be Allowed

a) All the assets of the block are transferred (Block Ceases to Exist)

In case all the assets in any block are transferred during the previous year

then the block shall cease to exist and no depreciation will be allowed. It can happen in the following two cases:

- i. Sale price exceeds (Op. WDV + Assets purchased during the year)
 $STCG \text{ u/s } 74 = \text{Sale Price} - (\text{Op. WDV} + \text{Assets purchased during the year})$
 - ii. Sale price < (Op. WDV + Assets purchased during the year then)
 $STCL \text{ u/s } 74 = \text{Sale Price} - (\text{Op. WDV} + \text{Assets purchased during the year})$
- b) Part of block is sold and the sale consideration of assets exceeds block Value
- i. Sale price > (Op. WDV + Assets purchased during the year)
 - ii. Although certain assets exist in block, but the WDV of the block shall be reduced to NIL and no Depreciation shall be allowed.
 - iii. Excess shall be treated as short-term capital gain.

Example 07

Calculate depreciation from the following information's:

Block 15%

Opening WDV A/B/C

₹12,00,000

D purchased and Put to use on 01/05/26

₹3,00,000

- Asset B and C were sold for ₹16,00,000 on 01/12/2026
- Asset B and C were sold for ₹11,80,000

Solution

Calculation of depreciation (Block 15%)

Particulars	₹
Under head PQBP	
Opening WDV (A/B/C)	12,00,000
Add: Purchased & Put to use during the year (D)	3,00,000
Less: Asset sold or discarded (B/C)	(15,00,000)
Closing WDV (A/D)	Nil
Depreciation	Nil
Under head Capital Gain	
STCG u/s 74	1,00,000
= Sale value – Block value i.e. 16,00,000 – 15,00,000	

8. Additional depreciation on new machinery or plant [Section 33(8)] – (Not available if tax is payable under new regime)

- a) Allowed to assessee engaged in manufacture of any article or generation or generation and distribution of power.
- b) Assets for which additional depreciation is allowed:
Any new machinery or plant which has been acquired and installed. However, additional depreciation shall not be allowed for:
 1. Ships and aircraft;
 2. Second Hand Plant/Machinery; or
 3. Any machinery or plant installed office or residential accommodation or office appliances or road transport vehicles;
 4. Any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise)
- c) Additional depreciation shall be allowed @ 20% in the first year in which it is put to use.
- d) If the asset is put to use for less than 180 days, then additional depreciation is allowed @ 10% in the first year, and balance of 10% shall be allowed in next year.

Notes:

- a) Printing or printing and publishing is treated as manufacturing business – eligible for additional dep.
- b) Forklift trucks and craned used in factory is not treated as transport vehicle hence eligible for add. Dep.
- c) It shall also be available in case of assembled machineries.
- d) Add. Dep. Shall not be allowed to power units if they opted SLM method.

Example 08

Block 15%	₹
Opening WDV (A/B/C) as on 1/4/2026	10,00,000

Assessee engaged in Manufacturing

Following assets are purchased & Put to use as follows :-

Assets	Value	Date of Purchase	Date of Put to Use
D (New)	₹3,00,000	10/07/26	10/08/26
E (Second Hand)	₹2,00,000	10/08/26	10/09/26
F (New)	₹3,00,000	10/09/26	10/10/26
G (New)	₹1,00,000	10/10/25	10/04/27

Asset B was sold for ₹3,60,000. Calculate depreciation for TY 2026-27

Solution

Calculation of depreciation (Block 15%)

Particulars	₹
Opening WDV (A/B/C)	10,00,000
Add: Purchased & Put to use during the year	
Put to use for 180 days or more: D/E - 5,00,000	
Put to use for less than 180 days: F - 3,00,000	8,00,000
Add: Purchased but not put to use during year (G)	1,00,000
Less: Asset sold or discarded (B)	(3,60,000)
Closing WDV (A/C/D/E/F/G)	15,40,000
Normal Depreciation	
Half rate of depreciation: $7.5\% \times 3,00,000$	22,500
Full rate of depreciation: $(15,40,000 - 1,00,000 - 3,00,000) \times 15\%$	1,71,000
Additional Depreciation	
$D = 3,00,000 \times 20\%$	60,000
$F = 3,00,000 \times 10\%$	30,000
Total Depreciation	2,83,500

Note:

- Balance additional depreciation of Machine F ($3,00,000 \times 10\% = 30,000$) shall be allowed in Next year i.e. 2027-28
- 20% additional depreciation of asset G shall be allowed in the next year 2027-28 i.e. year in which it is actually put to use.

Actual Cost [Section 39] (Erstwhile Section 43(1))

It means,

- Actual cost of the asset to the assessee, and
- It should not include any portion of the cost which has been incurred directly or indirectly by any other person or authority.

Note:

- If the assessee makes a **payment** or aggregate of payment **more than Rs.10,000 to a person in a day**, by mode **other than specified banking or online mode**, such payment **shall be ignored** for the purpose of determination of actual cost.

Specified banking or online mode

- e) Account payee cheque/draft
- f) Electronic clearing system through bank a/c
- g) Credit card
- h) Debit card
- i) Net banking
- j) IMPS (immediate payment service)
- k) UPI (unified payment interface)
- l) RTGS (real Time gross settlement)
- m) NEFT (National Electronics Fund Transfer)
- n) BHIM (Bharat Interface for money)
- o) Aadhaar pay

2. In case new business is set-up: Interest paid before commencement of production on amounts borrowed for acquisition and installation of machinery forms the part of actual cost.
3. Interest on amount borrowed for the acquisition of an asset, for any period beginning from date of loan till the date asset is put to use forms the part of capital asset

Example 09

Loan of ₹15,00,000 was taken on 01/07/2025 @12% interest rate for construction of office building. Construction completed on 01/12/2026 and building put to use immediately.

- a) Calculate Actual cost of building
- b) Calculate Depreciation of building for TY 2026-27
- c) Calculate interest on loan debited to profit and loss A/c

Solution

- a) Interest from the date of loan till the date of actual put to use shall be added to the cost of building.

$$\text{Interest from 01/07/25} - \text{01/12/26} = 15,00,000 \times 12\% \times 17/12 = 2,55,000$$

$$\text{Hence, Cost of Building} = 15,00,000 + 2,55,000 = 17,55,000$$

- b) Period of put to use of Building = 01/12/26 - 31/03/27

Since, period of put to use is for less than 180 days. Hence, depreciation shall be allowed at half rate i.e. 5%

$$\text{Hence, Depreciation on Building} = 17,55,000 \times 5\% = 87,750$$

- c) Amount of interest debited to Profit & Loss A/c = $15,00,000 \times 12\% \times 4/12 = 60,000$

Actual cost in certain special situations [Section 39(4)] (Erstwhile Explanations to section 43(1))

	Situation	Actual Cost
1	Acquisition of Asset: Where assessee himself acquires the asset.	Purchase Price Add: a) Interest on Loan for the period up to the date of usage of the asset b) Freight and Insurance c) Loading, Unloading Charges d) Installation and Erection Charges Less: (a) Any amount met by any Authority or any other person by way of Subsidy or Grant, (b) GST ITC Credit availed
2	Assets used in Scientific Research subsequently put into use for business.	Nil. As Asset Cost wholly deductible u/s 45
3	Conversion of Stock into Capital Asset	FMV which has been taken into account for the purpose of Sec.26
4	Asset received under Gift, Will or Inheritance.	WDV to the Previous Owner.
5	Acquisition of Second-Hand asset to claim depreciation on enhanced cost to reduce tax liability, in the opinion of A.O.	Cost as determined by the AO, having regard to circumstances of the case, with the prior approval of Joint Commissioner of Income Tax.
6	Transfer and Re-acquisition: Transfer of an asset and re-acquisition of the same.	WDV at the time of Original Transfer or repurchase price, whichever is less.
7	Sale and Lease Back: Sale of an asset to the Lessor and taking them back on lease.	WDV to the previous owner at the time of transfer.
8	Building used for private	Cost of Acquisition or Construction

	purpose and subsequently put into use in business	Less: Notional / Deemed Depreciation for the period of personal use.
9	Assets brought into India by a Non-Resident.	Actual Cost of Acquisition Less: Notional Depreciation for the period held outside India

9. Depreciation On SLM Basis

Assessee	Engaged in Generation, transmission, Distribution of Power
Time to Exercise	Before RFD u/s 263(1) of tax year in which they begin to generate power. The option once exercised shall not be reversed.

Note: Option of SLM is For Tangible Assets only; For Intangible Assets only WDV is applicable. Depreciation can be charged on tangible assets individually; i.e. SLM/WDV whichever is more beneficial.

Sale of Asset By Assessee Engaged In Power Generation

➤ Case 1: Sale Value < Book Value

$$\text{Terminal Depreciation (Dr. to P/L)} = \text{Book Value} - \text{Sale Value}$$

➤ Case 2: Sale Value > Book Value But $\leq$ Actual Cost

$$\text{Balancing Charge (Cr. To P/L)} = \text{Sale Value} - \text{Book Value}$$

➤ Case 3: Sale Value > Actual Cost

- Balancing Charge (Cr. To P/L) = Actual Cost – Book Value
- LTCG/STCG Depending on Period of Holding = Sale Value – Actual Cost

Example 10

Calculate depreciation

Asset was purchased on 01/04/2024 for ₹10,00,000 (life 10 years)

It was sold on 15/07/2026

- Case-1 : Sale value = ₹7,50,000
- Case-2 : Sale value = ₹8,90,000
- Case-3 : Sale Value = ₹11,50,000

Solution

$$\begin{aligned}
 \text{a) Asset book value} &= \text{Cost of asset} - \text{Depreciation for TY 2024-25 \& 2025-26} \\
 &= 10,00,000 - [1,00,000 + 1,00,000] \\
 &= 8,00,000
 \end{aligned}$$

Since, Sale value < Book Value

Therefore, terminal depreciation = Book value – sale value
 $= 8,00,000 - 7,50,000 = 50,000/-$

- b) Asset book value = Cost of asset – Depreciation for TY 2024-25 & 2025-26
 $= 10,00,000 - [1,00,000 + 1,00,000]$
 $= 8,00,000$

Since, sale value > Book value i.e. in excess of 90,000

Therefore, Balancing charge under PQBP = Sale Value – Book Value
 $= 8,90,000 - 8,00,000 = 90,000/-$

- c) Asset book value = Cost of asset – Depreciation for TY 2024-25 & 2025-26
 $= 10,00,000 - [1,00,000 + 1,00,000]$
 $= 8,00,000$

Since, Sale value > Actual cost of asset

Therefore, Balancing charge under PQBP

= Sale Value – Book Value = $10,00,000 - 8,00,000 = 2,00,000$

STCG u/s 74 = Sale value – Cost of Acquisition = $11,50,000 - 10,00,000 = 1,50,000/-$

10. Unabsorbed Depreciation (Section 33(11)) (Erstwhile Section 32(2))

- Where in any tax year profit before depreciation is not sufficient to absorb full depreciation expense, then depreciation is allowed to the extent of profit and balance depreciation shall be termed as unabsorbed depreciation.
- Such unabsorbed depreciation shall be carried forward to next year for adjustment.
- Unabsorbed dep shall be carried forward for indefinite years till it gets fully set off.

11. Carry forward and set off of unabsorbed depreciation

If Depreciation claim is more than profits before depreciation, then excess depreciation shall be deducted to the extent profits available and excess shall be c/f as unabsorbed depreciation.

After C/F Following shall be the order of setoff

- 1) Current Tax Year Depreciation
- 2) B/f Business Loss
- 3) B/F Unabsorbed Depreciation

Expenditure on Scientific Research [Section 45] (Erstwhile Section 35)

1. In-house Research (Research – Related To Business)

Assessee	All Assesseees
Research During PY	100% of revenue as well as capital expenditure incurred during the tax year shall be allowed as deduction except capital expenditure on purchase of LAND .
Research before commencement of business	- Exp Incurred up to 3 years before the commencement of business shall be allowed in the year of commencement of business. - Revenue Expenditure – Only Salary (Excluding Perquisites) + Material Note: Other Revenue Exp Not Allowed - Capital Expenditure – Allowed Except LAND

Note: No depreciation will be admissible on any capital asset expenditure which has been allowed as a deduction u/s 45.

2. Sale of assets used for scientific research Section 38(1) (c)

- Asset Sold Without Being Put to use for business purpose:
 - Sale Value $\leq$ Actual Cost, then sale value is Business Income
 - Sale Value $>$ Actual Cost, then actual value is business income and difference between sale value and actual cost shall be STCG/LTCG depending upon period of holding
- Asset Sold After Being used for business purpose:

Asset will be added to the respective block with NIL value as entire amount has been allowed as deduction u/s 45 and deducted from the block with sale value

Example 11

Calculate income under head PGBP

- Profit before depreciation for TY 2026-27 = ₹5,00,000
- Opening WDV of block of machine = ₹6,00,000
- Scientific research machine was purchased in year 2023-24 for ₹5,00,000 and put to use in business on 01/04/2026
- Machine is sold for ₹1,50,000 on 31/12/2026

Solution**Calculation of depreciation (Block 15%)**

Particulars	₹
Opening WDV	6,00,000
Add: Purchased & Put to use during the year (S/R)	Nil
Less: Asset sold or discarded (S/R)	(1,50,000)
Closing WDV	4,50,000
Depreciation [15% x 4,50,000]	67,500

Calculation of Income under head PQBP

Particulars	₹
Profit before depreciation	5,00,000
Less: Depreciation	67,500
Income under head PQBP	4,32,500

3. Carried forward of unadjusted capital expenditure of scientific research

- If profit before deducting capital expenditure on scientific research is less than capital expenditure on scientific research, then excess capital expenditure is carried forward.
- Revenue expenditure on Scientific Research is always allowed irrespective of availability of profits.

Example 12

	Case 1	Case 2	Case 3
Profit before S/R Exp.	₹10,00,000	₹6,00,000	₹1,00,000
Revenue Exp. of S/R	₹4,00,000	₹4,00,000	₹4,00,000
Capital Exp. of S/R	₹5,50,000	₹5,50,000	₹5,50,000

Show Tax Implications

Solution**Calculation of income under head PQBP**

Particulars	Case 1	Case 2	Case 3
Profit before Scientific research Expenditure	10,00,000	6,00,000	1,00,000
Less: Scientific research Revenue Expenditure	4,00,000	4,00,000	4,00,000
	6,00,000	2,00,000	(3,00,000)

Less: Scientific research Capital Expenditure	(5,50,000)	(2,00,000)	Nil
Income under head PGBP	50,000	Nil	(3,00,000)
C/F Scientific research capital expenditure	Nil	3,50,000	5,50,000

4. Contribution To Outside Agency (Research – Business Relation not compulsory)

– If assessee opts new regime then deduction shall not be allowed.

Donation given to an Approved scientific research association	100%
Donation is given to an Indian company approved for the purpose of scientific research or to any approved institution social science or statistical research.	100%
Donation is given to IIT/National Laboratory for scientific research	100%

Note: Deduction shall not be denied if after making donation by the assessee, approval of such institution has been withdrawn.

Deduction in case of Specified Businesses [Section 46] – Not Allowed if Assessee opts New Regime (Erstwhile Section 35AD)

1. Specified business means

Specified Business
a) Laying & operating a cross-country Natural Gas or Crude or Petroleum Oil Pipeline Network for distribution, including Storage Facilities being an integral part of such network.
b) Setting up and operating a Cold Chain Facility,
c) Setting up and operating a Warehousing Facility for storage of Agricultural Produce.
d) Building and operating a Hotel of two star or above category as classified by the Central Government.
e) Building and operating a Hospital with atleast 100 beds for patients.
f) Developing and building a Housing Project under a scheme for Affordable Housing Slum Redevelopment or Rehabilitation Scheme framed by Central or State Government and notified by CBDT.
g) Developing and building a Housing Project under a scheme for Affordable Housing framed by the Central Government or State Government and notified by CBDT
h) New Plant or in newly installed capacity in an existing Plant, for production of Fertilizer.

i)	Setting up and operating an Inland Container Depot or Container Freight Station notified or approved under the Customs Act.
j)	Bee-keeping and production of Honey and Beeswax.
k)	Setting up and operating a Warehousing Facility for storage of Sugar.
l)	Laying and operating a Slurry Pipeline for the transportation of Iron Ore.
m)	Setting up and operating Semi-Conductor Wafer Fabrication Manufacturing Unit notified by CBDT.
n)	Business of developing or maintaining and operating or developing, maintaining and operating a New Infrastructure Facility

2. Deduction: 100% of capital expenditure except Land, Goodwill and financial instrument. Also, expenses incurred before commencement of business shall be allowed if capitalized in books of accounts.

3. Deduction u/s 46 shall be allowed in the year of commencement of operation rather than from date of getting certificate from concerned authority.

4. However, Any Expenditure for Acquisition of any Asset for which aggregate payment made to A Person in A Day, otherwise than by specified banking or online mode is more than Rs. 10,000, then such payment Not Eligible for Deduction u/s 46.

5. Conditions and Notes:

a) Business Not Formed by Splitting/Reconstruction of Existing Business

b) Not Formed by Transfer of Used P&M (However, Used P&M is Allowed upto 20%)

c) Depreciation shall not be allowed if deduction is allowed u/s 46.

d) Loss of specified business can be adjusted only against specified business income.

e) Loss of Specified business can be carried forward for indefinite period.

f) Asset must be used in business for 8 tax year for which deduction is claimed u/s 46 otherwise, in the year of sale or put to use in other business shall be business income which is equals to:

$$\text{PGBP Income} = \text{Total Deduction Claimed} - \text{Deemed Depreciation.}$$

g) If asset is sold after 8 years, then entire sales consideration shall be treated as business income as per section 26.

- h) Where assessee claims deduction u/s 46, then no other deductions shall be allowed under any other section of this act.

Preliminary Expenditure [Section 44] (Erstwhile Section 35D)

1. **Meaning:** Preliminary expenses are expenses incurred before setting up of the business; or the expenses are incurred in connection with extension (same line of business) of an undertaking or in connection with setting up a new business. (Setting up new factory, opening a new branch)
2. **Assessee:** The Assessee should be an -**Indian Company**, or **Non-Corporate Resident Assessee**.
3. **Eligible Expenses:**

- (i) Preparation of **feasibility report**
- (ii) Conducting **market survey** or any other survey necessary for the business.
- (iii) Preparation of **project report**.
- (iv) **Engineering services** relating to the business.
- (v) **Legal charges** for drafting any agreement relating to the setting up or conduct of the business.
- (vi) **Legal charges** for drafting and printing of Memorandum of Association (MOA) and Articles of Association (AOA).
- (vii) **Registration fees of a company** paid to Registrar of Companies.
- (viii) Expenses and legal charges incurred in drafting, printing and advertising of **prospectus**.
- (ix) Expenditure incurred on **issue of shares or debentures** like underwriting commission, brokerage, advertisement etc.

Note: Salary to employees, rent of premises, interest on borrowed capital are not treated as preliminary expenses hence deduction never allowed. These are treated as dead expenses.

4. Deduction

- (i) **An Indian company**

Lower of following shall be allowed as deduction in 5 equal installments

- (a) Aggregate Amount of eligible expenditure or
- (b) 5% of the cost of project or 5% of the capital employed- whichever is higher

- (ii) **a resident non-corporate assessee.**

- (a) Aggregate Amount of eligible expenditure or

(b) 5% of the cost of project

whichever is lower is allowed as deduction in 5 equal installments

5. Note:

- a) Cost of project includes actual cost of the fixed assets, being land, buildings, leaseholds, plant, machinery, furniture, fittings and railway sidings (including expenditure on development of land and buildings).
- b) Capital employed is the aggregate of the issued share capital, debentures and long-term borrowings
- c) Reserve and Surplus including security premium shall not be part of Capital Employed.
- d) Cost of project and capital employed shall be taken as on last date of the PY in which such business commences or extension is completed.
- e) Accounts of companies claiming deduction this section shall be audited u/s 63.
- f) In case of amalgamation or demerger, the aforesaid provisions will apply to the amalgamated company or resultant company as if the amalgamation had not taken place.
However, no deduction will be admissible in the case of the amalgamating or demerged company for the previous year in which the amalgamation takes place

Example 13

X Ltd. (Indian Co.) commences business in 2026 – 27

Capital Employed = ₹50,00,000

Cost of Project = ₹ 40,00,000

Eligible P/E = ₹90,000

Calculate Deduction u/s 44

Solution

Calculation of deduction u/s 44

Particulars	₹
Higher of	
a) 5% of capital expenditure i.e. 2,50,000 or	
b) 5% of cost of project i.e. 2,00,000	2,50,000
Lower of	
a) 2,50,000 or	

b) actual preliminary expenditure i.e. 1,90,000	1,90,000
Deduction u/s 44 (1,90,000 / 5)	38,000

Example 14

Mr. X commences business in 2025 – 26

Cost of Project = ₹15,00,000

Eligible P/E = ₹90,000

Calculate Deduction u/s 44

Solution**Calculation of deduction u/s 44**

Particulars	₹
Lower of	
a) 5% of cost of project i.e. 15,00,000 x 5% = 75,000 or	
b) eligible preliminary expenditure i.e. 90,000	75,000
Deduction u/s 44 (75,000 / 5)	15,000

GENERAL DEDUCTIONS [Section 34] (Erstwhile Section 37)

If any expenditure is not covered under section 28 to 33, 44 to 49, 51 & 52, then such expense shall be allowed under this section subject to following conditions:

(a) Expenditure is of revenue nature

(b) Expenditure is incurred for the purpose of business and profession.

Various expenditure which may be allowed under section 34 are as given below:

1. Expenditure in connection with advertisement. If the expenditure incurred is capital nature, depreciation is allowed.
2. Expenditure on travelling including the expenses of boarding and lodging in connection with business/profession.
3. Salary paid to the employees.
4. Expenditure in connection with entertainment of the employees or the customer
5. Expenditure in connection with opening ceremony (Mahurat) of the business/profession.
6. Expenditure on the occasion of various festivals like Diwali etc. for employees or customer
7. Interest on late payment of GST.

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8. Expenditure in connection with legal proceedings.
9. Professional tax paid by a person carrying on business or profession.
10. Expenditure on the filing of return of income, filing of appeal or audit fee etc. is allowed.
11. Expenditure incurred on Keyman insurance policy.
12. Provision based on fair estimate and reasonable certainty
13. Debentures issue expenses (including convertible debentures)
14. Discount of issue of Deb: Allowed over the life of debentures
15. Sponsorship Fees
16. Website Development
17. corporate membership of club
18. Goods confiscated by custom authorities in foreign country due to certain statutory violation: SIT loss
19. Non-compete fees
20. Exp on glow sign board
21. Exp incurred for grant of ISO certificate
22. Loss due to theft if incidental to business
23. Any other expenditure which is revenue in nature and it is related to business or profession.

Following expenses are not allowed as deduction:

- a) CSR expenses incurred by company.
- b) Advertisement in any souvenir, brochure, tract, pamphlet or the like published by a political party.
- c) Penalty for breach of law.
Note: Penalty for breach of contract – Allowed as deduction.
- d) Interest on loan taken for payment of income tax
- e) Income Tax levied under this act.
- f) Illegal expenses like, hafta, bribe etc.
- g) Expenditure incurred to settle proceedings related to legal contraventions as notified by the Central Government
- h) Contribution to electoral trust, other donations
- i) Provision for gratuity (even based on actuarial valuation). However, Only gratuity actually paid is allowed.
- j) Exp incurred on project not related to existing business and project was abandoned
- k) Tax on non-monetary perquisites of employees paid by employer
- l) Security deposit to landlord and became irrecoverable.

Tax, interest and penalties of Direct and Indirect Tax

	<i>Direct Tax (Income Tax)</i>	<i>Indirect Tax (GST, Customs, Sales Tax)</i>
Tax, Advance tax, TDS	Not allowed	Allowed
Interest (including interest on TDS & advance tax)	Not allowed	Allowed
Penalty	Not allowed	Not allowed

*Expenses Not Allowed as Deduction [Section 35] (Erstwhile Section 40)**1. Tax Paid Not Allowed as Deduction (Section 35(a))*

Any amount on account of –

- Tax paid on Income*
- Tax paid by ER on non-monetary perquisites provided to EE.*
- Tax paid in any other country on which relief is eligible u/s 159/160.*

2. Payments on Which TDS Provisions Apply

Disallowance will be attracted if any of the following conditions are satisfied:

- TDS not Deducted upto last day of Relevant tax year, or*
- TDS Not deposited with govt. upto return filing date u/s 263(1).*

Return filling due date as per section 263(1)

Audit – *31st oct* of financial year succeeding the relevant tax year

No Audit – *31st July* of financial year succeeding the relevant tax year

Disallowance shall be:

<i>Section</i>	<i>Payment To</i>	<i>Disallowance</i>
<i>35(b)(i)</i>	<i>Payment In India To Resident</i>	<i>30%</i>
<i>35(b)(ii)</i>	<i>Payment to any person O/S India or in India to Non-resident</i>	<i>100%</i>

Disallowed amount shall be allowed in the year in which TDS is deposited with GOVT.

Note: However, If the recipient (payee) has already included this amount in their income tax return, paid tax on it, and filed the return, then the payer (assessee) is considered to have deducted and paid the tax on the date the payee filed their return.

3. **Section 35(c)** – Salaries payable outside India or to a non-resident, on which TDS is not deducted or deducted but not paid, shall not be allowed as deduction.

Example 15

Mr. X made payment outside India to Mr. John during 2026-27

Show TDS implication in the following cases:

1. Commission = ₹5,00,000
 Date of payment = 15/07/2026
 TDS Deducted on 14/07/2026
 TDS deposited on 31/12/2026
 Return Filing Date = 31/10/2027
2. Commission = ₹5,00,000
 Date of payment = 15/03/2027
 TDS Deducted on 31/03/2027
 TDS deposited on 31/12/2027
 Return Filing Date = 31/10/2027
3. Commission = ₹5,00,000
 Date of payment = 15/03/2027
 TDS Deducted on 15/04/2027
 TDS deposited on 15/07/2027
 Return Filing Date = 31/07/2027
4. Commission = ₹5,00,000
 Date of payment = 15/03/2027
 TDS Deducted on 15/03/2027
 TDS deposited 60% on 15/07/2027 and 40% on 16/08/2027
 Return Filing Date = 31/07/2027

Solution

- a) TDS deduction last date = 31/03/2027
 TDS deposit last date = 31/10/2027
 Since, TDS is deducted and deposited on time.
 Therefore, Amount of commission shall be debited to P/L = 5,00,000

- b) TDS deduction last date = 31/03/2027
 TDS deposit last date = 31/07/2027
 Since, TDS is deducted on time but not deposited up to return filing date.
 Therefore, 100% of such payment shall be disallowed as payment is made outside India for TY 2026-27.
 It shall be allowed in TY 2027-28 i.e. year in which TDS is actually deposited.
- c) TDS deduction last date = 31/03/2027
 TDS deposit last date = 31/07/2027
 Since, TDS is not deducted up to the last date of Tax Year.
 Therefore, 100% of such payment shall be disallowed as payment is made outside India for TY 2026-27.
 It shall be allowed in TY 2027-28 i.e. year in which TDS is actually deposited.
- d) During TY 2026-27, 60% of payment i.e. 3,00,000 shall be allowed as TDS on this portion is deducted and deposited on time.
 However, Balance 40% of such payment shall be disallowed in TY 2026-27 i.e. 2,00,000 due to late deposit of TDS.

Example 16

Mr. X made following payments in India to Resident. Show TDS implications

1. Rent paid to Ram ₹4,00,000 on 01/03/2027
 TDS deducted on 01/03/2027
 TDS deposited on 16/08/2027
 Return Filing date = 31/07/2027
2. Commission paid ₹5,00,000 on 15/03/2027
 TDS deducted on 15/03/2027
 TDS deposited 50% on 16/07/2027, 30% on 01/12/2027 and 20% on 01/04/2028
 Return Filing date = 31/07/2027

Solution

1. During TY 2026-27, as TDS is deposited after return filing date and payment is made in India to resident, 30% of such payment i.e. 1,20,000 shall be disallowed during TY 2026-27 and shall be allowed in TY 2027-28 i.e. year in which TDS is actually deposited.
 Hence, 70% of such payment i.e. 2,80,000 shall be allowed in TY 2026-27

2.

- Since, TDS is deducted and deposited on time on 50% of such commission i.e. $50\% \times 5,00,000 = 2,50,000$. Hence, it shall be 100% allowed during TY 2026-27
- As, TDS is late deposited on 30% of such payment i.e. $30\% \times 5,00,000 = 1,50,000$. Hence, 70% of such payment i.e. $1,50,000 \times 70\% = 1,05,000$ shall be allowed during TY 2026-27 and Balance 30% of such payment shall be disallowed i.e. 45,000 and shall be allowed during TY 2027-28.
- As, TDS is late deposited on 20% of such payment i.e. $20\% \times 5,00,000 = 1,00,000$. Hence, 70% of such payment i.e. $1,00,000 \times 70\% = 70,000$ shall be allowed during TY 2026-27 and Balance 30% of such payment shall be disallowed i.e. 30,000 and shall be allowed during TY 2028-29.

**Payment of Salary or Interest to The Partners [Section 35(e)]
(Erstwhile Section 40(b))**

- (a) Interest to the partner on loan/capital is allowed if mentioned in the partnership deed but maximum @ 12% p.a.

Note:

- Interest shall relate to the period falling after date of deed and not for any period prior to the deed.
- If person is partner in representative capacity, then no restriction shall be applicable on interest received in personal capacity i.e. such interest is fully allowed as deduction.

Example: J & Sons is a partner in a firm. Mr. J (Karta) represents HUF.

Therefore, if any loan is given by Mr. J in personal capacity, then restriction of 12% shall not be applicable on interest payable to Mr. J

- If individual is a partner in a firm in personal capacity, then no restriction applicable on interest received on behalf of or for the benefit of others i.e. such interest is fully allowed as deduction.

Example: Mr. A is a partner in a firm. Loan is given by Mrs. A to the firm. If any interest is received by Mr. A on behalf of Mrs. A for loan granted, then restriction of 12% shall not be applicable

- (b) Payment of salary, bonus, commission or any other remuneration is allowed to the working partner subject to the following limits:

Book Profit (BP)	Max. Remuneration
Up to Rs. 6,00,000	90% of BP or Rs. 3 Lakh, whichever is higher
Beyond Rs. 6,00,000	60% of BP

Meaning Of Book Profit – PGBP before remuneration to partners.

Particulars	Amount
Profit as per Income Tax	-
Add: Remuneration to Partner (if debited to P/L)	-
Less: Brought forward Depreciation (Unabsorbed Dep)	(-)
Book Profit	-

Note: Brought forward losses shall not be adjusted for calculation of Book Profit.

Example 17

Calculate income under head PGBP

Profit as per Income Tax before dr. following items	₹15,00,000
Depreciation u/s 33 TY 2026-27	₹3,50,000
Int on capital to partners (15%)	₹1,80,000
B/F unabsorbed Depreciation	₹1,70,000
Brought Forward loss	₹75,000
Salary paid by firm to partners	₹9,00,000

Solution

Calculation of Book Profit

Particulars	Amount(₹)
Profit as per Income Tax Act before adjustment	15,00,000
Less: Depreciation of current year	3,50,000
Less: Interest on capital (1,80,000/15 x 12)	1,44,000
Less: Brought forward unabsorbed depreciation	1,70,000
Book Profit	8,36,000

Maximum salary as per S.40(b)

$$\begin{aligned}
 &= 6,00,000 \times 90\% + 2,36,000 \times 60\% \\
 &= 5,40,000 + 1,41,600 \\
 &= 6,81,600
 \end{aligned}$$

Calculation of Income under head PGBP

Particulars	Amount(₹)
-------------	-----------

Book Profit	8,36,000
Less: Salary to partner	6,81,600
Income under head PGBP	1,54,400

Payment Made to Related Person [Section 36(2)] (Erstwhile Section 40A(2))

If A.O is of the opinion that having regard to FMV, payment is excessive or unreasonable having regard to

- (a) **fair market value** of the goods, services, or facilities; or
 - (b) **legitimate needs** of the assessee's business or profession; or
- then such excessive or unreasonable payment shall be disallowed.

Meaning of Related Person

Assessee	Related Person
individual	An individual who is relative of the assessee. Relative, in relation to an "individual", means the spouse, brother or sister or any lineal ascendant or descendant of that individual (maternal as well as paternal) – Sec 2(94)
Company	Director of the company or any relative of a director
Firm	Partner of the firm or relative of a partner
AOP	Member of the AOP or relative of a member
HUF	Member of the family or relative of such person
Related person also include any Person who has substantial interest in the assessee's business. Note: A person shall be deemed to have a substantial interest in a business or profession if such person is the beneficial owner of equity shares carrying not less than 20% of the voting power in case of company or such person is beneficially entitled to not less than 20% of the profits of such business or profession in other case.	

Payment by Non-Specified Mode [Section 36(4)] (Erstwhile Section 40A(3))

- A Payment or **Aggregate of Payments** made to A Person in A Day for An **Expenditure exceeds Rs. 10,000** by **cash/bearer cheque/cross cheque** (If payment is made to Transporter of Goods, then limit is **Rs. 35,000**) → **100% shall be disallowed.**

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- If Expenditure has been allowed as deduction in any preceding Tax Year on accrual basis & payment for such expenditure has been made in any subsequent tax year exceeding Rs. 10,000/35,000 in cash/bearer cheque/cross cheque to a person in a day, then such payment shall be deemed income of the year in which payment is made [Section 36(5)] (Erstwhile Section 40A(3A))
- **Rule 26 – exception to Section 36(4) & Section 36(5)**
No disallowance for following payments even if made by cash/bearer cheque/cross cheque:
 1. Payments made to Cultivator, Grower or Producer of agricultural produce, forest produce, poultry and dairy products, fish products, livestock etc.
 2. Payment made to Government, Banks, RBI, LIC
 3. Payment to person residing at place where no banking facility.
 4. Where the payment is made by any person to his agent who is required to make payment in cash for goods or services on behalf of such person;
 5. Payment to employee for retirement benefit not exceeding Rs.50,000.
 6. Payment of salary to EE who is posted to any other place or ship (not a normal place of duty) for a period of 15 days or more.
 7. Where the payment is made for the purchase of the products manufactured in a cottage industry without the aid of power., to the producer of such products.
 8. Where the payment is made by transferring funds from one bank account to the other or payment is being made by any credit card/ a debit card/ letter of credit etc., payment is allowed.
 9. Payment by book entry i.e. adjustment entry passed in books.

Certain Payments Allowed on Payment Basis [Section 37] (Erstwhile Section 43B)

Following expenditures are allowed if paid on or before the due date mentioned u/s 263(1):

- a) Tax, Duty, Cess or Fee (by whatever name called) levied under any law.
- b) Employer's Contribution to any SPF, RPF, Approved Superannuation Fund, Approved Gratuity Fund, Notified Pension Scheme or any recognized fund
- c) Leave Salary, Bonus/Commission to employees.
- d) Interest on any Loan or borrowing from any Bank, Financial Institution including NBFC.
- e) Any Sum Payable to Indian Railways for the use of Railways Assets.

Note:

1. If the payment is made *after due date of filing of return of income*, expenditure is *allowed in the year of payment*.
 2. If *outstanding interest* on any loan or borrowing or advance, is *converted into a new loan* or borrowing or advance, shall *not be considered as paid* and hence not eligible for deduction. However, deduction shall be allowed for installments actually paid in respect of new loan.
 3. Similarly, if outstanding interest is converted into debentures, such conversion is not to be considered as actual payment.
- f) Any sum payable by the assessee *to micro and small enterprise beyond the time limit* specified in section 15 of the MSME Development Act, 2006 would be allowed as *deduction in the year of payment*.

As per section 15 of the MSME Development Act, 2006, payment is to be made to the supplier as follows:

- a) in case of *written agreement*- as per agreement subject to *maximum 45 days* from the date of acceptance of goods and service
- b) in case of *no written agreement*- *maximum 15 days*.

Example:

RR Ltd. purchased goods from SS Ltd. (a small enterprise as per the MSME Act) for ₹15,00,000 on 5th February 2027. As per the written agreement, payment is to be made by 31st March 2027. However, the payment was made as follows:

- ₹2,00,000 paid on 28th February 2027
- ₹4,00,000 paid on 10th March 2027
- ₹3,00,000 paid on 20th March 2027
- ₹6,00,000 paid on 10th April 2027

Solution:

The date of acceptance of goods is 5th February 2027.

The due date for payment as per the MSMED Act is 22nd March 2027 (i.e., the agreed date of payment or 45 days, whichever is earlier).

Deduction available to RR Ltd.:

Amount (₹)	Payment Date	Due Date as per MSMED Act	Paid Before Due Date	Basis of Deduction	Year in which Expenses Allowed
---------------	-----------------	---------------------------------	----------------------------	-----------------------	--------------------------------------

₹2,00,000	18th Feb 2027	22nd Mar 2027	Yes	Accrual	2026-27
₹4,00,000	10th Mar 2027	22nd Mar 2027	Yes	Accrual	2026-27
₹3,00,000	25th Mar 2027	22nd Mar 2027	Yes	Accrual	2026-27
₹6,00,000	10th Apr 2027	22nd Mar 2027	No	Payment	2027-28

Suppose in the earlier example, there is no agreement regarding the time of payment.

- Date of acceptance of goods is 5th February 2027.
- Due date for payment as per the MSMED Act is 20th February 2027 (15 days from the date of acceptance of goods).

Deduction available to RR Ltd.:

Amount (₹)	Payment Date	Due Date as per MSMED Act	Paid Before Due Date	Basis of Deduction	Year in which Expenses Allowed
₹2,00,000	18th Feb 2027	20th Feb 2027	Yes	Accrual	2026-27
₹4,00,000	10th Mar 2027	20th Feb 2027	No	Payment	2026-27
₹3,00,000	25th Mar 2027	20th Feb 2027	No	Payment	2026-27
₹6,00,000	10th Apr 2027	20th Feb 2027	No	Payment	2027-28

Example 18

Following amounts are payable to MSME . Determine amount of deduction during TY 2026-27

Enterprise	Invoice date	Due date as per agreement	Date of Payment
Micro	15/01/27	15/03/27	25/01/27
Small	15/02/27	25/03/27	01/04/27
Micro	19/03/27	No agreement	10/04/27
Small	25/03/27	No agreement	01/04/27
Medium	20/03/27	No agreement	25/06/27

Solution

Case	Particulars	Date
a)	Due date as per S.15 of MSME Act shall be earlier of:	
	1. Date as per agreement	15/03/2027
	2. 45 days from date of Invoice	01/03/2027
	Earlier	01/03/2027
	Date of Payment	25/01/2027
	As payment is made on or before due date as per S.15 of MSME Act. Therefore, Deduction shall be allowed in TY 2026-27 itself.	
b)	Due date as per S.15 of MSME Act shall be earlier of:	
	1. Date as per agreement	25/03/2027
	2. 45 days from date of Invoice	01/04/2027
	Earlier	25/03/2027
	Date of Payment	01/04/2027
	As payment is made after the due date as per S.15 of MSME Act. Therefore, Deduction shall be allowed in the year of payment i.e. TY 2027-28	
c)	Due date as per S.15 of MSME Act :	
	15 days from date of Invoice	03/04/2027
	Date of Payment	10/04/2027
	As payment is made after the due date as per S.15 of MSME Act. Therefore, Deduction shall be allowed in the year of payment i.e. TY 2027-28	
d)	Due date as per S.15 of MSME Act :	
	15 days from date of Invoice	09/04/2027
	Date of Payment	01/04/2027
	As payment is made before the due date as per S.15 of MSME Act. Therefore, Deduction shall be allowed in TY 2026-27 itself.	
e)	As Goods and services has been purchased from Medium enterprise, Section 37 shall not be applicable on such payment to medium enterprise. Therefore, Expenditure shall be allowed on due basis i.e. TY 2026-27	

Profits chargeable to Tax [Section 38] (Erstwhile Section 41)

a) Remission or cessation of trading liability:

- If a deduction has been claimed for a trading liability and there is a subsequent remission or cessation of the liability, the benefit arising shall be taxed as deemed PQBP income, even if the business is no longer in existence.
 - The PQBP income will be taxable in the hands of the successor in the year in which the remission or cessation occurred in favor of the successor.
 - This includes scenarios where the assessee unilaterally writes off the liability in their books of accounts, leading to remission or cessation of the liability.
 - Time-barred debts written off in the books will be considered as cessation of liability.
 - Waiver of a working capital loan will be treated as cessation of trading liability.
 - Waiver of a personal loan taken from a friend does not constitute remission or cessation of trading liability. Instead, it will be taxable under section 56(2)(x) as 'Income from Other Sources'.
- b) Balancing charge
- c) Sale of capital asset used for scientific research
- d) Recovery of a bad debt subsequently

**Special provisions for FVC for transfer of asset other than capital asset [Section 53]
(Erstwhile Section 43CA)**

- When there is transfer of an asset being land or building or both (Other than capital asset) and **FVC is less than SDV** as determined by the state government, then
SDV = Deemed FVC for PQBP computation
- If **SDV ≤ 110%** of consideration, then **FVC** shall be the **actual consideration**.
- Similar provisions of Section 78 of capital Gain shall apply where date of agreement and date of registration are not same.

**Compulsory Maintenance of Books of Accounts [Section 62]
(Erstwhile Section 44AA)**

1. Assessee engaged in Specified Professions

Gross receipts exceed INR 1.5 Lakh in each of the last 3 Years	Gross receipts doesn't exceed INR 1.5 Lakh in each of the last 3 Years
Prescribed Books as per Rule 46	Necessary books to enable AO to assess the income.

Specified Profession

1. Legal profession
2. Medical profession
3. Engineering profession
4. Architectural profession
5. Profession of accountancy
6. Technical consultancy
7. Interior decoration
8. Authorised representatives
9. Film artists
10. Company Secretary
11. Information Technology

2. Assessee engaged in other Profession or Business

Required to maintain such books of a/c as per rule 46 if any of the following conditions are satisfied in ANY ONE of the last 3 PY:

	Individual / HUF	Other Assessee
1. PGBP Income exceed	INR 2.5 Lakh	INR 1.20 Lakh
2. Turnover or Gross Receipts exceed	INR 25 Lakh	INR 10 Lakh

3. Fails to maintain books of account as per section 62 – Penalty of Rs. 25,000 would be attracted u/s 441.**4. Prescribe books as per Rule 46**

- (i) a cash book;
- (ii) a journal
- (iii) a ledger;
- (iv) Carbon copies of bills and receipts in relation to sum of Rs. 250 or more;
- (v) Original bills and receipts of expenditure in relation to sum of Rs. 250 or more.
- (vi) Payment vouchers where expenditure doesn't exceed Rs. 250

5. The books of accounts are to be kept and maintained for the period of at least 7 years from the end of the relevant tax year.**Example 19**

Mr. X Provides details of his turnover & Income of last 3 PY. Decide whether requirement of Section 62 is applicable or not?

Tax Year	Turnover	Income
2025-26	24,00,000	2,50,000
2024-25	25,00,000	2,40,000
2023-24	19,00,000	2,10,000

Solution

Section 62 shall not be applicable as neither turnover nor income exceeds the limit prescribed under Income Tax Act, 2025.

Example 20 Suppose In above Q. if income of TY 2025-26 = 2,60,000

Solution: Section 62 shall be applicable in the TY 2026-27 as income exceeds Rs. 2,50,000 during TY 2025-26.

Compulsory Audit Of Books Of Accounts [Section 63] (Erstwhile Section 44AB)

Assessee Engaged In	Audit Requirement
Business Cash includes bearer cheque & Crossed Cheque	Turnover exceed 1 Crore However, NO AUDIT Upto 10 Crore Turnover if : a) If Turnover of assessee is more than 1 crore but upto 10 crore b) Aggregate of all Amounts received in cash is not more than 5% of total Receipts during the tax year, and c) Aggregate of all Amounts paid in cash is not more than 5 % of total payments during the tax year.
Profession	Gross Receipts exceed 50 Lakh
Persons covered under Presumptive Taxation	If such person claims that his income is LOWER than Income computed on Presumptive basis.
Audit Report	Assessee covered above are required to: • Get their accounts audited by CA having COP • Furnish audit report in prescribed form by one month prior to due date of Return of income u/s 263(1).
Format of Audit Report	Form 26 Part A: If person is required to get audited under any other law Form 26 Part B: If person is not required to get audited under any other law Form 26 Part C&D: Particulars to be furnished u/s 63

Note:

Where assessee is required to get their accounts audited under any law then it shall be sufficient if A/cs are audited under such law before specified date and audit

report is furnished as required under such other law and further a report by accountant is furnished under this section.

Penalty for failure to get books of account audited [Section 446]:

Lower of following:

- a) 0.5% of Total Sales, Turnover Or Gross Receipts
- b) Rs. 1,50,000

**Presumptive Taxation For Certain Residents [Section 58]
(Erstwhile Section 44AD/ADA/AE)**

1. Any Business other than plying, hiring or leasing of goods carriage		
Assessee	Total Turnover or Gross receipts	Presumptive Income
Eligible Assessee	Doesn't Exceed 2 crore or Doesn't Exceed 3 crore, if aggregate cash receipts in relevant tax year is upto 5% of T.O. or G.R.	A. The aggregate of i. 6% of Turnover or gross receipts which is received through specified mode upto RFD as per section 263(1). ii. 8% of Turnover or gross receipts as reduced by the turnover or gross receipts covered in (i) above B. Profit claimed to have been actually earned. Whichever is higher
a) Eligible Assessee means an individual, a Hindu undivided family, or a firm other than a limited liability partnership, who is resident in India, and who— (i) has not claimed any deduction under Chapter VIII-C (Related to deduction in respect of certain income) for the relevant tax year; (ii) does not carry on specified profession as defined in section 62(4); (iii) does not earn any income in the nature of commission or brokerage; (iv) does not carry on any agency business; b) If an assessee has opted for presumptive income under section 58 (S.No 1 of the table) and in the subsequent 5 tax years he has rejected presumptive income, in that case he will not be allowed to opt for presumptive income for next 5 tax years. [Section 58(7)]		

- c) Where the provisions of section 58(7) are applicable and total income of assessee exceed basic exemption limit, then assessee has to maintain books of accounts as per section 62 & gets them audited as per section 63.

2. Business of plying, hiring or leasing of goods carriage

Assessee	Total Turnover or Gross receipts	Presumptive Income
Who owns not more than 10 goods carriage at any time during the tax year	NA	A. The Aggregate of a) Heavy goods Vehicle (Gross Weight > 12,000 Kgs or 12 Tons) → Rs. 1,000 per ton per month or part thereof. b) Other vehicle: Rs. 7,500 per month or part thereof. B. Profit claimed to have been actually earned. Whichever is higher

Note:

- a) income is calculated on the basis of ownership of vehicle. It is irrelevant whether assessee actually runs the vehicle or not.
- b) an assessee, who is in possession of a goods carriage, whether taken on hire purchase or on instalments, shall be deemed to be the owner of such goods carriage.
- c) where the assessee is a firm, the salary and interest paid to its partners shall be deducted from the Presumptive income computed above.

3. Specified Professions

Assessee	Total Turnover or Gross receipts	Presumptive Income
Specified Assessee	Doesn't Exceed 50 Lakh or Doesn't Exceed 75 lakhs, if aggregate cash receipts in relevant tax year is upto 5% of G.R.	50% of gross receipts or profit claimed to have been earned, whichever is higher

Common Points for Above Businesses & Professions

1. Provisions of section 26 to 54 shall not be applicable.
2. As per section 58(3), Any assessee who claims that
 - a) the profits or gains actually earned from the specified business or profession are lower than presumptive income; and
 - b) whose total income exceeds the BEL,
 then assessee has to maintain books of accounts as per section 62 & gets them audited as per section 63.
2. As per section 58(4), Any loss, allowance or deduction allowable under the provisions of this Act, shall not be allowed against the income computed u/s 58.
3. As per section 58(6), The written down value of any asset used for the purposes of specified business or profession shall be computed as if the assessee had claimed and was actually allowed deduction in respect of depreciation thereon for each of the relevant tax years.
4. Assessee covered under S.No 1&3 shall pay the whole amount of advance tax on or before 15th March. (Assessee covered under S.No 2 have to pay advance tax in 4 installments)

Example 21

Calculate Income under head PQBP if

(a) Section 58 opted

(b) Section 58 not opted

- Turnover = ₹1,90,00,000 (80% received through specified mode)
- Expenses = ₹1,72,00,000
- B/F unabsorbed depreciation = ₹1,50,000
- B/F loss = ₹72,000

Solution

Calculation of Income under head PQBP

Particulars	₹
a) Section 58 opted	
Presumptive Income	
$1,90,00,000 \times 80\% \times 6\% = 9,12,000$ + $1,90,00,000 \times 20\% \times 8\% = 3,04,000$	12,16,000

Less: Brought forward Loss	72,000
Income under head PQBP	11,44,000
b) Section 58 not opted	
Revenue	1,90,00,000
Less: Expenses	1,72,00,000
	18,00,000
Less: Brought Forward Loss	72,000
Less: Brought Forward Depreciation	1,50,000
Income under head PQBP	15,78,000

Example 22

Mr. X own 7 Trucks during TY 2026-27. Details of which are as follows.

Trucks	Gross Weight	Owned for
2	14 MT	7 Month + 10 days
3	10 MT	9 Month + 5 days
2	9 MT	11 Month + 20 days

Solution

No. of Trucks	Gross Weight	Owned for	Presumptive income
2	14MT	7m + 10days	$2 \times (1000 \times 14) \times 8m = 2,24,000$
3	10MT	9m + 5days	$3 \times 7500 \times 10m = 2,25,000$
2	9MT	11m + 20days	$2 \times 7500 \times 12m = 1,80,000$
Total Presumptive Income u/s 58			6,29,000

CHAPTER 3D: CAPITAL GAINS

Chargeability of capital Gains [Section 67(1)] (Erstwhile Section 45(1))

Any profits or gains arising from the **transfer of a capital asset** effected in the tax year shall be chargeable to tax under head "CAPITAL GAINS" & shall be **deemed to be the income of the tax year in which the transfer took place** unless such capital gain is exempt u/s 82,83,84,85,86,87,88 & 89.

Ex: Land is transferred on **31/03/2026** i.e. during FY 2025-26 but consideration is received on **01/04/2026** i.e. during the FY 2026-27, then in such case Capital Gain implication shall arise in **FY 2025-26**.

Capital assets [Section 2(22)] (Erstwhile Section 2(14))

Capital asset means

Property of any kind held by an assessee, whether or not connected with his business or profession

However, it **does not include:**

- i) any **stock-in-trade, consumable stores or raw material**
- ii) **Personal movable assets**. However, following personal movable assets shall be capital asset—

(a) jewellery;	(d) paintings;
(b) archaeological collections;	(e) sculptures; or
(c) drawings;	(f) any work of art.
- iii) **Rural Agriculture Land** (situated in rural area)

Meaning of Urban Area

- a) Any area (municipality, cantonment board etc.) which has a population of 10,000 or more.
- b) In the following area within the distance measured aerially

Shortest Distance	Population according to latest census
Up to 2 Km	More than 10,000 but up to 1,00,000
Up to 6 Km	More than 1,00,000 but up to 10,00,000
Up to 8 Km	More than 10,00,000

- iv) **Gold Deposit Bonds**, 1999 or deposit certificate issued under the gold monetization scheme, 2015.

Note:

- Silver utensils are personal effects → not a capital asset.
- Gold sovereigns, silver coins, silver bars, Gold utensils → capital assets.
- Jewellery Sewn into a wearing apparel → Capital Asset
- SIT → When asset is held for trading purpose.
- CA → When held for Investment.
- Agricultural land outside India → always a capital asset
- Jewellery includes the following:
 - (i) Ornaments made of gold, silver, platinum or any other precious metal whether worked or not worked or sewn into any wearing apparel;
 - (ii) Precious or semi-precious stones, whether or not set in any furniture, utensil or other article or worked or sewn into any wearing apparel.

Types Of Capital Assets

Short-term capital asset

Capital Asset	Period of holding
• Security (other than unit*) listed in a recognized stock exchange in India. • Unit of equity-oriented fund. • unit of Unit trust of india. • Zero Coupon bond	Upto 12 months immediately preceding date of transfer
• Unlisted securities other than shares • Other capital assets	Upto 24 months immediately preceding date of transfer

Long term capital asset = Assets other than short term capital assets.

Note: For calculating period of holding of capital asset, the date on which the asset is transferred should be included e.g. if the date of sale of asset is 1/12/2026, then period of holding shall be calculated till 1/12/2026

Example 01

Identify which of the following is capital Asset

1. Yacht owned by Akshay Kumar
2. Gold watch owned by Ranbir Kapoor
3. MF Hussain Painting in Mukesh Ambani Guest room
4. Chartered Aircraft owned by Reliance Ltd
5. Land owned by Reliance Ltd.

6. Land owned by Shahrukh Khan.
7. Jewellery held by Nita Ambani.
8. Unlisted debenture of J Ltd.

Solution

- a) Not a capital asset
- b) Capital Asset
- c) Capital Asset
- d) Capital Asset
- e) Capital Asset
- f) Capital Asset
- g) Capital Asset

Meaning of Transfer [Section 2(109)] (Erstwhile Section 2(47))

1. The **sale, exchange or relinquishment** of the asset.
Example: Redemption of preference shares is a relinquishment of rights
2. The **extinguishment of any rights** therein. Extinguishment covers destruction of the assets.
Example: Termination of a lease; redemption of preference shares/debentures.
3. The **compulsory acquisition** of the asset by the govt.
4. Conversion of asset into stock-in-trade.
Example: Where an investor in shares starts a business of dealing in shares and treats existing investments as stock-in-trade of the newly set up business, such conversion shall be regarded as transfer for the purpose of capital gains
5. **Possession of any immovable property** in part performance of a contract.
Example: A enters into an agreement for the sale of his house. The purchaser gives the entire sale consideration to A. A hands over complete rights of possession to the purchaser since he has received the entire sale consideration though house is not yet registered in the name of the buyer. Under the Income-tax Act, the above transaction is considered as transfer.
6. Any transaction which has the effect of **transferring, or enabling the enjoyment of, any immovable property**. [it is by becoming a member in a co-operative society, company or other association of persons]
Example: A person may become a member of a co-operative society, company or other association of persons which may be building houses/ flats.

When he pays an agreed amount, the society etc. hands over possession of the house to the person concerned. No conveyance deed is registered. For the purpose of income-tax, the above transaction is a transfer

7. Maturity or redemption of **zero-coupon bond**.
8. Disposing of, or parting with, an asset or any interest therein, or creating any interest in any asset in any manner, directly or indirectly, absolutely or conditionally, voluntarily or involuntarily, by way of an agreement (whether entered into in India or outside India) or otherwise, irrespective of whether such transfer of rights has been characterized as being effected or dependent upon or flowing from the transfer of a share or shares of a company registered or incorporated outside India.

Computation of Capital Gains [Section 72] (Erstwhile Section 48)

Sale value	-
(-) Expenditure incurred wholly and exclusively in connection with such transfer like, brokerage, stamp duty, registration fee, legal expenses etc	(-)
(-) Cost of acquisition (COA)	(-)
(-) Cost of improvement (COI)	(-)
Short Term or Long-Term Capital Gains	(-)

Note:

As per section 197(3), In case of **resident individual or HUF**, If **Long term capital asset is Land or building** or both which has been **acquired before 23/7/2024**, then such individual or HUF have **option to pay lower of following tax** on such LTCG:

1. Tax on LTCG of land or building without Indexation @12.5%
2. Tax on LTCG of land or building after Indexation @20%

Above option is only for the purpose of tax calculation i.e. income under the head Capital Gain shall be calculated without indexation in respect of Land or Building transfer on or after 23/07/2024.

$$\text{Indexed COA/COI} = \frac{\text{COA/COI} \times \text{CII of FY in which asset is transferred.}}{\text{CII of FY in which Asset is purchased}}$$

Indexation Factor

Year	C.I.I	Year	C.I.I	Year	C.I.I
2001-02	100	2010-11	167	2019-20	289
2002-03	105	2011-12	184	2020-21	301
2003-04	109	2012-13	200	2021-22	317
2004-05	113	2013-14	220	2022-23	331
2005-06	117	2014-15	240	2023-24	348
2006-07	122	2015-16	254	2024-25	363
2007-08	129	2016-17	264	2025-26	376
2008-09	137	2017-18	272	2026-27	400
2009-10	148	2018-19	280		

Asset Purchased before 1/4/2001

If any capital asset has been purchased or constructed before 01.04.2001, in that case cost of acquisition shall be:

A. Land & Building COA Shall be Higer of: a. Actual Cost of Acquisition. b. Lower of i. FMV as on 1/4/2001. ii. SDV as on 1/4/2001.	B. Other Capital Asset COA Shall be Higer of: a. Actual Cost of Acquisition. b. FMV as on 1/4/2001.
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COST OF IMPROVEMENT [SECTION 90] (Erstwhile Section 55)

- It shall include capital expenditure on addition or alteration to the capital asset by the previous owner or the assessee on or after 1.4.2001 in respect of asset became property before 01/04/2001.
- It shall include expenditure of a capital nature on addition or alteration to the capital asset incurred by the assessee after the asset became property in other cases.
- It shall not include any expense for which deduction is allowed in any other head.
- It shall be NIL in case of goodwill or any other intangible asset of a business or a right to manufacture, produce or process any article or thing, or right to carry on any business or profession or any other right.

Note: Land & Building are separate assets under capital gain. If land is purchased before 2 years and building has been constructed within 2 years then while calculating capital gain, we have to calculate separate capital gain for both assets. Being land is held for more than 24 months there shall be LTCG, whereas building is held for up to 24 months there shall be STCG.

Example 02

Calculate Capital Gain for TY 2026-27

1. Land and building purchased on 15/10/2010 for Rs.50,00,000
2. Improvement cost incurred Rs. 10,00,000 on 15/11/2020
3. Land and Building transferred on 15/03/27 for Rs. 98,00,000
4. Brokerage paid on transfer @1% of sale value

Solution

Computation of Capital Gain for TY 2026-27

Particulars	₹
Period of holding: 15/10/2010 – 14/03/2027	
Full value of consideration	98,00,000
Less: Transfer expense @1%	9,800
Net consideration	97,02,000
Less: Cost of Acquisition	50,00,000
Less: Cost of Improvement	10,00,000
LTCG	37,02,000

Example 03

Calculate Capital Gain for TY 2026-27

1. Land and building purchased for ₹5,00,000 on 01/04/95
2. FMV and SDV as on 01/04/2001 are 7,50,000 and ₹7,00,000 respectively
3. Improvement cost incurred ₹1,00,000 on 1/4/1996 & ₹3,00,000 on 01/04/2010
4. On 01/11/2026 it was sold for ₹1,25,00,000 and Transfer expenses @1%

Solution

Computation of Capital Gain for TY 2026-27

Particulars	₹
Period of holding: 01/04/1995 – 31/10/2026	
Full value of consideration	1,25,00,000

Less: Transfer expense @1%	1,25,000
Net consideration	1,23,75,000
Less: Cost of Acquisition (WN)	7,00,000
Less: Cost of Improvement	3,00,000
LTCG	1,13,75,000

Working Note:

Computation of Cost of Acquisition

Particulars	₹
FMV as on 01/04/2001	7,00,000
SDV as on 01/04/2001	7,50,000
Lower	7,00,000
Original cost of asset	5,00,000
Higher	7,00,000

TRANSACTIONS NOT REGARDED AS TRANSFER [Section 68 & 70] (Erstwhile SECTION 46 & 47)

1. Any distribution on the total or partial partition of a HUF
2. Any transfer by an individual or HUF under a gift or will or an irrevocable trust
3. Conversion of debentures/bonds into shares
4. Conversion of preference shares into equity shares
5. Transfer of capital asset under reverse mortgage

Reverse Mortgage

- It is the facility where senior citizen mortgage House property to Bank and receive loan amount either in Lump sum or installments.
- Senior citizen is not under the obligation to repay this loan.
- Bank will recover principal amount and Interest on such loan by selling House property after the death of senior citizen.
- Bank will also give option to legal heir to repay loan amount and take over the mortgaged property.

Deemed cost of acquisition [Section 73] (Erstwhile Section 49(1))

- (a) In case the asset is acquired through a mode given in section 70 (Transaction Not regarded as transfer) then cost of acquisition is cost to the previous owner.
- (b) Period of holding shall be computed from the date the previous owner acquires the asset.
- (c) Cost of improvement incurred by previous owner as well as the current owner shall also be taken if such improvement is done on or after 01/04/2001.
- Note:** However, if the GIFT was taxable in the hands of recipient, then COA shall include the amount of GIFT taxable.

Example 04

Calculate Capital Gain for TY 2026-27

- On 01/10/1995, Mr. R purchased house property for ₹15,00,000
- On 01/10/2000, he incurred improvement cost of ₹5,00,000
- On 01/10/2020, he incurred improvement cost of ₹15,00,000
- On 01/04/2022, property was gifted to Mr. K (son)
- On 01/10/2023, he incurred improvement cost of ₹20,00,000
- On 01/12/2026, property is sold by Mr. K for ₹1,00,00,000 @ 2% transfer expense.
- FMV and SDV on 01/04/2001 was ₹22,00,000 and ₹21,00,000 respectively.

Solution

Since Mr. K has acquired the asset through a Gift to relative or will then cost of acquisition is cost to the previous owner i.e. Mr. R.

Period of holding shall be computed from the date on which Mr. R acquires the asset i.e. 01/10/1995.

Computation of Capital Gain for TY 2026-27

Particulars	₹
Full value of consideration	1,00,00,000
Less: Transfer expense @2%	2,00,000
Net consideration	98,00,000
Less: Cost of Acquisition (WN-01)	21,00,000
Less: Cost of Improvement	15,00,000
Less: Cost of Improvement	20,00,000
LTCG	42,00,000

Working Note: 1

Computation of Cost of Acquisition

Particulars	₹
FMV as on 01/04/2001	22,00,000
SDV as on 01/04/2001	21,00,000
Lower	21,00,000
Original cost of asset	15,00,000
Higher	21,00,000

Year Of Chargeability of Capital Gains

Generally, capital gains are chargeable in the year in which transfer took place. However, under following cases capital gain chargeability is postponed:

- Destruction of asset and insurance claim is received. (Section 67(2))
- Conversion of capital asset into Stock in trade (Section 67(6))
- Compulsory acquisition of Asset (Section 67(12))

Destruction of Capital Asset & Insurance claim received [Section 67(2)]
(Erstwhile Section 45(1A))

If any capital asset is destroyed due to fire, flood, earthquake, riot, civil disturbance etc. and insurance claim is received, then capital gain is applicable and shall be calculated as follows

Particulars	Treatment
Full Value Of Consideration	Insurance Claim Received
Transfer	In The Tax year of Destruction
Taxability	Tax year of Receipt of Money

Note: If claim is received in Kind, then FMV of such kind claim shall become Full Value of consideration.

Example 05

Calculate Capital Gain for TY 2026-27

- On 16/07/2012 Jewellery purchased for ₹10,00,000
- Jewellery of FMV 25,00,000 was destroyed due to fire broke out on 15/03/2026
- Insurance claim was filed on 16/03/2026
- On 15/04/2026, Insurance claim of ₹24,50,000 was received

Solution

Computation of Capital Gain for TY 2026-27
 (Period of holding = 16/07/2012 – 14/03/2026)

Particulars	₹
Full value of consideration (Claim received)	24,50,000
Less: Transfer expense	-
Net consideration	24,50,000
Less: Cost of Acquisition	10,00,000
LTCG	14,50,000

Example 06

Calculate Capital Gain for TY 2026-27

- Car (Business Asset) was purchased ₹15,00,000 on 01/07/2020
- On 15/03/2026, Car destroyed.
- FMV = ₹5,00,000 and WDV of car = ₹3,90,000
- Claim filed on 16/03/2026.
- Insurance claim of ₹5,90,000 received on 01/04/2026.

Solution

Computation of Capital Gain for TY 2026-27

Particulars	₹
Full value of consideration (Claim received)	5,90,000
Less: Transfer expense	-
Net consideration	5,90,000
Less: Cost of Acquisition (WDV of car)	3,90,000
STCG	2,00,000

Conversion of Asset into Stock-in-trade [Section 67(6)] (Erstwhile Section 45(2))

1. Conversion of capital asset into stock shall be deemed to be transfer and capital gain shall be arise in the year of such conversion.
2. For this purpose, FMV on date of conversion shall be considered as full value of consideration.
3. Capital gain shall be taxable in the year in which such SIT is sold.

<i>Capital Gain</i>	<i>Amount</i>	<i>PGBP</i>	<i>Amount</i>
FMV on conversion Date	-	Sale Value	-
Less: COA / ICOA	-	FMV on conversion date	-
Less: COI/ICOI	-		
STCG/LTCG	-	PGBP	-

Example 07

Calculate Capital Gain for TY 2026-27

Jewellery was purchased for ₹10,00,000 on 01/07/2012

It was converted into Stock-in-Trade on 01/03/2024 (FMV = ₹19,00,000)

Such Stock-in-trade was sold on 16/07/2026 for ₹23,00,000

Solution

Capital Gain shall arise in the year of conversion (TY 2023-24), However it shall be taxable in the year in which such converted Stock-in-trade is sold.

Computation of Capital Gain on conversion
(Period of holding = 01/07/2012 - 29/02/2024)

<i>Particulars</i>	<i>₹</i>
Full value of consideration (as on date of conversion)	19,00,000
Less: Transfer expense @1%	-
Net consideration	19,00,000
Less: Indexed Cost of Acquisition (10 lakhs x 348/200)	17,40,000
LTCG	1,60,000

Computation of Total Income for TY 2026-27

<i>Particulars</i>	<i>₹</i>
PGBP	
Sale Value of Stock-in-trade	23,00,000
Less: FMV as on conversion date	19,00,000
	4,00,000
Capital Gain	
LTCG	1,60,000
Gross Total Income	5,60,000

Example 08

Calculate Capital Gain for TY 2026-27

Land was purchased on 01/10/2010 for ₹75,00,000

It was converted into Stock-in-Trade on 01/11/2023 (FMV = ₹1,80,00,000)

On 01/11/2026, 20 flats constructed @ cost of ₹15,00,000 each

On 01/03/2027, 15 flats sold @ ₹40,00,000 each

On 01/05/2027, 5 flats are sold for ₹42,00,000 each

Solution

Computation of Total Income for TY 2026-27

Particulars	₹
Under head PGBP	
Sale of 15 Flats (15,00,000x40)	6,00,00,000
Less: Cost of Land (FMV on conversion) 1,80,00,000 x 15/20	1,35,00,000
Less: Construction Cost (15 flats x 15,00,000)	2,25,00,000
	2,40,00,000
Under head Capital Gain	
LTCG 23,71,000 x 15/20	17.7825L
Gross Total Income	257.7825L

Computation of Total Income for TY 2027-28

Particulars	₹
Under head PGBP	
Sale of Flats (5 Flat x 42,00,000)	2,10,00,000
Less: Cost of Land (FMV on conversion) 1,80,00,000 x 5/20	45,00,000
Less: Construction Cost (5 flats x 15,00,000)	75,00,000
	90,00,000
Under head Capital Gain	
LTCG 23,71,000 x 5/20	5,92,750
Gross Total Income	95,92,750

Working Note:

Computation of Capital Gain on conversion of Land into SIT

(Period of holding = 01/10/2010 – 31/10/2023)

Particulars	₹
Full value of consideration	1,80,00,000
Less: Transfer expense	-
Net consideration	1,80,00,000
Less: Indexed Cost of Acquisition (75,00,000 x 348/167)	1,56,28,743
LTCG	23,71,257

Example 09

Calculate Capital Gain for TY 2026-27

Mr. X is a dealer of residential flats has 100 flats held as stock in trade

On 01/10/2021, it was converted into capital asset

(i.e. put to use for personal purpose of Mr. X)

Cost of such flat was 50,00,000 and FMV on date of conversion is ₹60,00,000

On 01/03/2027, Mr. X sold this flat for ₹95,00,000

Solution

Computation of Total Income for TY 2021-22
(Conversion of SIT into Capital Asset)

Particulars	₹
Under head PGBP	
FMV on date of conversion	60,00,000
Less: Cost of Flat	50,00,000
	10,00,000

Computation of Capital Gain for TY 2026-27
(Period of holding = 01/10/2021 – 28/02/2027)

Particulars	₹
Full value of consideration	95,00,000
Less: Transfer expense	-
Net consideration	95,00,000
Less: Cost of Acquisition (FMV as on date of conversion)	60,00,000
LTCG	35,00,000

Compulsory Acquisition of Capital Asset [Section 67(12)] (Erstwhile Section 45(5))

Particulars	Treatment
Full value Of Consideration	Compensation Fixed
Taxability	Year in which initial compensation is received. If compensation is received in installments, then also Entire Capital Gain on Total Compensation is taxable in tax year of receipt of 1st Instalment
Transfer	Year In which asset is compulsorily acquired.
Indexation (if transfer before 23/7/2024)	Shall be done up to the year of transfer

Enhanced compensation	Taxable in the year of receipt <i>after deducting litigation expenses.</i>
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Note:

1. Nature of Capital Gain of Enhanced compensation shall be the same as that of original capital gain.
2. If any enhanced compensation is received due to the interim order of any court, then such compensation shall be taxable in the year in which final order is passed by such court or other authority.
3. Due to the death of transferor, the enhanced compensation is received by any other person shall be taxable under the head Capital gain of such other person.
4. Interest on Late Compensation or enhanced compensation → Taxable under IFOS in the year of receipt after deduction of 50% of such interest.

Example 10

Calculate Capital Gain for various PYs

1. On 01/10/2016, Land was purchased for ₹40,00,000
2. On 01/05/2022, it was compulsorily acquired by Govt. and compensation was fixed at ₹1,90,00,000
3. On 01/05/2024, Initial compensation received ₹1,00,00,000.
4. On 01/11/2024, suit was filed against UP-Govt.
5. On 01/05/2026, Balance compensation received ₹90,00,000
6. On 01/05/2027, Enhanced compensation ₹25,00,000 received with litigation expense of ₹5,00,000

Solution

Computation of Capital Gain for TY 2024-25
(Period of Holding: 01/10/2016 – 30/04/2022)

Particulars	₹
Full value of consideration (Compensation Fixed)	1,90,00,000
Less: Transfer expense	-
Net consideration	1,90,00,000
Less: Indexed Cost of Acquisition (40,00,000 x 331/264)	50,15,152
LTCG	1,39,84,848

During TY 2026-27, There will be no tax implication for Balance compensation of ₹90,00,000 as entire compensation is considered for computation of capital gain in TY 2025-26.

During TY 2027-28, Enhanced compensation of 25,00,000 shall be taxable after deducting litigation expenses.

Enhanced compensation received	25,00,000
Less: Litigation expense	5,00,000
LTCG	20,00,000

Treatment Of Advance Money Forfeited

Any sum of money received as an advance or otherwise during negotiations for the transfer of a capital asset is forfeited on failure of negotiations.

Forfeited Before 1.4.2014	Reduced from Original COA before Indexation
Forfeited on/after 1.4.2014	Taxable u/h IFOS u/s 92(2)(h)

Transfer of capital asset to Firm [Section 67(9)] (Erstwhile Section 45(3))

If any partner or member transfers capital asset to the firm/AOP/BOI as a capital contribution or otherwise, then capital gain shall be arise in the hands of such partner/member and shall be dealt as follows:

Particulars	Treatment
Full Value Of Consideration	Value of CA recorded in books of Firm/AOP/BOI
Transfer	Year of contribution
Taxability	Tax year in which CA is given to firm

CAPITAL GAINS ON DISTRIBUTION OF ASSETS BY COMPANIES IN LIQUIDATION [Section 68] (Erstwhile SECTION 46)

Covered with other sources

CAPITAL GAINS ON BUYBACK OF SHARES OR OTHER SPECIFIED SECURITIES [Section 69] (Erstwhile SECTION 46A)

1. When a company buys back its own shares or specified securities, then capital gain implications shall arise in the hands of shareholder/holder of specified securities.

FVC = Amount received at the time of buy back.

STCG from Listed Securities u/s 196	20%
-------------------------------------	-----

STCG from securities other than referred u/s 196	Normal Tax
LTCG from unlisted or listed securities referred u/s 197/198	12.5%

2. Additional Tax in case of promoters

When a company buys back its own shares or specified securities from a promoter (as per Sec 69(1)), the total tax payable on the capital gain includes:

- Tax as per section 69(1), and
- Additional income tax as prescribed under the provisions.

	Promoter is domestic co.	Promoter is other than domestic co.
STCG from Listed Securities u/s 196	2%	10%
STCG from securities other than referred u/s 196	NIL	NIL
LTCG from unlisted or listed securities referred u/s 197/198	9.5%	17.5%

In case of buyback of shares from promoters:

- Individual promoters:** Effective tax on capital gains is 30%
- Promoter companies:** Effective tax rate is 22%.

As per finance bill 2026, above rates shall be increased by a surcharge @12% of such tax

Capital Gain In Case Of Depreciable Asset [Section 74] (Erstwhile Section 50)

1. All the assets of the block are transferred:

In case all the assets in any block are transferred during the previous year then the block shall cease to exist and no depreciation will be allowed. It can happen in the following two cases:

- STCG u/s 50 When Sale price > Block Value
- STCL u/s 50 When Sale price < Block Value.

2. Part of block is sold and the sale consideration of assets exceed block Value

STCG u/s 50 When Sale price > Block Value

CAPITAL GAINS IN CASE OF MARKET LINKED DEBENTURES & Specified Mutual Funds [Section 76] (Erstwhile SECTION 50AA)

- As per section 76, capital gains arising from transfer of the following assets would always be STCG irrespective of the period of holding of such assets:
 - units of a specified mutual fund acquired on or after 1.4.2023
 - market linked debentures
 - unlisted bond and unlisted debenture which is transferred or redeemed or matures on or after 23.7.2024.
- Deduction shall not be allowed for STT paid
- Meaning of certain terms:

Market Linked Debenture	A security (a) which has an underlying principal component in the form of debt security; and (b) where the returns are linked to market returns on other underlying securities or indices. (c) It includes any security classified or regulated as a market linked debenture by the SEBI.
Specified Mutual Fund	(a) Mutual Fund, which invests more than 65% of its total proceeds in debt and money market instruments; or (b) fund which invests 65% or more of its total proceeds in units of a fund referred to in sub- clause (a).

Capital Gain In Case Of Slump Sale [Section 77(3)] (Erstwhile Section 50B)

When **whole unit is sold at lumpsum** without valuing each asset individually is termed as slump Sale.

FVC	Higher of FMV or Sales Consideration
COA & COI	Net Worth of Unit

1. **Net Worth** = Aggregate Value of Total Assets as reduced by value of its liabilities as appearing in books of accounts.

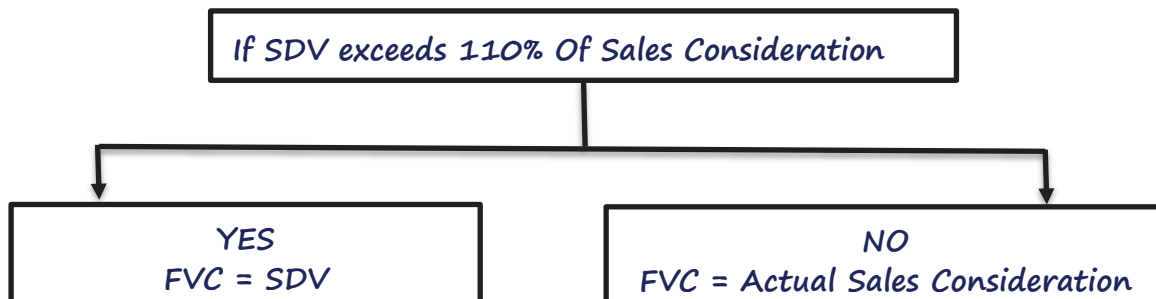
Aggregate Value of Total Assets

In case of depreciable assets	WDV as per sec 41(1)
Self-generated Goodwill	Nil
Assets → whole exp. has allowed as deduction u/s 46 (Capital Expenditure of Specified Business)	Nil
Other assets	Book Value

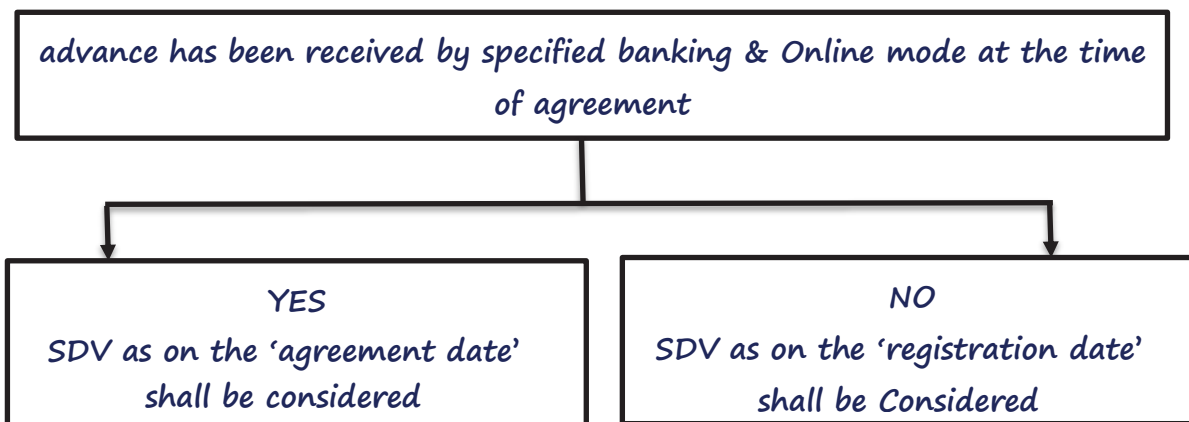
2. If any upward revaluation of asset has been done, then such revaluation shall be ignored.
3. If Net worth is negative, then consider it as zero.
4. If stock is transferred in slump sale, then PGBP income shall be arise.
5. If unit is sold after holding for **more than 36 months**, then capital gain shall be **long term capital gain** otherwise short-term capital gain. However, no indexation benefit shall be available even in the case of long-term capital gain.
6. Every assessee shall furnish on or before 30th September of the A.Y. a report of a CA indicating and certifying that the net worth of the undertaking or division has been correctly arrived.

FVC In Case of Transfer of Land or building or Both
[Section 78] (Erstwhile Section 50C)

In case of land or building or both, If SDV exceeds 110% of sales consideration then SDV shall be considered as FVC.



If the Date of agreement and date of registration is different



Where assessee claims that SDV is more than the FMV of immovable property and such SDV is not disputed in any appeal or revision then A.O may refer the case to valuation officer and FVC shall be determined as follows:

Value adopted by Valuation officer	FVC
Exceeds SDV	SDV i.e. Valuation Officer value is ignored.
Doesn't exceed SDV But Exceed Actual Sale Value	Value adopted by Valuation officer
Is less than Actual Sale Value	Actual Sales Consideration

Example 11

Calculate Full Value of consideration (FVC) as per Section 78

1. Sale value = ₹95,00,000 and SDV = ₹1,05,00,000
2. Sale value = ₹74,00,000 and SDV = ₹80,00,000
3. Sale value = ₹82,00,000 and SDV = ₹90,20,000

Solution

1. 110% of Sale value = $95,00,000 \times 110\% = 1,04,50,000$
Since, 110% of sale value does not exceed SDV.
Therefore, FVC as per Section 78 shall be Sale Value i.e. 95,00,000.
2. 110% of Sale value = $74,00,000 \times 110\% = 81,40,000$
Since, 110% of sale value does exceeds SDV.
Therefore, FVC as per Section 78 shall be SDV i.e. 80,00,000.
3. 110% of Sale value = $82,00,000 \times 110\% = 90,20,000$
Since, 110% of sale value does not exceed SDV.
Therefore, FVC as per Section 78 shall be Sale Value i.e. 82,00,000.

Example 12

Calculate Capital Gain for TY 2026-27

1. Mr. X purchased land on 01/04/1996 for ₹6,00,000
2. FMV and SDV as on 01/04/2001 are ₹5,00,000 and ₹7,00,000 respectively
3. On 01/04/2025, Building was constructed for ₹50,00,000
4. On 01/07/2026, agreement to sale this land and building for ₹2,00,00,000 and received advance of ₹10,00,000 through crossed cheque (SDV = ₹2,05,00,000)
5. On 01/10/2026, title transfer to buyer and received balance consideration of ₹1,90,00,000 through NEFT (SDV = ₹2,40,00,000)
6. Brokerage @1% of sale value

Solution

Computation of Capital Gain on conversion
(Period of holding = 01/04/1996 – 30/09/2026)

Particulars	₹
Full value of consideration (WN-1)	2,40,00,000
Less: Transfer expense @1% of 2,00,00,000	2,00,000
Net consideration	2,38,00,000
Less: Cost of Acquisition	6,00,000
Less: Cost of Acquisition (Building)	50,00,000
LTCG	1,82,00,000

Working Note: 01

Computation of Full Value of Consideration

Particulars	₹
FVC as per Section 78 shall be:	
Stamp duty value	2,00,00,000
110% of Stamp duty value	2,20,00,000
SDV as on the date of transfer	2,40,00,000
As SDV exceeds 110% of Sale value	
Therefore, FVC shall be taken as SDV	2,40,00,000

FVC In Case Of Transfer Of unquoted shares [Section 79] (Erstwhile Section 50CA)

If consideration received on transfer of unquoted shares is less than FMV as per rule 57, then such FMV shall be considered to be FVC.

FMV to be deemed FVC in certain cases [Section 80] (Erstwhile Section 50D)

Where the consideration received or accruing as a result of the transfer of a capital asset by an assessee is not ascertainable or cannot be determined, then FMV shall be deemed to be the FVC.

COA Of Self-Generated Assets

Brand name & Trademark, Tenancy rights, Goodwill of a business or profession, Right to manufacture, produce or process any article or thing & Right to carry on any business or profession

- If the asset is **Self-generated** → COA = NIL
- If the asset is **purchased** → COA = Purchase Price

FMV as on 1-4-2001
is ignored.

COA and Capital Gain in case of Sale Of Share

1. In case of **original shares**, cost of acquisition shall be the actual cost but if it was purchased before 1/4/2001, cost of acquisition shall be the actual cost or FMV as on 01.04.2001, whichever is higher.
2. In case of **bonus shares**, cost of acquisition shall be nil but if bonus shares are issued before 01.04.2001, COA = FMV on 1/4/2001
3. In case of **right shares**, cost of acquisition shall be the amount for which such shares have been purchased.
4. If right to purchase right shares has been **renounced**, amount received shall be considered to be short term capital gains.
5. **Cost of acquisition for the right renounce** shall be the amount paid to the person renouncing the right and amount paid to the company.

Transfer of Equity Shares or Equity oriented units or units of business trust

A. STCG u/s 196

1. STCG on transfer of equity shares or equity-oriented units or units of

business trust shall be taxable at the rates specified below if STT is paid at the time of transfer of such assets.

2. Tax Rate: 20%
3. Deduction u/s 123 to 154 shall not be allowed from stcg u/s 196.

B. LTCG u/s 198

1. LTCG on transfer of equity shares or equity-oriented units or units of business trust, in excess of ₹ 1,25,000 shall be taxable at the rate of 12.5% if following conditions are satisfied:
 - a) STT is paid at the time of acquisition and transfer of equity shares
 - b) STT is paid at the time of transfer of equity-oriented units or units of business trust.

2. Cost of Acquisition in case of Capital Gains u/s 198

In case of equity shares or units of equity oriented mutual funds or units of business trust which have been sold w.e.f. 01.04.2018 onwards, COA shall be higher of:

- a. Cost of acquisition
- b. Lower of
 - i. FMV of such asset on 31.01.2018
 - ii. Actual sale value.

3. Deduction u/s 123 to 154 shall not be allowed in respect of CG u/s 112A

Determination of FMV

Situation 1
Capital asset is listed on any recognised stock exchange as on 31.01.2018
FMV Shall be
<u>If there is trading on such exchange on 31.01.2018:</u> Highest price on said date
<u>If there is no trading:</u> Highest price on a date immediately preceding 31.01.2018 when such asset was traded on such exchange
Situation 2
Capital asset is a unit which is not listed on any recognised stock exchange as on 31.01.2018
FMV Shall be = NAV of unit as on the said date
Situation 3

In a case where the capital asset is an equity share in a company which is

- a. not listed on a recognised stock exchange as on 31.01.2018 but listed on such exchange on the date of transfer
- b. listed on a recognised stock exchange on the date of transfer and which became the property of the assessee in consideration of share which is not listed on such exchange as on 31.01.2018 by way of transaction not regarded as transfer under section 70

$$\text{FMV Shall be} = \frac{(\text{COA} \times \text{CII for 2017-18})}{\text{CII of purchase year}}$$

Meaning of Equity Oriented Fund:

Fund set-up under a scheme of a Mutual Fund or ULIP to which exemption as per schedule II does not apply;

- i. In a case where the fund invests in the units of another fund which is traded on a RSE, -
 - a) a minimum of 90% of the total proceeds of such fund is invested in the units of such other fund; and
 - b) such other fund also invests a minimum of 90% of its total proceeds in the equity shares of domestic companies listed on a RSE; and
- ii. In any other case, a minimum of 65% of the total proceeds of such fund is invested in the equity shares of domestic companies listed on a RSE.

Example 13

Calculate Capital Gain

1. Mr. X is existing shareholder of A Ltd.
2. A Ltd. Offer to buy 1000 right shares @ ₹50 each (FMV of share= ₹80 each)
3. X Renounce right to Y for ₹10 per share (All share rights was transferred)

Solution

STCG on right renouncement in the hands of Mr. X = 1,000 shares x 10 = 10,000
 Cost of Acquisition of shares in the hands of Mr. Y shall be 60/- per share i.e. amount paid to A Ltd. and Mr. X

Example 14

Calculate Capital Gain for TY 2026-27

1. On 01/04/2009, 100 shares were purchased @₹70 per share
2. 200 bonus shares were received on 01/04/2012
3. On 01/04/2014, received 400 right shares options @₹500 per share out of which 100 shares were renounced @75 per share and rest were Purchased
4. On 01/11/2025, 500 fresh shares were acquired at ₹700 per share
5. On 01/07/2026, all shares are sold @₹900 each

Solution

Part A: assuming Shares are unlisted.

Calculation of Capital Gain for TY 2026-27

Particulars	Amount
Original 100 shares	
Full Value of Consideration (100 x 900)	90,000
Less: Transfer Expense	Nil
Net Consideration	90,000
Less: cost of Acquisition	7,000
LTCG	83,000
200 bonus shares	
Full Value of Consideration (200 x 900)	1,80,000
Less: Transfer Expense	Nil
Net Consideration	1,80,000
Less: Cost of Acquisition	NIL
LTCG	1,80,000
300 right shares	
Full Value of Consideration (300 x 900)	2,70,000
Less: Transfer Expense	Nil
Net Consideration	2,70,000
Less: Cost of Acquisition	1,50,000
LTCG	1,20,000
500 shares purchased on 01/11/2024	
Full Value of Consideration (500 x 900)	4,50,000
Less: Transfer Expense	Nil
Net Consideration	4,50,000
Less: Cost of Acquisition (500 x 700)	3,50,000
STCG	1,00,000

Note: STCG on right shares renouncement during TY 2010-11 shall be 100 shares

$\times 75 = 7,500$.

Total LTCG u/s 197 = $(83,000 + 83,000 + 1,80,000 + 1,20,000) = 4,64,000$

Part B: assuming shares are listed on Recognized stock exchange and STT is paid.

Computation of Capital Gain for TY 2026-27

Particulars	Original 100 shares	200 bonus shares	300 right shares
FVC (900/share)	90,000	1,80,000	2,70,000
Less: Transfer Expense	-	-	-
Net Consideration	90,000	1,80,000	2,70,000
Less: COA (WN)	25,000	50,000	1,50,000
LTCG u/s 198	65,000	1,30,000	1,20,000

Working Note: Calculation of Cost of Acquisition

Particulars	Original 100 shares	200 bonus shares	300 right shares
COA (Higher of)			
(a) Actual cost	70	NIL	500
(b) Lower of			
FMV as on 31/01/2018	250	250	250
FVC	900	900	900
Cost of Acquisition	250	250	500

Note: STCG on right shares renouncement during TY 2010-11 shall be 100 shares $\times 75 = 7,500$.

Calculation of Short Term Capital Gain for TY 2026-27

Particulars	Amount
Full Value of Consideration (500 x 900)	4,50,000
Less: Transfer Expense	-
Net Consideration	4,50,000
Less: Cost of Acquisition (500 x 700)	3,50,000
STCG	1,00,000

Exemptions Of Capital Gain

1. Exemption of capital gains under Sl. Nos. of Schedule II & III

A. Capital gain on transfer of units under section 64 exempt if transfer takes place on or after 1.4.2002 [Sl. No. 14 of the Table under Schedule II (erstwhile Section 10(33))]

B. Exemption of capital gains on compensation received on compulsory acquisition of Urban agricultural land [Sl. No. 18 of Table under Schedule III (erstwhile Section 10(37))]

Capital gain (STCG/LTCG) exempt if ALL conditions satisfied:

(a) Land is urban agricultural land (India)

(b) Used for agriculture in last 2 years by Individual / HUF / Parent

(c) Transfer is:

- Compulsory acquisition OR
- Consideration approved by Govt/RBI

(d) Compensation received on/after 1-4-2004 & Includes enhanced compensation (court/tribunal)

2. Exemption Of Capital Gains u/s 82 to 89

Profit on sale of Residential House Property [Section 82] (Erstwhile Section 54)

Asset Transferred	LT – Residential House Property
Assessee	Individual / HUF
Investment	New Residential House Property (Note 1)
Time Limit for Investment	Purchase – within 1 yr before or within 2 years from transfer date Construct – within 3 years from Transfer Date
Quantum Of Exemption	Lower of: • Amount Invested or • Capital Gain or • Rs. 10 Crore
Lock in period of new asset	3 Years. Otherwise, LTCG exempted earlier shall be reduced from COA of New Asset
CGAS	Available

Note: If LTCG is up to 2 crores, then assessee can claim exemption u/s 82 for 2 house properties. In other cases, he can only purchase one house for claiming exemption under this section.

Exemption for Urban Agriculture Land [Section 83] (Section 54B)

Asset Transferred	Urban Agriculture land – LT/ST
Assessee	Individual / HUF
Investment	New Agriculture Land (Urban/Rural)
Time Limit for investment	Within 2 years from Transfer Date
Quantum Of Exemption	Lower of: • Amount Invested or • Capital Gain
Lock in period of new asset	Same as Sec. 82
CGAS	Available

Note: Exemption u/s 83 shall be allowed only if Urban Agricultural land is used for agricultural purpose for atleast 2 years before the date of transfer by the assessee or his parents or the HUF.

Exemption for Compulsory acquisition of Industrial Land & Building [Section 84] (Erstwhile Section 54D)

Asset Transferred	L/B – Industrial Undertaking Compulsory Acquired – LT/ST
Assessee	Any Person
Investment	New Land /Building for setting up Industrial Undertaking
Time Limit for Investment	Within 3 years from Date of Receipt of compensation
Quantum Of Exemption	Lower of: • Capital Gain • Amount Invested
Lock in period of new asset	Same as Sec. 82
CGAS	Available

Exemption for Any Land & Building [Section 85] (Section 54EC)

Asset Transferred	LTCG arising on transfer of LT – Land/Building
Assessee	Any Assessee
Investment	Bonds redeemable after 5 years issued, by (a) National Highway Authority of India (NHAI) (b) Rural Electrification Corp. Ltd. (RECL) (c) Power Finance Corp. Ltd. (PFCL) (d) Indian Railway Fin. Corp. Ltd. (IRFCL) (e) Housing & Urban Development Corp. Ltd. (HUDCO) (f) Indian Renewable Energy Development Agency (IREDA)
Time Limit for Investment	Within 6 months from the transfer date
Quantum Of Exemption	Lower of: - Amount Invested - Capital Gain - Subject to Max = 50 Lacs
Lock in period of new asset	5 Years. Otherwise, LTCG exempted earlier shall be Taxable in the year in which the asset is sold or converted into money i.e. assessee takes any loan or advance on the security of bonds.
CGAS	Not Available

Exemption for Any LTCA other than RHP [Section 86] (Erstwhile Section 54F)

Asset Transferred	Any LT Capital Asset Except Residential House Property
Assessee	Individual / HUF
Investment	New RHP
Time Limit for Investment	Same as S.82
Quantum Of Exemption	Lower of: <u>LTCG x Amount Invested (Max. 10 Crore)</u> Net Consideration - LTCG

<i>Additional Condition</i>	<i>1. Assessee should not own more than one RHP on the date of Transfer Of LTCA</i>
	<i>2. Should not purchase any other house within 2 years or construct within 3 years after date of transfer of original Asset.</i>
<i>Lock in period of new asset</i>	<i>3 Years. Otherwise, LTCG exempted earlier shall be Taxable in the year in which the asset is sold.</i>
<i>CGAS</i>	<i>Available.</i>

CAPITAL GAINS A/C SCHEME (CGAS):

- If Investment is not made before Due Date of filing of ROI, then to claim exemption assessee can deposit the amount in CGAS if not invested for the specified purpose.*
- Such deposit in CGAS should be made before filing ROI or before Due Date of filing ROI, whichever is earlier.*
- If amount deposited is not utilized for specified purpose within stipulated period, then unutilized amount shall be taxed as capital gain of tax in which specified period expires. However, In the case of sec. 86, proportionate amount will be taxable.*
- If Individual dies before stipulated period, unutilized amount is not taxable in the hands of legal heirs of deceased individual.*

CHAPTER 3E: INCOME UNDER THE HEAD OTHER SOURCES

Basis OF Charge [Section 92(1)] (Erstwhile Section 56)

1. Any income which is not charged under any other head and such income is not exempt is charged under this head. This head is also known as Residuary Head of income.
2. CG has notified 10 ICDSS to be followed by all assessees (other than an individual or a HUF who is not required to get his accounts audited) following the mercantile system of accounting, for the purpose of computation of income under head other sources.
3. Following incomes are always charged under this head.
 - a) Gifts.
 - b) Dividend.
 - c) Lottery, Betting, Gambling or any other casual income.
 - d) Winnings from online games.
 - e) Income from transfer of virtual digital assets.
 - f) Maturity proceeds of keyman insurance policy Received by Legal Hier.
 - g) Interest On Securities

Security Held As SIT	Income Under The head PGBP
Security Held as Investment	Income Under the Head Other Sources

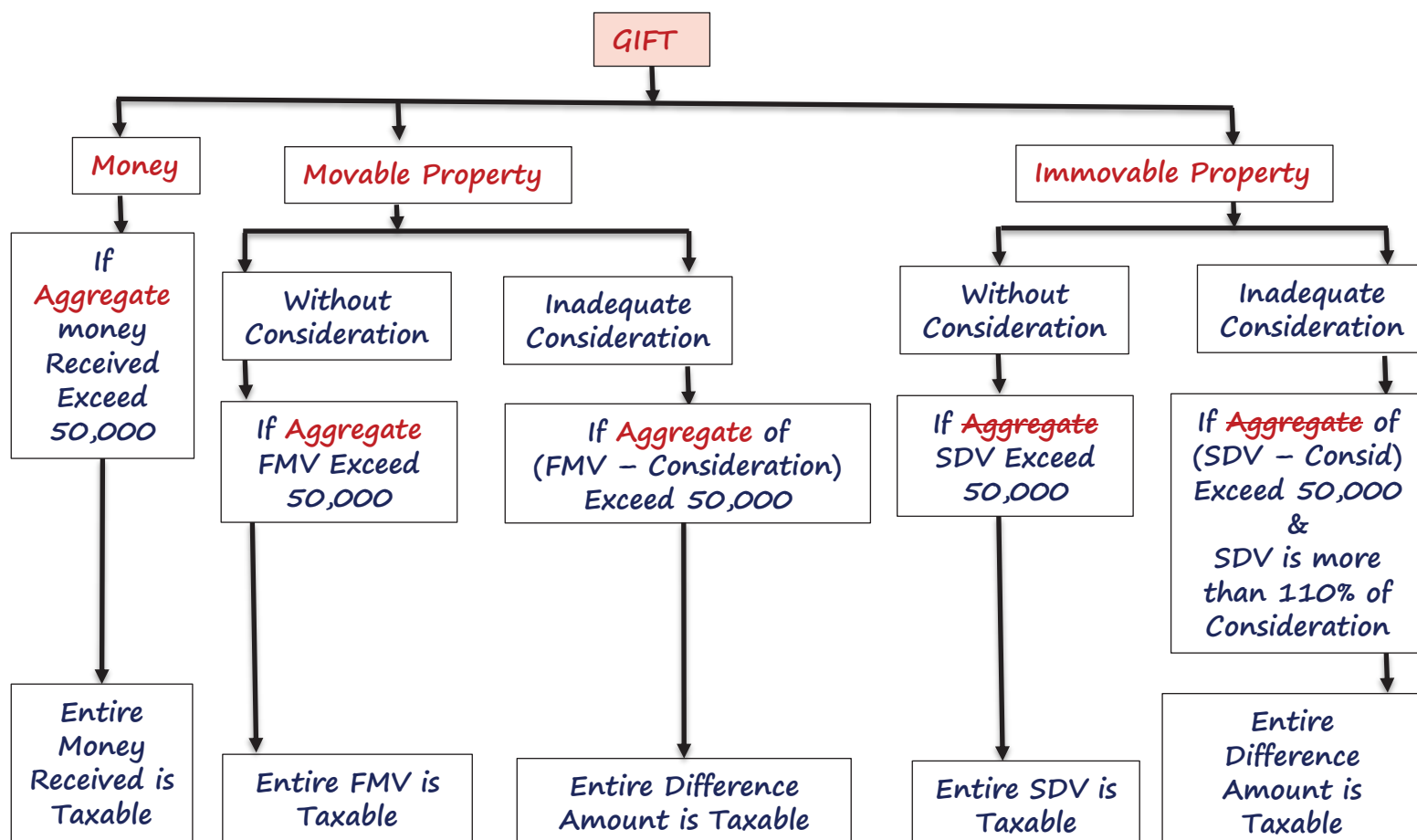
- h) Rent of Plant/machinery/furniture.
- i) Income from letting of building along with P&M or Furniture, if such letting is inseparable.
- j) Advance Money Forefeited.
- k) Interest Received on compensation or enhanced compensation.
- l) Amount received under life insurance policy other than ULIP & Keyman Insurance policy.
- m) Income from owning and maintaining racehorses.
- n) Undisclosed income u/s 102,103,104,105&106
- o) Family pension.
- p) Interest on Bank/Post office Deposits

Interest on Post Office Savings Bank A/c up to Rs. 3,500 in case of Individual A/c; & Up to Rs. 7,000 in case of Joint A/c is exempt as per S.No 11 of the table Schedule II.
- q) Director's Fee
- r) MP's/MLA's salary

- s) Rent from vacant land
- t) Income from sub letting
- u) Royalty
- v) Examinership remuneration
- w) Insurance commission
- x) Agricultural income from agricultural land situated outside India
- y) Interest on delayed refund of income tax.

Taxability Of Gift [Section 92(2)(m)] (Erstwhile Section 56(2)(x))

- Any gift or benefit arising from business or profession shall be taxable under head PGBP
- Any gift received by EE from ER shall be taxable under head Salaries.
- Other Gifts are taxable as follows:



- **Property: Capital Asset for recipient (Not Stock in Trade)**

A. Movable Property Includes

- | | |
|--------------------------------|--------------------------|
| a) Shares & Securities | e) Painting |
| b) Jewellery including Bullion | f) Drawing |
| c) Archaeological collection | g) Work of Art |
| d) Sculptures | h) Virtual Digital Asset |

B. Immovable Property: Land & Building **except** rural agriculture land.

- **Exceptions:** Gift is not taxable if gift is:
 1. Received under a **will or inheritance**.
 2. Received on the **marriage of individual**.
 3. Received from **any relative**
 4. Received in contemplation of **death of the payer**.
 5. Received from **registered charitable institute** reg u/s 332, hospital, medical institutions, university or educational institution reg as per schedule VII.
 6. Received from any **local authority**.

- **Meaning Of Relatives**

A. For Individual

- i. Spouse of the Individual
- ii. Brother/sister of the Individual
- iii. Brother/sister of Spouse of Individual
- iv. Brother/sister of either of Parents of the Individual
- v. Lineal Ascendant/Descendant of the Individual.
- vi. Lineal Ascendant/Descendant of Spouse of the Individual
- vii. Spouse of any of the persons referred earlier

B. For HUF – Members of HUF are Relatives.

Example 01

Compute the Gift Taxable

Property	FMV	Consideration Paid
Jewellery	1,50,000	1,28,000
Drawings	75,000	70,000
Sculpture	95,000	1,00,000

Car	5,70,000	5,10,000
Shares	95,000	70,000

Solution

Property	FMV	Consideration Paid	Amount of Gift
Jewellery	1,50,000	1,28,000	22,000
Drawings	75,000	70,000	5,000
Sculpture	95,000	1,00,000	-
Car	5,70,000	5,10,000	-
Shares	95,000	70,000	25,000

Since, aggregate gift is 52,000. Hence, Gift shall be taxable.

Example 02

Vaibhav received following Gifts from his Mitra & Mahila Mitra on his birthday:

- Diamond Ring from Mahila Mitra ₹ 95,600 (FMV)
- Cash from his friend Jaggu ₹ 15,000
- Land and Building from his friend Mangu ₹ 51,000 (SDV)
- Vaibhav also purchase painting for ₹ 61,0000 (FMV = 90,000) to provide as return Gift to Mahila Mitra.

Show tax implication in hands of Vaibhav.

Solution**Computation of Total Income**

Particulars	₹
Movable property Gift:	
Gift of Daimond Ring without consideration (Taxable as FMV exceeds 50,000)	95,600
Painting purchase for Inadequate consideration (Not taxable as FMV – Consideration paid i.e. 29,000 does not exceed 50,000)	-
Money Gift i.e. 15,000 (Not taxable as it does not exceed 50,000)	-
Immovable property Gift (Taxable as SDV exceeds 50,000)	51,000
	1,46,600

Example 03

Roman purchased land from Jagat on 15/07/2026 for ₹7,00,000 having SDV of ₹10,00,000. Jagat purchased this land on 01/01/2026 for ₹6,00,000.

Show Tax implication in hands of Jagat & Roman.

Solution**Computation of Capital Gain in hands of Jagjot**

Particulars	₹
FVC (as per section 78, if SDV exceeds 110% of sale consideration, then SDV shall be considered as FVC)	10,00,000
Less: Cost of Acquisition	6,00,000
STCG	4,00,000

Computation of Total Income of Roman

Particulars	₹
Income under head other sources	
Gift Taxable (SDV – Sale consideration) (10,00,000 – 7,00,000)	3,00,000

Dividend

1. Received from domestic company – Fully Taxable
2. Received from Foreign Company – Fully Taxable.
3. Dividend Includes Deemed dividend u/s 2(40) (a) to (e)
Note: Expenses Incurred for earning dividend shall not be allowed

Section 2(40)(a)

Distribution by Company to Shareholder which Releases Company's Asset shall be deemed dividend to the extent of accumulated profits including capitalized Profits.

Note:

- a) If accumulated profits are distributed in cash, consider it a dividend.
- b) FMV of such asset as on the date of distribution shall be taken as deemed dividend.

Example 04

ABC Ltd. has share capital of ₹35 lakhs. The company has general reserve of ₹25 lakhs and has distributed Silver coins to shareholders on the occasion of Diwali.

Determine Amount of dividend u/s 2(40)(a) if FMV of silver coins are:

- a) ₹20 Lakh
- b) ₹25 Lakh
- c) ₹30 Lakh

Solution**Computation of Deemed Dividend**

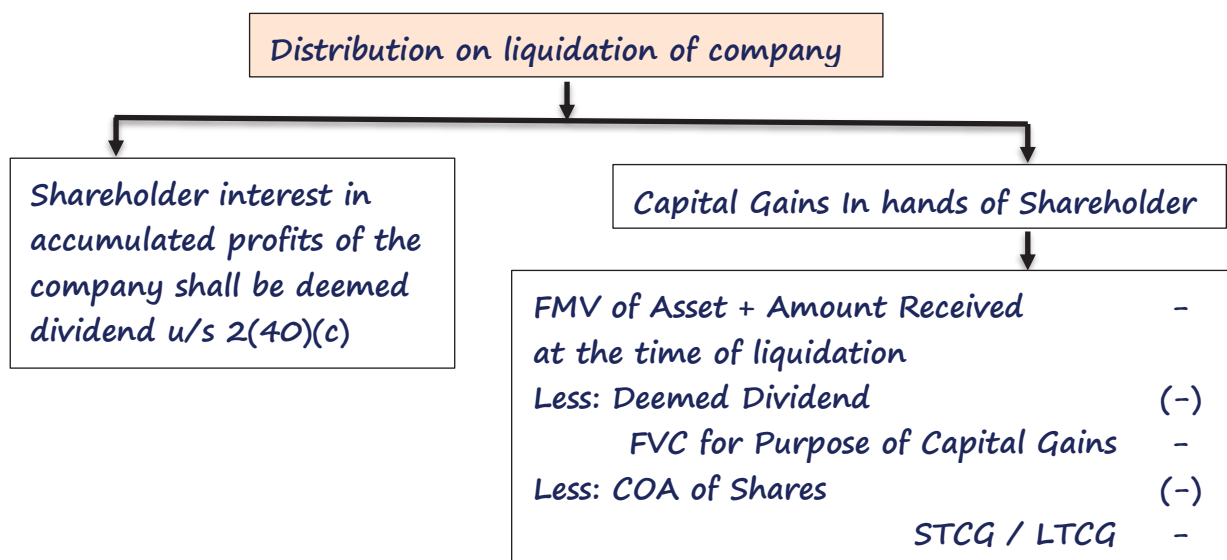
Particulars	Case A	Case B	Case C
Amount of distribution (FMV of silver coins)	20,00,000	25,00,000	30,00,000
Accumulated profit	25,00,000	25,00,000	25,00,000
Lower shall be Deemed Dividend	20,00,000	25,00,000	25,00,000

Section 2(40)(b)

If any company has distributed Debentures / Deposit certificates to shareholders or bonus shares to preference shareholders it will be considered to be dividend but only to the extent of accumulated profits including capitalized profits.

Note:

- Bonus shares given to equity shareholders are not treated as dividend.
- FMV of such debentures or deposit certificates or such bonus shall be deemed dividend

Section 2(40)(c)

Note: Any distribution made out of the profits of the company after the date of the liquidation cannot amount to dividend. It is a repayment towards capital.

Example 05

A Ltd went into liquidation on 15/07/2026 on which Accumulated Profits was ₹ 15,00,000 and Capitalized profits was ₹ 5,00,000. Mr. J Hold 5000 shares in A Ltd which is equivalent to 10% ownership in A Ltd. Mr. J purchased 5000 share on 15/09/2025 for ₹ 50/share. On 12/12/2026 After paying off all the liabilities, A Ltd. distributed ₹ 5,00,000 to Mr. J
Show tax implications for the above scenario.

Solution

Total accumulated profit including capitalised profit = 15,00,000 + 5,00,000 = 20,00,000

Shareholding of Mr. A = 5,000 shares i.e. 10% shares

Computation of Deemed Dividend

Particulars	₹
Amount of distribution	5,00,000
Accumulated profit (20,00,000 x 10%)	2,00,000
Lower shall be taxable in hands of Mr. J	2,00,000

Since, right of shares has been relinquished during liquidation. Therefore, capital gain shall arise in the hands of Mr. J.

Computation of Capital Gain

Particulars	₹
FVC (Distribution – Deemed dividend)	3,00,000
Less: Cost of Acquisition (50,000 x 50/share)	2,50,000
STCG	50,000

Section 2(40)(d)

Any **distribution** to its shareholders by a company **on the reduction of its capital**, to the extent to which the company possesses accumulated profits whether capitalized or not.

Section 2(40)(e)

Distribution of Accumulated Profits by Closely Held company **by way of ADVANCE/LOAN** to

- (i) Equity Shareholder beneficially holding **at least 10% equity shares** in the company
- (ii) Any **CONCERN** in which such shareholder has **substantial interest**

Note: Substantial interest means beneficially entitled to 20% of income or 20% of Voting Power

(iii) Any person on behalf of such shareholders/for benefit of such shareholder

Exception:

a) Money lending is substantial business of company & loan is given in ordinary course.

b) Trade Advances like commercial transactions

Note: Subsequent repayment of loan or charge of interest at market is not relevant for applicability of section 2(40)(e).

Example 06

Mr. X 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.

- Is the Amount of loan taxable as deemed dividend in the hands of Mr. X, if the company is a company in which the public are substantially interested?
- What would be your answer, if the lending company is a private limited company i.e. a company in which the public are not substantially interested?

Solution

- Section 2(40)(e) shall be applicable when closely held company grants loan to beneficial shareholder. Here, loan is granted by widely held company. Therefore, provisions of Section 2(40)(e) shall not be applicable.
- Section 2(40)(e) shall be applicable as loan is granted by closely held company. Deemed dividend shall be till the extent of accumulated profits i.e. 4,00,000.

Casual Incomes

- Casual Income includes Winning from lotteries, crossword puzzle, races including horse races, card games, betting, gambling and any other games other than online gaming.
- Taxable @ 30% u/s 194 (Erstwhile Section 115BB)
- No deduction for any Expenditure incurred shall be allowed.
- No Deduction under chapter VIII Shall be allowed.
- No loss is allowed to be set-off with this income.
- Adjustment of unexhausted Basic Exemption Limit is also not allowed.
- Rebate under section 156 is allowed from Tax on casual incomes (Not allowed under default Regime)

Family Pension

After the death of employee, employer may pay some pension to family member of the employee which is called 'Family Pension'.

It is taxable under the head other sources but as per section 57 deduction is allowed equal to $1/3^{\text{rd}}$ of such pension but maximum ₹15,000 [25,000 in default regime]

Exemption in Respect of Family Pension

1. Family Pension received by widow or children or nominated heirs, of a member of armed forces (including para-military forces) of the union, where death of such member has occurred in the course of operational duties is exempt
2. Family pension received by any member of family or individual who have been in the service of central or state govt. and have been awarded any notified gallantry awards is exempt.

Interest On Compensation / Enhanced Compensation

- Taxable in PY of Receipt irrespective of the method of accounting followed by the assessee.
- Deduction: 50% of interest received i.e. only 50% amount shall be taxable.

Advance forfeited due to failure of negotiations for transfer of a capital asset

- If advance received in course of negotiation for transfer of capital assets is forfeited on or after 01.04.2014, then such amount shall be taxable under the head other sources.
- If such advance is forfeited before 01.04.2014, then it shall reduce the Cost of Acquisition of the asset in case of transfer.

Amount Received under Life Insurance Policies other than ULIP & Keyman Insurance Policy

Exemption on Maturity of Life Insurance Policy [Schedule II]

- Amount received under Term Life Insurance is exempt.
- However, in following cases, it is taxable:

a) Amount received under **Keyman Insurance Policy** → Taxable under **PGBP**

b) If annual premium paid:

is more than	policy taken
20% of sum assured	before 1.4.2012
10% of sum assured	between 1.4.2012 to 31.3.2013
10% for normal person and 15% for disabled	on or after 1.4.2013

c) If policy (other than ULIP) issued on or after 1.4.2023 and aggregate premium payable exceeds ₹5,00,000 in any T.Y. → Taxable under IFOS

Note: Exclude GST while calculating the premium payable.

Particulars	Amount
Amount Received under Life insurance policy	-
Less: Premium paid till date of receipt of amount under LIP	(-)
Income From Other Source	-

Example 07

Show Tax treatment in accordance with provisions of Income Tax Act, 2025

- Capital Sum Assured ₹50,00,000
- Premium paid p.a. ₹3,00,000

Solution

Exemption shall not be allowed as exemption is available when premium is up to 10% of Capital sum assured and does not exceed 5,00,000.

Example 08

Show Tax treatment in accordance with provisions of Income Tax Act, 2025

- Capital Sum Assured ₹50,00,000
- Premium paid p.a. (For 5 Years) ₹6,00,000
- Amount received on maturity ₹50,00,000

Solution

Amount received on maturity shall be taxable, as premium paid exceeds 10% of capital sum assured. Therefore, 20,00,000 [50,00,000 – (6,00,000 x 5years)] shall be taxable under head other sources.

Example 09

Show Tax treatment in accordance with provisions of Income Tax Act, 2025

- Capital Sum Assured ₹50,00,000
- Premium paid p.a. ₹6,00,000

Note: Maturity proceeds of ₹50,00,000 received to legal heir on death of insuree.

Solution

Exemption shall be allowed as maturity proceeds received at the time of death.

Example 10

LIP	Date of Issue	Maturity Date	Annual Premium	Sum Assured	Amount Received on Maturity	Total Premium Paid (till receipt)	Gain
LIP A	05.01.23	31.12.29	₹2.8L	₹28L	₹31.00L	₹25.20L (2.8L × 9)	₹5.8L
LIP B	10.04.23	31.01.30	₹2.4 L	₹24L	₹27L	₹21.60L (2.4L × 9)	₹5.4L
LIP C	15.03.23	28.02.30	₹2.5L	₹25L	₹30L	₹22.50L (2.5L × 9)	₹7.5L
LIP D	01.04.23	31.03.30	₹2.5L	₹25L	₹30.00L	₹22.50L (2.5L × 9)	₹7.5L
LIP E	20.05.23	30.04.30	₹3.2L	₹32L	₹37.00L	₹28.80L (3.2L × 9)	₹8.2

ULIP A (issued before 1/4/2021) is **Exempt** as premium paid doesn't exceed 10% of sum assured.

ULIP B/C/D

Aggregate premium of Policy B&C issued after 1/4/2023 doesn't exceed 5 lacs and 10% of sum assured, making it eligible for exemption under schedule II.

Also **Premium of Policy B&D** issued after 1/4/2023 doesn't exceed 5 lacs and 10% of sum assured, is also eligible for exemption under Schedule II

And **Premium of Policy C&D** issued after 1/4/2023 doesn't exceed 5 lacs and 10% of sum assured, is also eligible for exemption under Schedule II

However, it is **beneficial for assessee to claim exemption for policy C&D** as their aggregate Gain exceeds the gain of Policy B&C and also B&D. Therefore, **Policy B is taxable.**

LIP E is also taxable as premium paid exceeds 5 Lacs.

Interest Income

- Interest on Securities/Deposits/Loans shall be TAXABLE if not taxable under PQBP.
- Any revenue expenses incurred for earning such interest income shall be allowed as deduction. E.g. interest, collection charges, brokerage etc.

Following Interest income would be exempt:

- a) Interest on Post Office Savings Bank Account would be exempt from tax to the extent of ₹ 3,500 in case of an individual account & ₹ 7,000 in case of a joint account.
- b) Interest payable by public sector companies on certain specified bonds and debenture including the condition that the holder of such bonds or debentures registers his name and holding with that company.

Accordingly, the Central Government has specified following tax-free bonds:

- a) India Infrastructure Company Ltd.
- b) Indian Railway Finance Corporation Ltd. (IRFCL)
- c) National Highways Authority of India (NHAI)
- d) Rural Electrification Corporation Ltd. (RECL)
- e) Housing and Urban Development Corporation Ltd. (HUDCL)
- f) Power Finance Corporation (PFC)
- g) Jawaharlal Nehru Port Trust
- h) Dredging Corporation of India Limited
- i) Ennore Port Limited
- j) The Indian Renewable Energy Development Agency Limited
- c) Interest on Gold Deposit Bond issued under the Gold Deposit Scheme, 1999 or deposit certificates issued under the Gold Monetization Scheme, 2015 notified by the CG.
- d) Interest on deposits for the benefit of the victims of the Bhopal Gas Leak disaster held with the RBI or with a public sector bank as the CG may notify.
- e) Interest on Tax-free Pooled Finance Development Bonds.

Admissible Deductions [Section 93] (Erstwhile Section 57)

1. **In the case of interest on securities:** Any reasonable sum paid by way of commission or remuneration to a banker or any other person for the purpose of realising such interest on behalf of the assessee.

2. Where the income to be charged under this head is from letting on **hire of machinery, plant and furniture**, with or without building:

The following items of deductions are allowable:

- a) the amount paid on account of **any current repairs** to the machinery, plant or furniture.
 - b) the amount of any **premium paid** in respect of insurance against risk of damage or destruction of the machinery or plant or furniture.
 - c) **Normal depreciation** allowance in respect of the machinery, plant or furniture, due thereon.
3. **Any revenue expenditure** expended exclusively for earning such income

Inadmissible Deductions [Section 94] (Erstwhile Section 58)

- a) Personal Expenses
- b) Excessive Payment to Relative
- c) Cash Payment > Rs. 10,000 other than through specified mode.
- d) Payment on which TDS provisions applicable but TDS not deducted on time or deducted but not deposited on time.
- e) No deduction in respect of any expenditure incurred in connection with casual income. However, an assessee, being the owner of race horses, from the activity of owning and maintaining such horses, expenses incurred by him shall be allowed even in the absence of any stake money earned.

CHAPTER 4: CLUBBING OF INCOME

- Under the Income-tax Act, 2025, an assessee is generally taxed in respect of his own income. However, there are certain cases where an assessee has to pay tax in respect of income of another person.
- The provisions for the same are contained in sections 96 to 100 of the Act.
- These provisions have been enacted to counteract the tendency on the part of the taxpayers to dispose of their property or transfer their income in such a way that their tax liability can be avoided or reduced

Transfer Of Income Without Transfer of Asset [Section 96] (Erstwhile Section 60)

If **income is transferred without transfer of asset**, then such income is to be clubbed in the hands of transferor.

E.g. Mr. A has two house and each house is let out for ₹ 10 lakh p.a. He has transferred income of one of the houses to his wife Mrs. A. In this case, clubbing provision shall be applicable and income shall be taxable in the hands of Mr. A.

Revocable Transfer of Asset [Section 97] (Erstwhile Section 61)

If **asset is transferred on a revocable basis**, then income from such assets shall be clubbed in the hands of transferor

Section 97 will not apply to any income arising to any person if there is –

1. A transfer by way of trust which is **not revocable during the lifetime of beneficiary**; and
2. Any other transfer, which is not revocable during the lifetime of transferee

Provided the **transferor does not derive** any direct or indirect **benefit**. If the **transferor receives direct or indirect benefit** from such income, such **income** is to be **included in his total income** even though the transfer may not be revocable during the lifetime of the beneficiary or transferee.

Example: Mr. Ram has transferred one asset to Mr. Shyam with the condition that the asset shall be retained by Mr. Shyam as long as he is alive and after that the asset shall be taken back by Mr. Ram. In this case, clubbing provision shall not apply.

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Meaning Of Revocable Transfer [Section 98] (Erstwhile Section 63)

Transfer is deemed to be revocable if –

- a) It contains any provision for the **re-transfer**, directly or indirectly, of the **whole or any part** of the **income or assets** to the transferor, or
- b) It gives, in any way to the **transferor**, a **right to reassume power**, directly or indirectly, over the **whole or any part** of the **income or the assets**

Note: Once the transfer is revocable transfer, the entire income from transferred asset is included in the total income of Transferor

Provisions Related To Spouse, Son's Wife, HUF And Minor Child [Section 99] (Erstwhile Section 64)

Provisions related to Spouse:

- Remuneration to Spouse
- Assets transferred to Spouse on a non-revocable basis
- Capital invested in Spouse's business

Remuneration To Spouse

If the **spouse** of any individual **receives any salary**, commission, fees or other remuneration from a concern where such **individual has substantial interest**, then such **remuneration shall be clubbed** in hands of such individual

No Clubbing shall be done in the above case, if:

- Such remuneration is paid because of **technical or professional qualifications** of the spouse, or
- **Skills and experience** possessed by the spouse

Meaning Of Substantial Interest

If individual along with their relatives hold **at least 20% of ownership** or has at least **20% shares in profits** of the concern at any time during the PY

Relative means –

- Spouse of the individual
- Brother / Sister of the individual
- Lineal ascendent or descendent of the individual

Notes:

1. In case if both husband and wife has substantial interest and both receives remuneration, then clubbing provisions will apply and income will be added

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in the hands of such spouse, whose income is higher before adding the clubbed income

2. In case if other income does not exist, then clubbing will apply to such individual whose income is higher.

Income From Assets Transferred to Spouse on Non-Revocable Basis

If the individual transfers any asset (**Other than House Property**) to the spouse, **without or inadequate consideration**, then the income arising on such transferred asset shall be clubbed in the hands of transferor

- If there is inadequate consideration, clubbing provisions shall be applicable only with regard to the income relating to that part of consideration which is considered to be inadequate
- Provisions of **clubbing shall be applied** if the **relationship of spouse exists** both at the time of **transfer of assets** as well as at the **time of accrual of income**
- Income from Clubbed income shall not be clubbed
- If the asset is transferred under **an agreement to live apart**, clubbing provisions shall **not apply**.
- If an individual transfers a house property to the spouse, then transferor shall be deemed to be the owner of the house property

Capital Contribution In Spouse's Business

Amount to be clubbed

$$= \frac{\text{Profit of the year} \times \text{Amount invested by the individual as on 1st day of Tax Year}}{\text{Capital employed in the business as on 1st day of Tax Year}}$$

If any person has transferred the asset to the spouse and spouse has invested it in some partnership firm as capital contribution, in this case –

- Interest received from the partnership firm shall be clubbed
- If any salary has been received from firm, it will not be clubbed
- If any salary has been received from the profits of the firm, it will be exempt

Note: If any person has given loan to spouse, income earned by spouse, by investing such loan amount then clubbing provision shall not applied.

Transfer Of Asset for Benefit Of Spouse

If any asset is transferred by any individual to any other person, but for the benefit of the spouse, then income from such assets shall also be clubbed in the hands of transferor

Provisions Related to Son's Wife

Same Provisions as those of spouse

Note: The relation of Son's Wife must exist both at the time of transfer as well as accrual of income

Provisions Related to Minor [Section 99(1)(c)]

Income of minor child, including minor married daughter shall be **clubbed in the hands of either of the parent** whose income before such clubbing is higher

Note:

- Once such clubbing is done in any PY then it will continue to be clubbed in the hands of same parent in subsequent years also, irrespective of the level of income unless the Assessing Officer is satisfied to change
- If child is maintained by **a single parent**, then clubbing shall apply in hands of that parent who maintains the child.
- If **parents** of minor child **are not alive** then the **income of minor child cannot be clubbed**, and guardian of minor child shall file the return of such income on behalf of the minor child
- **Under Old tax regime** – Whenever minor child's income is clubbed, exemption up to ₹1500 per child can be claimed

Minor child's income shall not be clubbed if:

1. Income on account of **work done by minor child**.
2. Income earned by minor child through **application of knowledge or skills**
3. If minor child is **suffering from any disability**

Provisions Related To HUF [Section 99(3)] (Erstwhile Section 64(2))

If any member of HUF transfers his property to their HUF without consideration, then income arising from such asset shall be clubbed in the hands of such member

During Partition of HUF – Clubbing provisions shall not be applicable However, income from that part of asset which has been received by the spouse and minor child of such person shall be clubbed in the income of such member

Liability Of Transferee in Clubbing [Section 100] (Erstwhile Section 65)

A.O. has the power to collect the tax from transferee also, in case the tax cannot be recovered from transferor

Cross Transfer

If two transactions are *inter-connected* and are *parts 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.

Example:

A making gift of ₹ 50,000 to the wife of his brother B for the purchase of house by her and a simultaneous gift by B to A's minor son of shares in a foreign company worth ₹ 50,000 owned by him, the income from the assets transferred would be assessed in the hands of deemed transferor if the transfers are so intimately connected as to form part of a single transaction, and each transfer constitutes consideration for the other by being mutual or otherwise. Thus, in the instant case, the transfers have been made by A and B to persons who are not their spouse or minor child so as to circumvent the provisions of this section, showing that such transfers are cross transfers to reduce their burden of Taxation

Accordingly, the income arising to Mrs. B from the house property should be included to the total income of B and the dividend from the shares transferred to A's minor son would be taxable in the hands of A.

CHAPTER 5: SET OFF & CARRY FORWARD OF LOSSES

SET-OFF OF LOSSES

Intra Head Adjustment [Section 108] (Erstwhile Section 70)

Set off of loss from *one source of income against another source under the same head of income* is known as Intra Head Adjustment. It is also known as Inter Source Adjustment.

Inter Head Adjustment [Section 109] (Erstwhile Section 71)

Set off of loss from *one head of income against another head of income* is known as Inter Head Adjustment.

Heads of Income	Intra Head Adjustment	Inter Head Adjustment
Loss under head House Property	Set off with any other income of house property.	Loss is allowed to be set off with any head Income except from Casual Income Note: 1. Loss of Maximum Rs. 2,00,000 is allowed to be adjusted and remaining loss shall be CF 2. No Inter Head Adjustment is available under new regime with respect to loss under head House Property.
Loss under head PQBP		
• Specified Business Loss	Can only be adjusted against specified business income	Not Applicable.
• Speculative Business Loss	Can only be adjusted against speculative business income	Not Applicable.
• Non-Speculative Business Loss	Can be adjusted against any other business income	Can be adjusted against any other head except Income under head salary and Casual Income.

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	without any monetary restrictions	
Loss under head Capital Gain		
• Short term capital loss	Can be adjusted against any LTCG u/s 197 & LTCG u/s 198 or STCG u/s 196 or other STCG	Not Applicable
• Long term capital loss	Can be adjusted only against LTCG u/s 197 & LTCG u/s 198	Not Applicable
Loss under head other sources		
• Loss of Owning & Maintaining Racehorses	Can be adjusted only against Income from OMRH	Not Applicable
• Any other loss under head other sources	Can be adjusted against any other income from other sources except from Casual Income	Can be adjusted against any other head except from Casual Income

Notes:

1. If there is income available then loss has to be adjusted against such income, i.e. Set-off is mandatory, not optional
2. Only Intra-Head Adjustment is allowed once loss is carried forward to next assessment year.
3. No loss is allowed to be set off against Casual Income, unexplained income, unexplained investment, cash credit etc.

Order of Set-Off under head PQBP	
Current year Business income before Depreciation	-
Less: Depreciation of Current Year	(-)
Less: B/F Business loss	(-)
Less: Unabsorbed Depreciation / Scientific Research Expenditure / Family Planning Promotion Expenditure	(-)
Income/Loss under head PQBP	-

Carry Forward of Losses

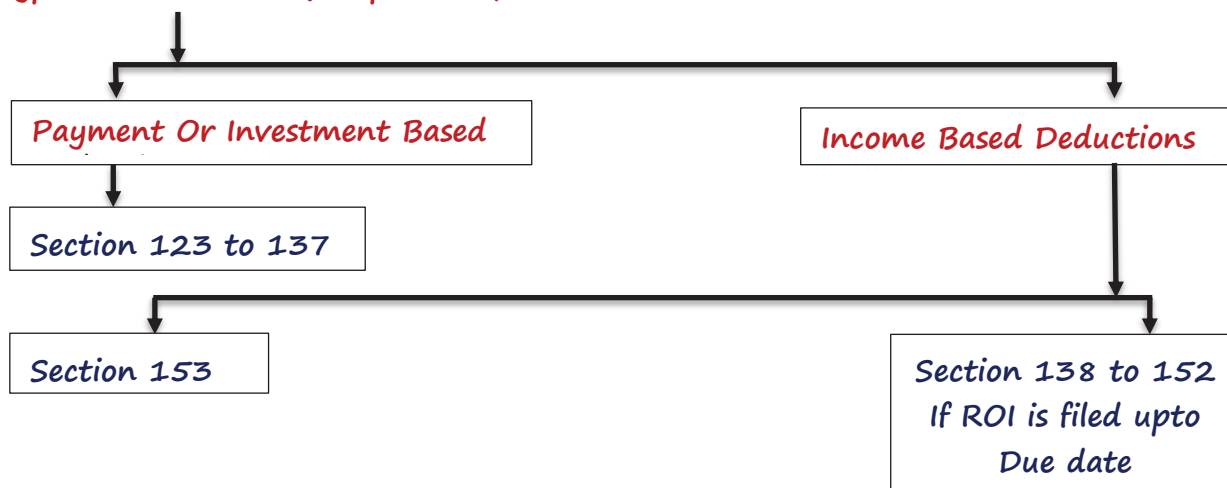
Losses	Carry Forward
1. Loss under head house property	C/F for Maximum 8 AY

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2. Specified Business Loss	C/F Without any limit
3. Speculative Business Loss	C/F for Maximum 4 AY
4. Non-Speculative Business Loss	C/F for Maximum 8 AY
5. Long Term Capital Loss or Short Term Capital Loss	C/F for Maximum 8 AY
6. Loss from Owning & Maintaining Race Horses	C/F for Maximum 4 AY
7. Unabsorbed Depreciation / Scientific Research Expenditure / Family Planning Promotion Expenditure,	C/F Without any limit

CHAPTER 6: DEDUCTION FROM GROSS TOTAL INCOME

- Deduction is allowed from Gross Total Income. If GTI is less than deduction then, deduction is restricted to the amount of GTI.
- No Deduction is allowed from long term capital gain, short term capital gain u/s 196, casual income.
- Types of Deductions (Chapter VIII)



Deduction In Respect of Certain Payments/Investments [Section 123] (Erstwhile Section 80C)

1. **Assessee** - Individual / HUF
2. **Deduction** - Amount Invested or ₹ 1.5 lacs – Whichever is lower.
3. **Payment Is Made Towards**
 - (i) **Life Insurance Policy** for self, spouse & child.
In case of HUF – For any member of HUF
Subject to a maximum of
 - 20% of the actual CSA – For Policies Issued before 1/4/2012.
 - 10% of the actual CSA – For Policies Issued on or after 1/4/2012.
 - 15% of the actual CSA – For Policies Issued on or after 1/4/2013 for person who is a person with disability as referred to in section 154 or suffering from disease as specified in section 128.
 - (ii) Investment in **fixed deposit** for a period of 5 years or more.

- (iii) Invested in *five-year post-office time deposit* account.
- (iv) Contribution by individual to *SPF / RPF*.
- (v) Contribution made by individual or HUF to *Public Provident Fund* (self, spouse and any child or any member of HUF).
- (vi) Payment Is Made Towards
 - a. *Pension plan* of Life Insurance Corporation (*LIC*) also known as annuity scheme; or
 - b. *Pension Plan* of any other *Private Insurer* as approved by Controller of Insurance.
- (vii) Deduction shall be allowed if amount has been invested in *National Saving Certificate (NSC)*.
- (viii) *Interest accrued on NSC* shall be income under the head other sources also deduction is allowed for such interest u/s 123. However, no deduction shall be allowed for Interest accrued in last year.
- (ix) Repayment of *Principle amount of Housing Loan*.
- (x) *Stamp duty, registration fee* or other charges paid for acquisition of house property.
- (xi) Payment of *tuition fees* for full time education to any university, college or school situated in India. (maximum two children and it should be whole time education).
- (xii) Deposits In *NABARD Bonds*.
- (xiii) *Senior Citizens Savings Scheme*.
- (xiv) Investment in *Sukanya Samridhi Account*.
- (xv) Contribution to any notified *pension scheme of Mutual fund or UTI*.
- (xvi) Contribution made by an individual to a *pension scheme notified by the Central Government (NPS)*, to the extent of:
 - a) Salaried EE – 10% of [Basic Salary + Dearness Allowance (RB)]
 - b) Other Individual – 20% of GTI.
- (xvii) Contribution to *NPS Tier-2 account by CG EE* for a fixed period of 3 years or more.

Deduction In Respect of Contribution to Pension Scheme of Central Government [Section 124] (Erstwhile Section 80CCD)

1. Assessee – Individual.
2. ER Contribution to EE's NPS [Section 124 (1)]
 - a) Amount contributed by ER is Added to Gross Salary
 - b) Also, Deduction is allowed for such contribution subject to **maximum 10% Of RBS** (14% of RBS if the ER is CG/SQ or EE has opted default regime).

$$\text{RBS} = [\text{Basic Salary} + \text{Dearness Allowance (RB)}]$$

3. Section 124(3) Assessee contribution in excess of deduction allowed u/s 123
An **additional deduction of up to ₹ 50,000** is allowed over and above u/s 123 for the contribution made by assessee to his **own NPS account** and contributions made by a parent or guardian to **a minor's NPS account**.

4. Taxability of Amount received from above scheme on closure of Account

Particulars	Treatment
In case of Death	Fully Exempt
Other Cases	60% of the total amount payable on closure is exempt

Deduction In Respect Of Contribution To Agnipath Scheme [Section 125] (Erstwhile Section 80CCH)

1. Agnipath scheme is a Central Government scheme launched in 2022 for enrolment of Indian youth in the Indian Armed Forces
2. Each Agniveer is to contribute 30% of his monthly customized Agniveer Package to the individual's Agniveer Corpus Fund. Further, the Government will also contribute a matching amount to the 'Agniveer Corpus Fund
3. The Agniveer Corpus Fund means a fund in which consolidated contributions of all the Agniveers and matching contributions of the Central Government along with interest on both these contributions are held.
4. Deduction
 - a) Assessee's own contribution

Agniveer is eligible for contribution made to individual's Agniveer Corpus Fund.

b) Contribution made by CG

Central Government's contribution to the Agniveer Corpus Fund would be included in the salary of the assessee and then whole amount of contribution is allowed as a deduction.

**Deduction In Respect Of Family Insurance Premium [Section 126]
(Erstwhile Section 80D)**

1. **Assessee** - Individual / HUF
2. **Payment Made For** -
 - a) Health insurance premium
 - b) Contribution in Central Govt. Health Scheme
 - c) Preventive Health Checkup (PHC)
3. **Deduction**
 - i. **Self / Spouse/ dependent Children** - Amount paid Subject to **max 25,000**.
(In case of Resident **Senior Citizen** **max ₹ 50,000**)
 - ii. **Parents (dependent / Not dependent)** - Amount paid Subject to **max 25,000**. (In case of Resident **Senior Citizen** **max ₹ 50,000**)
4. In case of Resident senior citizen, Deduction of ₹ 50,000 is allowed in case of medical expenditure if no insurance premium is paid
5. Maximum Deduction of ₹ 5,000 is allowed for **Preventive Health-Checkup** of Family & Parents which is included in overall limit of ₹25,000 / ₹ 50,000.
6. **No Deduction** is allowed for the payment of **premium made in cash**. PHC payment can be made by any mode.
7. Where medical insurance is paid in lumpsum for more than 1 year, deduction shall be allowed for each tax year as follows:

$$\text{Deduction per year} = \frac{\text{Lumpsum Premium}}{\text{PY for Which Insurance is Valid}}$$

Example 01

Mr. X (Age 62 Years –Resident) incurred following amounts

1. ₹30,000 on his Medical Treatment

2. ₹25,000 on medical insurance of his wife (age = 58 years)
 3. ₹35,000 on medical treatment of his father (age = 79 years and resident)
 4. ₹26,000 on medical insurance of his mother (age = 79 years and resident)
- Calculate deduction u/s 126

Solution**Calculation of Deduction u/s 126**

Particulars	₹
Mr. X and Spouse:	
Medical Treatment of Mr. X	30,000
Medical Insurance of Mrs. X	25,000
	55,000
Maximum allowed up to 50,000	50,000
Parents of Mr. X:	
Medical treatment of Father	35,000
Medical insurance of Mother	26,000
	61,000
Maximum allowed up to 50,000	50,000
Total Deduction u/s 126	1,00,000

Example 02

Mr. X Incurred following exp. During TY 2026-27 . Calculate Deduction permissible from GTI.

- Medical insurance premium paid for self spouse & dependent child = ₹ 21,000
- Cont. to C.G. Health scheme on his own name = ₹ 1500
- Medical insurance of Father (70 Years) = ₹30,000 & Mother (59 Years) = 15,000
- Preventive health check up of Self = ₹4,000 & Parents = ₹3,000

Calculate deduction u/s 126.

Solution**Calculation of Deduction u/s 126**

Particulars	₹
Mr. X, his Spouse and dependent child:	
Medical Insurance (Self/Spouse/Dependent Child)	21,000
Contribution to C.G. Health Scheme	1,500
Preventive Health Check up	2,000

	24,500
Parents of Mr. X:	
Medical Insurance of Father	30,000
Medical insurance of Mother	15,000
Preventive health check up	3,000
	48,000
Total Deduction u/s 126	72,500

Example 03

Suppose in above e.g., Mrs. X Medical Treatment = ₹25,000

Solution

No Deduction u/s 126 shall be allowed as Mrs. X is not a senior citizen and she also have Medical Insurance.

**Deduction In Respect Of Maintenance Of Disabled Dependant [Section 127]
(Erstwhile Section 80DD)**

1. **Assessee** – Resident Individual / HUF
2. **Deduction** – ₹75,000 irrespective of the expenditure (₹ 1,25,000 in case of severe disability – 80% or more disable)
3. **Dependant** –
 - a) **For Individual** – Spouse, children, parents, brothers and sisters who are dependent on the individual
 - b) **For HUF** – Any member of the Hindu Undivided Family

Note: Assessee should incur expenses on medical treatment including nursing or paid/deposited amount in LIC scheme for the maintenance of dependent disabled.

Medical Treatment Of Specified Disease [Section 128] (Erstwhile Section 80DDB)

1. **Assessee** – Resident Individual / HUF
2. **Expenditure** – Treatment of disease specified in the rule 62

3. Incurred On –

- a) **For Individual** – Self or a Dependent Spouse, children, parents, brothers and sisters.
 - b) **For HUF**– Any member dependent on the Hindu Undivided Family.
4. **Deduction** – Lower of following:
- a) Amount incurred or
 - b) ₹40,000 (₹1,00,000 For Senior Citizen).

Payment Of Interest on Loan Taken for Higher Education In India or Abroad
[Section 129] (Erstwhile Section 80E)

- 1. **Assessee** – Individual
- 2. **Deduction** – Payment of **interest on loan** taken by him from any financial institution or approved charitable institution **for pursuing higher education** (any course after class XIIth)
- 3. **Education of** – self or spouse or children or any person for whom the assessee is legal guardian.
- 4. **No deduction** shall be allowed for **repayment of the principal** loan amount
- 5. **Deduction** is allowed for a maximum period of **8 years** starting from the year in which first payment of interest was given

Interest On Loan Taken for Certain House Property [Section 130]
(Erstwhile Section 80EE)

- 1. **Assessee** – Individual
- 2. **Deduction** – **Interest payable on loan** taken from any financial institution for acquisition of **a residential house property** (Max deduction = ₹ 50,000).
- 3. **Conditions:**
 - a) Loan has been sanctioned during **1/4/2016 – 31/3/2017**
 - b) Value of house should **not exceed ₹ 50 Lakh**.
 - c) Loan amount is **upto ₹ 35 lakh**
 - d) Assessee doesn't own any RHP on the date of loan sanction
- 4. Assessee shall claim deduction u/s 22(2) first and then remaining interest shall be allowed under this section.

Interest On Loan Taken For Certain House Property [Section 131]
(Erstwhile Section 80EEA)

1. **Assessee** – Individual
2. **Deduction** – Interest payable on loan taken from any financial institution for acquisition of a residential house property (Max deduction = 1.5 Lacs).
3. **Conditions:**
 - a) Loan has been sanctioned during 1/4/19 – 31/3/22
 - b) $SDV \leq 45$ Lakh.
 - c) Assessee doesn't own any RHP on the date of loan sanction
4. Assessee shall claim deduction u/s 22(2) first and then remaining interest shall be allowed under this section.

Interest On Loan Taken For Purchase Of Electric Vehicle [Section 132]
(Erstwhile Section 80EEB)

1. **Assessee** – Individual
2. **Deduction** – Interest payable on loan taken from any financial institution for purchase of electric vehicle (Max deduction = 1.5 Lacs).
3. **Conditions:** Loan has been sanctioned during 1/4/19 – 31/3/23
4. Deduction is allowed irrespective of fact whether e-vehicle is purchased for official or personal use.

Donations To Certain Funds, Charitable Institutions Etc. [Section 133]
(Erstwhile Section 80G)

1. Deduction is available to all the assesses for donation made to eligible funds or institutions
2. Donations in kind shall not qualify for deduction.
3. No deduction shall be allowed in respect of donation of exceeding ₹ 2,000 unless such sum is paid by any mode other than cash.

4. Quantum of deduction:

There are four categories of deductions

Category A: Donation qualifying for 100% deduction, without any qualifying limit

- (1) The National Defence Fund set up by the Central Government
- (2) Prime Minister's National Relief Fund or the Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES FUND)
- (3) Prime Minister's Armenia Earthquake Relief Fund
- (4) The National Children's Fund
- (5) The National Foundation for Communal Harmony
- (6) Approved University or educational institution of national eminence
- (7) Chief Minister's Earthquake Relief Fund, Maharashtra
- (8) Any Zila Saksharta Samiti
- (9) Any State Government Fund set up to provide medical relief to the poor
- (10) The Army Central Welfare Fund or Indian Naval Benevolent Fund or Air Force Central Welfare Fund established by the armed forces of the Union for the welfare of past and present members of such forces or their dependents.
- (11) The National Illness Assistance Fund
- (12) The Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund in respect of any State or Union Territory
- (13) The National Sports Fund set up by the Central Government
- (14) The National Cultural Fund set up by the Central Government
- (15) The Fund for Technology Development and Application set up by the Central Government
- (16) The Swachh Bharat Kosh
- (17) The Clean Ganga Fund
- (18) The National Fund for Control of Drug Abuse

Category B: Donation qualifying for 50% deduction, without any qualifying limit
Prime Minister's Drought Relief Fund

Category C: Donation qualifying for 100% deduction, subject to qualifying limit

- (1) The Government or to any approved local authority, institution or association for promotion of family planning
- (2) Sum paid by a company as donation to the Indian Olympic Association or any other association/institution established in India.

Category D: Donation qualifying for 50% deduction, subject to qualifying limit.

- (1) Any Institution or Fund established in India for charitable purposes
- (2) The Government or any local authority for utilisation for any charitable purpose other than the purpose of promoting family planning
- (3) An authority constituted in India by or under any other law enacted either for dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages, or both
- (4) Any Corporation established by the Central Government or any State Government for promoting the interests of the members of a minority community.
- (5) for renovation or repair of Notified temple, mosque, gurdwara, church or any other similar place

Qualifying limit: The eligible donations referred to in category 3 and 4 should be aggregated and the sum total should be limited to 10% of the adjusted gross total income.

Adjusted Total Income Means GTI as reduced by LTCG (u/s 197/198) & STCG u/s 196 & All Deductions except Section 133.

Example 04

Following donations has been made

Category 1 : ₹1,00,000

Category 2 : ₹70,000

Category 3 : ₹90,000

Category 4 : ₹50,000

Qualifying limit = ₹1,70,000

Calculate deduction u/s 133

Solution

Calculation of Deduction u/s 133

Particulars	₹
Category 01: 1,00,000 x 100%	1,00,000
Category 02: 70,000 x 50%	35,000
Category 03: Lower of Donation 90,000 or Qualifying Limit 1,70,000	90,000
Category 04: 50% of Lower of Donation 50,000 or Balance Qualifying Limit 80,000	25,000
	2,50,000

Deduction In Case of Payment of Rent [Section 134] (Erstwhile Section 80GG)

1. **Assessee** – Individual (Must Not be receiving HRA/RFAC)
2. **Deduction** – Lower of following shall be allowed as deduction:
 - a) ₹ 5,000 Per Month
 - b) Rent paid – 10% of Adjusted TI
 - c) 25% of Adjusted GTI
3. Adjusted TI Means GTI as reduced by (u/s 197/198) & STCG u/s 196 & All Deductions except Section 134.
4. **Other Conditions:**
 - Individual should not have any house in his name or spouse name or minor child name or in the name of HUF of which he is a member, at a place of his duty.
 - Assessee may have house at any other place but it should not be assessed as self-occupied.

Example 05

Anmol (Age 25Years) having Gross total income of ₹9,00,000 (Including LTCG of ₹2,00,000 and STCG u/s 196 of ₹50,000)

He is paying rent of ₹20,000 p.m.

Following deductions are available:

• u/s 123	=	₹75,000
• u/s 123	=	₹25,000
• u/s 126	=	₹15,000
• u/s 129	=	₹70,000

Calculate Deduction u/s 134 & Total income.

Solution

Calculation of Total Income and Deduction u/s 134

<i>Particulars</i>	<i>₹</i>
<i>Gross Total Income</i>	<i>9,00,000</i>
<i>Less: Deduction u/s 123-154</i>	
<i>Sec. 123</i>	<i>75,000</i>
<i>Sec. 123</i>	<i>25,000</i>
<i>Sec. 126</i>	<i>15,000</i>
<i>Sec. 129</i>	<i>70,000</i>
<i>Sec. 134 (WN)</i>	<i>60,000</i>
<i>Total Income</i>	<i>6,55,000</i>
<i>Working Note</i>	
<i>Least of the following shall be allowed as deduction u/s 134:</i>	
<i>a) 5,000 x 12m</i>	<i>60,000</i>
<i>b) Rent paid over 10% of Adjusted GTI (2,40,000 – 10% of 4,65,000)</i>	<i>1,93,500</i>
<i>c) 25% of Adjusted GTI</i>	<i>1,16,250</i>
<i>Deduction u/s 134</i>	<i>60,000</i>
<i>Calculation of Adjusted GTI:</i>	
<i>Gross Total Income</i>	<i>9,00,000</i>
<i>Less: LTCG</i>	<i>2,00,000</i>
<i>Less: STCG u/s 196</i>	<i>50,000</i>
<i>Less: Deduction u/s 123-154 except 134</i>	<i>1,85,000</i>
	<i>4,65,000</i>

*Contributions To Political Parties or Electoral Trust [Section 136]
(Erstwhile Section 80GGB)*

- 1. Assessee – Indian Company*
- 2. Deduction – 100% of Amount Contributed other than by way of cash.*

*Contributions To Political Parties or Electoral Trust [Section 137]
(Erstwhile Section 80GGC)*

1. **Assessee** – Any person other than Indian Company
2. **Deduction** – 100% of Amount Contributed other than by way of cash.

Deduction For Handicapped Assessee [Section 154] (Erstwhile Section 80U)

1. **Assessee** – Resident Individual
2. **Deduction** – ₹ 75,000 (₹ 1,25,000 for severe Disability – 80% or more disabled)
3. Deduction under this section can only be claimed for self and not for dependent.

DEDUCTION IN RESPECT OF CERTAIN INCOMES

*Interest On Deposits with Bank, Co.Op Banks & Post Office [Section 153]
(Erstwhile Section 80TTA & 80TTB)*

<i>For Individual (other than senior citizen) / HUF</i>	
1.	Interest income on saving accounts is eligible for deduction. No deduction is allowed from interest on time deposit/ fixed deposit.
2.	Deduction – Lower of Following is allowed as deduction a) Interest Amount b) ₹ 10,000
<i>Resident Senior Citizen</i>	
1.	Interest income on Saving, fixed, time, recurring or any other deposit is eligible for deduction.
2.	Deduction – Lower of Following is allowed as deduction a) Interest Amount b) ₹ 50,000
Interest on Post Office Savings Bank Account to the extent of ₹3,500 per year shall be exempt from income tax and in the case of joint account, exemption shall be allowed up to ₹7,000 per year.	

Example 06

Income Under head House Property (Computed)	₹6,00,000
Post Office Savings A/c interest	₹15,000
Saving A/c with Bank-Interest	₹10,000
FD Interest	₹25,000
Recurring Deposit interest	₹10,000
Calculate Taxable income under old Regime of Mr. X, who is a resident individual of age 65 Years.	

Solution**Calculation of Total income of Mr. X (Under old regime)**

Particulars	₹
Income under head House Property	6,00,000
Income under head Other sources	
Interest on Savings A/c	10,000
Interest on FD	25,000
Interest on RD	10,000
Post Office savings A/c Interest	15,000
Less: Exemption on individual A/c	3,500
	11,500
Gross Total Income	6,56,500
Less: Deduction u/s 153 Interest Recd 56,500 subject to maximum 50,000	50,000
Total Income	6,06,500

Deduction In Case of New Employment [Section 146] (Erstwhile Section 80JJAA)

1. **Assessee** - All Assessee whose accounts are required to be audited u/s 63
2. **Deduction** - 30% of additional employee cost incurred. Deduction is allowed for 3 tax years including the tax year in which such employment is provided.
3. **Conditions**
 - a) Emoluments should be paid through account payee cheque, an account payee bank draft or by use of electronic clearing system or other notified banking methods.

- b) “Additional employee” means an employee who has been employed during the previous year and whose employment has the effect of increasing the total number of employees employed by the employer as on the last day of the preceding year.
- c) Additional EE does not include any EE —
- (i) whose total emoluments are more than ₹ 25,000 per month; or
 - (ii) employed for a period of less than 240 days during tax year (in case of business of manufacturing of apparel or footwear or leather products, 150 days shall be considered).
 - (iii) who does not participate in the recognised provident fund.
 - (iv) For whom the government pays the entire contribution under employee pension scheme.
4. If an EE is employed for less than 240/150 days as the case may be during the PY, but is employed for a period of 240/150 days or more in the immediately succeeding year, then he shall be deemed to be employed in succeeding year and accordingly ER shall be entitled for deduction under this section for such EEs in the succeeding year.

Royalty Income, Etc., Of Authors Of Books Other Than Textbooks
[Section 151] (Erstwhile Section 80QQB)

1. **Assessee** – Resident individual being an author including a Joint author
2. **Eligible Books:** Literary, artistic, or scientific works.
Exclusions: Textbooks for schools, brochures, commentaries, diaries, guides, journals, magazines, newspapers, pamphlets, tracts.
3. **Deduction** – Royalty income or ₹3,00,000 whichever is less.
However, Royalty received in excess of 15% of the value of books sold during the previous year shall be ignored.
4. **Royalty from Foreign Country:** Deduction allowed if Royalty brought to India in convertible foreign exchange within 6 Months from the end of previous year.

Example 07

Salary (Computed)	₹6,00,000
Royalty from fiction book (20% of value of Book)	₹4,00,000
Exp. Incurred to earn royalty	₹1,00,000
PPF Contribution	₹75,000
Medical Insurance	₹15,000

Calculate Deduction u/s 151 & Total Income

Solution**Calculation of Total income and Deduction u/s 151**

Particulars	₹
Income under head Salary	6,00,000
Income under head other sources	
Royalty received 4,00,000	
Less: Expenditure 1,00,000	3,00,000
Gross Total Income	9,00,000
Less: Deduction u/s 123	75,000
Less: Deduction u/s 126	15,000
Less: Deduction u/s 151	2,00,000
Total Income	6,10,000
Calculation of deduction u/s 151:	
a) Royalty Income	
Royalty received (4,00,000/20% x 15%)	
3,00,000	
Less: Expenditure incurred	2,00,000
1,00,000	
b) Limit for Deduction	3,00,000
Deduction shall be lower of a and b	2,00,000

Deduction In Respect Of Royalty On Patents [Section 152]
(Erstwhile Section 80RRB)

1. **Assessee** – Resident individual
2. **Deduction** – Royalty income or ₹3,00,000 whichever is less.
3. **Royalty from Foreign Country:** Deduction allowed if Royalty brought to India in convertible foreign exchange within 6 Months from the end of previous year.

Deduction In Respect of SEZ Unit [Section 144] (Erstwhile Section 10AA)

- 1) In computing the total income of an undertaking which begins to manufacture or produce articles or things or computer software in SEZ unit.
- 2) Deduction shall be allowed only if SEZ unit has received approval up to 31/03/2020 and manufacturing is commenced up to 31/03/2021
- 3) Deduction u/s 10AA shall be allowed as follows:
 - a) For the first 5 years - 100% of export profit
 - b) For the next 5 years - 50% of export profit
 - c) For the next 5 years lower of the following:
 - i) 50% of export profit or
 - ii) Amount credited in Re-investment allowance reserve A/c
- 4) $\text{Export profit} = (\text{Profit of SEZ unit} \times \text{Export turnover}) \div \text{Total turnover}$
- 5) Export turnover means consideration received in India in convertible foreign exchange within 6 months from end of previous year.
- 6) Export turnover does not include freight, insurance, telecommunication charges or other expenses for providing services outside India.
- 7) Above mentioned items shall also be excluded from total turnover.
- 8) Income from cash Compensatory support, duty drawback and sale of import entitlement licenses are taxable under the head PGBP but not eligible for deduction calculation as these are ancillary profit and hence do not constitute profit "derived from" business.
- 9) Deduction under this section shall be allowed after claiming all the deduction u/c VIII
- 10) P&M used in the business should be new, except:
 - a) 20% of total value of P&M used in the undertaking can be second hand.
 - b) P&M imported from outside India for the first time shall be treated as New P&M.
- 11) other points:
 - a) Deduction u/s 10AA shall be allowed only under old regime.
 - b) onsite development of computer software outside india at client place shall be eligible for deduction.

- c) In case of amalgamation or demerger, balance deduction shall be allowed to amalgamated or resulting company, if conditions are fulfilled.*
- d) Deduction is allowed if return is filed upto due date as per section 139(1).*

CHAPTER 7: TDS/TCS/ADVANCE TAX

Part I - TDS

TDS Basics

1. TDS is required to be deducted **by the payer** at the time prescribed under the relevant provision.
2. TDS provisions apply only where the **amount paid is taxable** in the hands of the recipient (Payee).
3. Generally, TDS is **deducted at the fixed rate** prescribed under the respective section. However, the following are exceptions where tax is not deducted at a fixed rate:
 - Salary
 - Income payable to a NR/Foreign Company
 - Income of a Specified Senior Citizen [Section 393(1) & Table, Sl. No. 8(iii)]
4. **Liability Where TDS is Not Deducted/Deposited**

Situation	Liability to Pay Tax
Payer fails to deduct TDS	Payee is responsible for payment of tax directly to Government
TDS is deducted but not deposited	Payee is not responsible for payment of such tax

5. No TDS is required to be deducted where the payee is **Government, RBI, Statutory Corporation & Mutual Fund**
6. Where GST on goods/services is indicated separately in the bill, TDS shall be deducted only on the value of goods/services and **not on the GST component**.
7. TDS provisions **apply** irrespective of whether the payment is **commercial or personal in nature**. Exception: In case of payment for Works Contract / Professional Fee / Technical Fee → an Individual/HUF is not required to deduct TDS.

TDS From Salary & Accumulated balance of PF [Section 392]
(Erstwhile Section 192/192A)

Payment	Payer	Payee	Rate
Salary	Any Person (ER)	Any Person (EE)	Slab Rate

Additional Points

1. TDS to be deducted @ the time of payment
2. If any person is working with two or more employers, in that case he should submit the particulars of his salary from all the employers to one of the employer who will deduct TDS on total Salary from all the Employers
3. For taxability of Salary under normal scheme (i.e. old regime) EE has to submit declaration to ER, then ER shall deduct TDS under Normal Scheme.
4. If any employee has income under any other head, the employee may report such incomes to the employer and the employer shall take it into consideration while deducting TDS.
5. If employee has loss under the head house property, he shall be allowed to report such loss to the employer.
6. If any tax has been deducted or collected under any other section then EE is allowed to report such details to ER.
7. EE has to give evidence/proof of deductions, Rent Paid for HRA Exemption, Travel expenses for LTC exemption.
8. If the ER bears the tax on non-monetary perquisite, then such tax shall not be deducted from salary of EE.

Note: Tax on non-monetary perquisite paid by ER is exempted in hands of EE u/s Schedule III, Table: Sl. No. 10 and ER is not allowed to dr. such expense to P/L.

9. Where firm pays salary to partner, then section 392 is not applicable.

Payment	Payer	Payee	Rate
Accumulated Balance Of PF	Any Person	Any Person (EE)	10%

Additional Points

1. TDS to be deducted @ the time of payment
2. No TDS, if payment is less than 50,000
3. No TDS if Withdrawal from PF is Exempt (Refer Salary Chapter)

Tax to be Deducted at Source [Section 393]
(Erstwhile All Sections Except 192/192A)

TDS in case of resident [Section 393(1)]

Particulars	Provision
When TDS applies	Where the specified income/payment to a resident exceeds the prescribed threshold limit (or as specifically provided for Serial No. 8(ii)).
Amount liable for TDS	TDS is deductible on the entire amount of income/payment once the threshold limit is crossed.
Time of Deduction	TDS shall be deducted at the earlier of: • Credit of income/payment to the payee's account, or • Actual payment (cash, cheque, draft, or any other mode).
Exceptions / Special Provisions	Subject to the provisions of sub-sections (4), (5), (6), (8) and (9).

Table: For Payments to resident

1. Commission Or Brokerage		
Nature Of Income	Payer	Rate & Threshold
i. Insurance Commission (Erstwhile Sec. 194D)	Any Person	Rate = 2%; Threshold = 20,000
ii. Other Commission / Brokerage (Erstwhile Sec. 194H)	Specified Person	Rate = 2%; Threshold = 20,000 Exemption: No deduction if commission is paid by BSNL/MTNL to their PCO franchisees.
1. Specified Person Means - Any person not being Individual or HUF - Individual or HUF – total sales/Gross Receipts/Turnover Exceed 1 crore in case of business or 50 lakhs in case of profession during the immediately preceding TY.		
2. Commission/Brokerage includes: • Services rendered (other than professional services) • Services in buying/selling goods • Transactions relating to any asset/article/thing other than securities		

2. Rent		
Nature Of Income	Payer	Rate & Threshold
i. Any income by way of rent (Erstwhile Sec. 194-1B)	Person other than specified person	Rate = 2%; Threshold = ₹50,000 per month or part of month
1. Tax deducted at time of credit of rent OR payment — whichever earlier — for the last month of the tax year or last month of tenancy. 2. If payee fails to provide his PAN, TDS is required to be deducted @ 20%. However, deduction under this section shall not exceed the amount of rent payable for the last month		
ii. Any income by way of rent (Erstwhile Sec. 194-1)	Specified person	Rate a) 2% — machinery/plant/equipment b) 10% — land/building/furniture/fittings Threshold = ₹50,000 per month or part of month
1. Lump sum lease premium or one-time upfront lease charges, which are not adjustable against periodic rent, paid or payable for acquisition of long-term leasehold rights are not payments in the nature of rent Therefore, NO TDS. 2. Passenger Service Fees paid by airline company to airport operator is not treated as rent. Therefore, NO TDS. 3. No TDS on refundable deposit 4. Warehousing Charges are covered under this section.		

3. Payment on Transfer of Immovable Property (Other than Agricultural Land)		
Nature Of Income	Payer	Rate & Threshold
i. Consideration for transfer of any immovable property (other than agricultural land) Erstwhile Section 194-1A	Person other than those required to deduct under Sl. No. 3(iii)	1% of higher of (a) consideration or (b) stamp duty value Threshold = ₹50 lakh TDS where consideration OR stamp duty value ≥ ₹50 lakh
a) Consideration for transfer of any immovable property shall include all charges of the nature of club membership fee, car parking fee, electricity or water		

facility fee, maintenance fee, advance fee, or any other charges of similar nature, which are incidental to transfer of the immovable property.		
b) If there is more than one buyer or seller for any immovable property, then consideration shall be aggregate amount paid/payable for such property.		
ii. Consideration (not in kind) under agreement u/s 67(14) (Erstwhile Sec. 194-1C)	Any person	Rate = 10%; Threshold = NIL
If both Sl. No. 3(i) and 3(ii) apply — TDS only under 3(ii).		
iii. Compensation/enhanced compensation or consideration on compulsory acquisition of immovable property (other than agricultural land) under any law (Erstwhile Sec. 194LA)	Any person	Rate = 10%; Threshold = ₹5,00,000
TDS under Sl. No. 3(iii) shall NOT be deducted on income by way of any award or agreement that has been exempted from income-tax under Section 96 of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013.		

4. Income From Capital Market		
Nature Of Income	Payer	Rate & Threshold
i. Income from: a) Mutual Fund units [Schedule VII, 20/21]; or b) units from Administrator of specified undertaking; or c) units from specified company (Erstwhile Sec. 194K)	Any person	Rate = 10%; Threshold = ₹10,000 No TDS if income is of the nature of capital gain.
Point ii,iii & iv is covered in CA FINAL		

5. Interest Income		
Nature Of Income	Payer	Rate & Threshold
(i) Interest on securities (Erstwhile Sec. 193)	Any person	Rate = 10%; Threshold = ₹10,000
No TDS on (a) National Development Bonds; (b) specified debentures notified by CG; (c) Section 85 Bonds: PFCL & IRFCL (d) Any Central/State Govt. securities (except 8% Savings Bonds 2003, 7.75% Savings Bonds 2018, Floating Rate Bonds 2020). (e) Also, no TDS on interest on securities to LIC, GIC, other insurers, and business trusts [Schedule V, Sl. No. 3 (in respect of any securities by a SPV)].		
(ii) Interest other than on securities (Erstwhile Sec. 194A)	Banking company; or co-operative society doing banking; or post office	Rate = 10%; Threshold (a) ₹1,00,000 — senior citizens (b) ₹50,000 — others
(iii) Interest other than on securities (Erstwhile Sec. 194A)	Specified person [other than Sl. No. 5(ii) payers]	Rate = 10%; Threshold = ₹10,000
No TDS on Interest: a) to banking companies, financial corporations, LIC, UTI, insurance companies; b) by co-op society to its members or another co-op society; c) on deposits with primary agricultural/credit societies; d) by Central Govt. under tax Acts; e) on deposits under notified CG schemes; f) on savings account with banking companies; g) MACT interest (individual (Any amount of Interest) or upto ₹50,000 in aggregate for others); h) zero coupon bond interest by infrastructure/PSU companies; i) interest by a firm to its partner.		
Note 1. (5(ii) & (iii)): For time deposits/specified deposits where CBS not adopted — threshold computed branch-wise.		

2. Payer may adjust TDS amount to correct excess/deficiency from previous deductions during the tax year.

6. Payments to Contractors, Fees for Professional/Technical Services

Nature Of Income	Payer	Rate & Threshold
(i) Any sum for carrying out any work (incl. supply of labour) under contract with a designated person (Erstwhile Sec. 194C)	Any designated person	Rate: (a) 1% if contractor is individual/HUF (b) 2% if other person Threshold (a) ₹30,000 per sum; OR (b) ₹1,00,000 aggregate

No TDS where

- (a) contractor engaged in plying/hiring/leasing goods carriages AND owns upto 10 goods carriages AND furnishes PAN declaration; or
- (b) sum credited/paid by individual/HUF exclusively for personal purposes.

1. "Designated person" Central/State Govt., local authority, corporation, company, co-op society, housing authority, registered society, trust, university, foreign entity, firm, or individual/HUF with turnover >₹1 crore (business)/₹50 lakh (profession).
2. "Work": Includes advertising; broadcasting/telecasting; carriage of goods/passengers (except railways); catering; manufacturing/supplying a product per customer's specs using customer's/associate's material. Also includes supply of manpower [w.e.f. 1-4-2026].
3. TDS on invoice value **excluding material value if shown separately**; otherwise on whole invoice value.
4. Payment by broadcaster or telecasters (TV Channels / OTT) to production houses for the production of content for broadcasting/Telecasting:
 - a) Content is produced as per broadcasters requirement and Copyright of such content is with broadcaster → Covered under definition of work → TDS under this section is Applicable

b) *Broadcaster acquires telecast rights of the content already produced* →
Not covered under definition of work → No TDS under this section is
 Applicable.

5. Payment for transportation of gas:

If seller sells as well as transports the gas to the buyer till the point of delivery, nature of such contract remains “contract of sale” and not a works contract. It is irrelevant whether transportation charges are included in cost of gas or it is shown separately. However, if transportation facility is availed from third person, then transport charges are liable for TDS under this section.

6. manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer or its associate, being a person placed similarly in relation to such customer as is the person placed in relation to the assessee u/s 36(2).
 but does not include manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from a person, other than such customer or associate of such customer

(ii) Any sum for: (a) work under contract; or (b) fees for professional services; or (c) commission/brokerage (not insurance) (Erstwhile Sec. 194M)	Individual or HUF [TO/GR of preceding TY doesn't exceed 1CR/50L]	Rate = 2% Threshold = ₹50 lakh
(iii) Any sum by way of: (a) fees for professional services; (b) fees for technical services; (c) director's remuneration/commission (d) royalty; (e) Non – Compete Fee (Erstwhile Sec. 194J)	Specified person	Rate: (a) 2% for technical service fees, cinematographic film royalty, or call centre payee (b) 10% in all other cases Threshold: (i) ₹50,000 for (a),(b),(d),(e) (ii) Nil for (c)

1. No TDS where sum is credited/paid by individual/HUF exclusively for personal purposes.
2. Ind/HUF is not required to deduct tax on royalty or NCF even if last year TO/QR exceeds Threshold.
3. Payments made to sportsperson, Umpire, Commentator, Referee, Physiotherapist, team physician, Anchor, Event Manager will also be regarded as professional fee and liable to TDS under this section.
4. TPAs (Third Party Administrator's) who are making payment on behalf of insurance companies to hospitals for settlement of medical/insurance claims etc. are liable to deduct tax at source under this section on all such payments to hospitals etc.

7. Dividend (Erstwhile Sec. 194)

Nature Of Income	Payer	Rate & Threshold
Any dividend (including preference shares) declared	Any domestic company	Rate = 10%; Threshold = NIL

TDS shall be deducted before making any distribution/payment of dividend.

No TDS on dividend paid to:

- a) LIC; GIC and its 4 subsidiaries; other insurers (on shares they fully own);
- b) Also, no TDS for an individual shareholder where dividend is paid by mode other than cash AND aggregate dividend during tax year $\leq$ ₹10,000.

8. Other Cases

Nature Of Income	Payer	Rate & Threshold
(i) Sum under life insurance policy (incl. bonus), other than exempt amount [Schedule II, Sl. No. 2] (Erstwhile Sec. 194DA)	Any person	Rate: 2% on income comprised in such sum Threshold: ₹1,00,000
(ii) Sum exceeding ₹50 lakh for purchase of any goods (Erstwhile Sec. 194Q)	Any person, being a buyer	Rate: 0.1% Threshold: sum exceeding ₹50 lakh

- a) TDS under 8(ii) does NOT apply to a transaction already liable to TDS/TCS under any other provision.
- b) Tax deducted only on sum exceeding ₹50 lakh.

- c) Meaning of Buyer For Sl. No. 8(ii): person whose total sales/turnover > ₹10 crore in preceding year. However, person notified by CG shall be excluded from meaning of buyer.
- d) If PAN of PAYEE is **not available** then, **TDS rate is 5%**
- e) In case of **purchase return** where money is returned by the seller, **TDS may be adjusted** against the **next purchase** from the seller.
- f) If business is commenced by the buyer in the current year, then his last year TO is NIL and hence this section shall not be applicable.
- g) **No TDS if seller** is department of **Govt.** (i.e. CG/SG shall not be considered as Seller for this section)
- h) If both **TCS & TDS provisions are applicable** on goods then **TCS shall prevail**.

(iii) Total income of specified senior citizen after deductions u/c VIII and rebate u/s 156 (Erstwhile Sec. 194P)	Specified bank	Rate: Rates in force Threshold: As Applicable
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Note:

- a) Sl. No. 8(iii) takes precedence over all other provisions of this chapter
- b) Specified Senior Citizen means Resident individual aged ≥75 years with only pension income + interest from same specified bank, and has filed the required declaration.

(iv) Any benefit or perquisite (cash or kind) arising from business or profession of any resident (Erstwhile Sec. 194R)	Specified person	Rate: 10% of value/aggregate value Threshold: ₹20,000
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Note:

1. In a case where the benefit or perquisite, is **wholly in kind or partly in cash and partly in kind** but the part in cash is not sufficient to meet the TDS Liability the payer shall, before releasing the benefit or perquisite, **ensure that TDS has been paid** in respect of the benefit or perquisite by way of
- Payer has collected TDS amount from Payee
 - Payer pays TDS by his own (i.e. Benefit or perq paid is treated as Net amount itself)
 - Payee deposit TDS to govt by way of advance tax and submit proof to payer.

2. Valuation of benefit/perquisite

Benefit/Perq Purchased by Payer → Purchase price shall be the value of Benefit/Perq

Benefit/Perq Manuf. By Payer → Price Charged from customer

GST would not be included for the valuation of benefit/perq for TDS.

3. Product is given to Influencer for advertisement/awareness of product:

i. **product is returned to the manufacturing company** – NO TDS under this section

ii. **Product is retained by influencer** – Considered as Benefit/Perq & TDS is attracted.

4. If **capital asset** has been provided as benefit/perq to payee and payer has deducted TDS, then **FMV of such benefit/perq** shall be **treated as actual cost** of asset for payee and **dep is allowed on such FMV**.5. **one-time loan settlement** with borrowers or waiver of loan granted by Bank, Co-op Bank, PFI, NBFC etc would **not be considered as benefit or perq**6. **Issue of bonus shares** and right shares by the widely held company to all shareholders are **outside the scope of this section**.

(v) Any sum on account of sale of goods/provision of services by an e-commerce participant, facilitated by e-commerce operator (Erstwhile Sec. 194O)	Any e-commerce operator	Rate: 0.1% of gross amount Threshold: NIL
(a) No TDS where e-commerce participant is (a) individual/HUF; AND (b) gross sales ≤ ₹5,00,000 during tax year; AND (c) PAN/Aadhaar furnished to operator. (b) Payments directly by buyer to participant are deemed to be made by operator. (c) Once TDS is deducted under this provision no TDS shall be deducted again under any other provision except to amounts received by the e-commerce operator for: • Hosting advertisements; or		

Other services not connected with the sale of goods or provision of services.		
(vi) Consideration for transfer of virtual digital asset (Erstwhile Sec. 194S)	Any person	Rate: 1% Threshold: NIL
No TDS where aggregate consideration does not exceed: (a) ₹50,000 if payable by individual/HUF with turnover ≤ ₹1 crore or ≤ ₹50 lakh (profession) OR having no business income; (b) ₹10,000 for any other person.		

Section 393(2) — Payments to Non-Residents

Particulars	Provision
Applicability	Where specified income/sum is credited or paid during the tax year to a specified non-resident.
Amount liable for TDS	TDS is deductible on the amount of such income or sum.
Time of Deduction	TDS shall be deducted at the earlier of: - Credit of income/sum to the payee's account, or - Actual payment (cash, cheque, draft, or any other mode).
Exceptions / Special Provisions	Subject to the provisions of sub-sections (4), (8) and (9).

Nature	Payee	Payer	Rate
1. Income u/s 211 (sportsman/entertainer) (Erst. Sec. 194E)	Non-resident sportsman/entertainer (non-citizen) or non-resident sports association	Any person	20%

Note: Other payments To NR is covered in CA FINAL

TDS In case of Any Person (Whether Resident or Non-Resident) [Section 393(3)]

Particulars	Provision
Applicability	Where specified income or sum is credited or paid during the tax year to any person.
Amount liable for TDS	TDS is deductible on the entire amount of income or sum where the amount/aggregate exceeds the prescribed threshold limit. For winnings covered by Note 1, TDS is on net winnings.
Time of Deduction	At the time of payment in cash, cheque, draft, or any other mode, or at such time as specifically provided in the relevant entry.
Exceptions	Subject to the provisions of sub-sections (4), (5), (6), (8) and (9).

Table: For Payments to resident & non-resident

Nature	Payer	Rate	Threshold
1. Winnings from lottery, crossword puzzle, card/board game, gambling/betting Erstwhile Section 194B	Any person	Rates in force	Rs. 10,000 per transaction
2. Winnings from ONLINE GAMES Erstwhile Section 194BA	Any person	Rates in force	As per Note 1 (net winnings)
1. TDS is to be deducted at the end of the FY. In case, there is withdrawal from user account during the FY, tax would be deducted at the time of such withdrawal on net winnings comprised in such withdrawal. 2. Calculation of Net Winnings = $(A+D) - (B+C)$ Where, A = Amount Withdrawn from the User Account. B = Amount deposited in user account by the assessee including non withdrawable joining bonus/referral bonus etc. C = Opening balance of user account (1/4/PY). D = Closing Balance of user account (31/3/PY). Alternatively Net Winnings = Winnings - Losses			

3. Winnings include withdrawable joining bonus/referral bonus given by the platform. However, if joining bonus/referral bonus is non-withdrawable then it shall be ignored.

4. No TDS where net winnings withdrawn does not exceed Rs 100 in a month.

Note:

a) Online Games [Sl. No. 2]: TDS on net winnings in user account at year-end; PLUS at the time of each withdrawal during the year on net winnings comprised in such withdrawal.

b) [Sl. Nos. 1 & 2]: Where winnings are wholly in kind or partly in kind (and cash is insufficient for TDS) — payer to ensure tax is PAID before releasing winnings

c) If prize money is paid in instalments, then tax shall be deducted at the time of payment of each instalment.

3. Winnings from horse race Erstwhile Section 194BB	Bookmaker or licensed person for horse racing/wagering	Rates in force	Rs. 10,000 per transaction
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4. Commission/remuneration/prize on lottery tickets (to stockist, distributor, purchaser, seller of lottery tickets) Erstwhile Section 194G	Any person	2%	Rs. 20,000
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Note: TDS at time of credit OR payment, whichever is earlier.

5. Cash withdrawals from accounts Erstwhile Section 194N	(a) Banking company; (b) co-op banking society; (c) post office	2%	(a) co-op society; Rs. 3 cr (b) others Rs. 1 cr
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No TDS on payments to: (a) Government; (b) banking company/co-op society/post office; (c) business correspondent of bank/co-op; (d) white label ATM operator

6. Amount referred to in section 80CCA(2)(a) of IT Act 1961	Any person	10%	Rs. 2,500
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Note: NSS Deposits: No TDS on payment made to HEIRS of an assessee

7. Salary, remuneration, commission, bonus, interest	Any person being a firm	10%	Rs. 20,000
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paid to PARTNER OF FIRM (or credited to account including capital account) <i>Erstwhile Section 194T</i>			
1. No TDS shall be deducted on repayment of Capital A/c balance. 2. TDS will also be applicable on Interest Payments by Firm. However, No TDS shall be deducted on Loan Given by firm to Partner. 3. No TDS shall be deducted in case of reimbursement of expenses incurred by Partner on behalf of Firm			

Declaration for Nil TDS [Section 393(6)]

- Person may furnish a **Written Declaration In Duplicate** (prescribed form 121 & manner Rule 211) to the payer, that **estimated total income** of the tax year shall be **NIL**.
- **Applicable persons:**
 - (1) Resident individual;
 - (2) Any person not being a company, firm, or individual covered in (1).
- **Applicable provisions:** PF balance, insurance commission, rent, mutual fund income, interest, life insurance, dividends.
- **NOT applicable to:** Non-senior-citizen individuals where aggregate income exceeds maximum amount NOT chargeable to tax.
- Person receiving declaration shall deliver it to prescribed income-tax authority by the **7th Day Of The Month** Immediately Following the **end of each quarter**.

Other Important Rules

1. No TDS from payments to:
 - (a) The Government;
 - (b) The Reserve Bank Of India;
 - (c) A Corporation established under Central Act that is EXEMPT from income-tax on its income;

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- (d) **A Mutual Fund** [Schedule VII, Sl. No. 20 or 21] — by way of interest, dividend on securities/shares, or any other income.
2. Credit to any account (incl. 'suspense account') = DEEMED credit to payee's account — TDS provisions apply accordingly
 3. **GROSS-UP**: Where payer bears the tax on recipient's income — income to be grossed up so that after TDS it equals the net amount agreed

Part II Tax Collection At Source

TCS [Section 394]

- Every person (**Seller / Authorised Dealer / Licensor Or Lessor**) shall **Collect Tax** on receipts at the rate as specified the Table.
- TCS shall be collected
 - At the time of **DEBITING** the amount payable by the buyer/licensee/lessee to their account OR
 - at the time of **RECEIPT** of such amount in cash/cheque/draft/any other mode
 — **WHICHEVER IS EARLIER**

TCS Table

Nature of Receipt	Person (Collector)	Rate
1. Sale of alcoholic liquor for human consumption	Seller	2%
2. Sale of tendu leaves	Seller	2%
3. Sale of timber (whether under forest lease or otherwise); OR any other forest produce (not being timber or tendu leaves) obtained under a forest lease	Seller	2%
4. Sale of scrap	Seller	2%
5. Sale of minerals , being coal or lignite or iron ore	Seller	2%

Note:**1. No TCS on Sl. Nos. 1 to 5 [Manufacturing/Processing Declaration]**

TCS shall NOT be collected if the BUYER who is a RESIDENT IN INDIA furnishes a written declaration in duplicate (prescribed form & manner) to the person responsible for collecting tax stating that such goods are to be utilised —

- (a) for the purposes of Manufacturing, Processing Or Producing Articles Or Things Or For Generating Power; And
- (b) Not For Trading Purposes

2. Seller: For 394 Sl. Nos. 1–6 — means: (i) Central Govt.; (ii) State Govt.; (iii) any local authority/corporation/authority established under Central/State/Provincial Act; (iv) any company/firm/co-op society; (v) individual/HUF with business turnover > Rs. 1 crore or profession receipts > Rs. 50 lakh in preceding tax year.

4. For 394(1) Sl. Nos. 1–5: Buyer does NOT include: (a) public sector company; (b) Central/State Govt., embassy, High Commission, legation, commission, consulate, trade representation of a foreign State; (c) a club; (d) buyer in retail sale for personal consumption

6. Sale consideration
Exceeding Rs. 10 lakhs in
case of —
(a) motor vehicle; OR
(b) any other luxury goods

Seller

1%

1. TCS applies on the Entire Sale Consideration exceeding Rs. 10 lakhs

2. Notified Luxury Goods

- a) Wristwatches
- b) Art items such as antiques, paintings and sculptures
- c) Collectibles, including Coins and stamps
- d) Yachts, rowing boats, canoes and Helicopters
- e) Sunglasses
- f) Handbags and Purses
- g) Pair of shoes
- h) Sportswear and equipment like Golf kits or Ski wear
- i) Home theatre systems
- j) Horses used for racing or polo

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7. Remittance under Liberalised Remittance Scheme (LRS) of RBI of an amount or AGGREGATE of amounts EXCEEDING Rs. 10 lakh	Authorised dealer	a) 2% — for purposes of EDUCATION or MEDICAL TREATMENT b) 20% — for all other purposes
TCS shall NOT be collected by the authorised dealer in respect of LRS remittance [Sl. No. 7] — a) on such amount on which tax has Already Been Collected by the seller in respect of Overseas Tour Programme Package [Sl. No. 8]; OR b) if the amount being remitted out is a Loan Obtained from Any Financial Institution for the purpose of pursuing any Education.		
8. Sale of 'overseas tour programme package' including expenses for travel / hotel stay / boarding / lodging or any such similar or related expenditure	Seller	2%
Overseas tour programme package: Any tour package which offers visit to any Country or Territory Outside India and includes expenses for travel or hotel stay or boarding or lodging or any other expenditure of similar nature or in relation thereto		
TCS shall NOT be collected by the authorised dealer or seller in respect of receipts under Sl. Nos. 7 and 8 if — The Buyer Is Liable to Deduct Tax at Source under any other provision of this Act And He Has Actually Deducted Such Tax.		
9. Use of parking lot or toll plaza or mine or quarry for the purpose of BUSINESS — EXCLUDING mining and quarrying of mineral oil (including petroleum and natural gas)	Licensor or Lessor	2%

Section 395 — Certificates

(Erstwhile Section 195, 197, 203 & 206C of ITA 1961)

1. Lower / Nil TDS Certificate

Where tax is required to be deducted under Chapter XVII, the **payee may apply to the Assessing Officer for deduction at a lower rate or nil deduction**. The AO, on being satisfied that the total income of the payee justifies such relief, shall issue an appropriate certificate. Once issued, the **person responsible for paying the income** or sum is obligated to **deduct tax** at the **rate specified** in the certificate — or **deduct nil** — till the certificate's validity.

2. Lower TCS Certificate

Where tax is required to be collected under Chapter XVII, the **buyer, licensee, or lessee may apply to the AO for collection at a lower rate**. On being satisfied, the AO issues an appropriate certificate, and the collector must collect at the specified rate till the certificate's validity.

Note: Relief here is **limited to a lower rate only** — nil collection is not available

3. Issuance of TDS/TCS Certificates by Deductor/Collector

Part (a): Every **person who deducts or collects tax must issue a certificate to the deductee or collectee** specifying the amount of tax deducted or collected, the rate at which it was deducted or collected, and any other particulars as prescribed — all within the prescribed period. (Form 16 / Form 16A under the Rules.)

Part (b): An employer covered under Section 392(2)(a) (S. 192(1A) of 1961 Act — **employer who pays tax on non-monetary perquisites** on behalf of the employee) **must issue a certificate to the employee** confirming that the tax has been deposited to the Central Government, specifying the amount and rate of tax so paid, within the prescribed period.

PAN Requirement for TDS/TCS [Section 397]

Consequence of Non-Furnishing of PAN

For TDS — tax shall be deducted at the highest of:

- Rate specified in the relevant provision of the Act; or
- Rate or rates in force (i.e., DTAA rate or Finance Act rate, whichever applicable); or
- 5% — where deduction is under Section 393(1), Table Sl. No. 8(ii) or 8(v); or 20% in any other case.

For TCS — tax shall be collected at the higher of (subject to a ceiling of 20%):

- Twice the rate specified in the relevant provision; or
- 5%

Consequences Of Failure To Deduct/collect or pay [Section 398] (Erstwhile Section 201)

Assessee in Default: If payer has not deducted the TDS/not collected the TCS or after deduction/Collection has not been deposited to Govt, then such person is treated as assessee in default and required to pay penalty u/s 412 and that can be upto 100% of TDS amount.

Non-applicability of deeming provision:

Payer shall not be treated as assessee in default if payee-

- a) has furnished his return of income under section 263;
- b) has taken into account such sum for computing income in such return of income; and
- c) has paid the tax due on the income declared by him in such return of income, and the payer furnishes a certificate to this effect from an accountant in such form as may be prescribed.

Interest Liability

Non-deduction/Non-collection period: 1% per month or part of month, from the date tax was deductible/collectible to the date it is actually deducted/collected.

Non-payment after deduction/collection: 1.5% per month or part of month, from the date of deduction/collection to the date of actual payment to the Government.

Part III Advance Tax

Liability to pay Advance Tax [Section 403 & 404] (Erstwhile Section 207 & 208)

- Tax shall be payable in advance during any financial year in respect of an assessee's current income
- Obligation to pay advance tax arises in every case where the tax payable is ₹ 10,000 or more

Note: In case of senior citizens who have passive sources of income like interest, rent, etc., exemption from payment of advance tax has been provided to a resident individual–

- a) not having any income chargeable under the head PGBP and
- b) of the age of 60 years or more.

Such senior citizens need not pay advance tax and are allowed to discharge their tax liability (other than TDS) by payment of self-assessment tax.

Calculation of Advance Tax [Section 405] (Erstwhile Section 209)

The amount of advance tax payable in the financial year calculated by –

- a) the assessee himself based on his estimation of current income or
- b) the Assessing Officer as a result of an order

Installments of Advance Tax (Other than Presumptive basis)
[Section 408] (Erstwhile Section 211)

Due date of Installment	Amount Payable
On or before 15th June	15% of advance tax liability
On or before 15th September	45% of advance tax liability, as reduced by the amount, if any, paid in the earlier instalment
On or before 15th December	75% of advance tax liability, as reduced by the amount or amounts, if any, paid in the earlier instalments
On or before 15th March	The whole amount of advance tax liability as reduced by the amounts, if any, paid in the earlier instalments

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Note - Any amount paid by way of advance tax on or before 31st March shall also be treated as advance tax paid during each financial year ending on 31st March.

Interest u/s 425 (Erstwhile Section 234C)

If any person has defaulted in payment of advance tax, interest shall be charged @ 1% per month for a period of 3 months on the Amount of default in each installment, but for the last installment, interest shall be charged only for one month.

Circumstances	Amount On which Interest is to be Paid
Where advance tax paid on or before 15/06 is less than 12% of the tax due	15% of tax due on income less advance tax paid upto 15/06
Where advance tax paid on or before 15/09 is less than 36% of the tax due	45% of tax due on income less advance tax paid upto 15/09
Where advance tax paid on or before 15/12 is less than 75% of the tax due	75% of tax due on income minus advance tax paid upto 15/12
Where advance tax paid on or before 15/03 is less than 100% of the tax due	100% of tax due on income minus advance tax paid upto 15/03

Note: In case of capital gains and casual income, no advance tax is payable on estimated basis but if there is actual accrual of casual income or capital gains, advance tax is to be paid in the subsequent installments and if such accrual is after 15th March, advance tax is to be paid upto 31st March of previous year otherwise interest shall be charged under section 234C

Interest u/s 424 (Erstwhile Section 234B)

If advance tax paid is less than 90% of actual tax liability, assessee shall be required to pay interest @ 1% per month or part of a month from 1st April of assessment year upto the date of payment.

Interest u/s 423 (Erstwhile Section 234A)

If any person has paid income tax after expiry of the last date of filing of return of income, interest shall be payable @ 1% p.m. or part of the month for the period subsequent to the last date of filing of return of income

Rule 269 (Erstwhile Rule 119A)

As per rule 269, the principal Amount shall be rounded off in the multiples of ₹ 100 and for this purpose any fraction of ₹ 100 shall be ignored

CHAPTER 8: RETURN OF INCOME

COMPULSORY FILING OF RETURN OF INCOME [Section 263(1)] (Erstwhile SECTION 139(1))

- a) It is **compulsory for companies and firms** to file a return of income or loss for every Tax Year
- b) For **other assesses** return filling is mandatory if **GTI without giving effect to the provisions of section 82/83/84/85/86/87/88 exceeds BEL**.
- c) For Following Person Return Filling is Mandatory:
 - 1. **ROR – Individual** if at any time during the TY,
 - i. Is a **beneficial owner** of any **asset** (including any financial interest in any entity) located **outside India** or has a **signing authority** in any **account** located **outside India**
 - ii. is a **beneficiary** of any **asset** (including any financial interest in any entity) located **outside India**

“**Beneficial Owner**” means An individual who has **provided**, directly or indirectly, **consideration for the asset** for the immediate or future benefit, of himself or any other person.

“**Beneficiary**” means An individual who **derives benefit from the asset** during the tax year and the **consideration** for such asset has been **provided by any person, other than such beneficiary**.
 - 2. has **deposited** an amount or aggregate of the amounts **exceeding ₹ 1 crore** in one or more **current accounts** or **50 lakhs or more** in one or more **saving accounts**.
 - 3. has incurred **Foreign travel expenditure** of aggregate amount **exceeding ₹ 2 lakh** for himself or any other person.
 - 4. has incurred expenditure of aggregate amount **exceeding ₹ 1 lakh** towards consumption of **electricity**
 - 5. if his **total sales**, turnover or gross receipts, as the case may be, in the **business exceeds ₹ 60 lakhs** or total gross receipts in **profession exceeds ₹ 10 lakhs**, during the tax year.

6. if the aggregate of TDS and TCS during the tax year, in the case of the person, is ₹ 25,000 or more (50,000 in case of Senior citizen).

d) Due Date

	FY succeeding the tax year
a) A company	31 st October
b) A person (other than a company) whose accounts are required to be audited any law; or	
c) A partner of a firm whose accounts are required to be audited under any law	
An assessee including the partners of the firm being such assessee who is required to furnish a report referred to in section 172 (Transfer Pricing Report)	30 th Nov
a) Assessee having PQBP Income – No audit Required	31 st August
b) Partner Of a Firm – No audit Required	
In the case of any other assessee	31 st July

RETURN OF LOSS [Section 263(1)(a)(viii) read with Section 121]
(Erstwhile SECTION 139(3))

Irrespective of anything contained in chapter VII (Relating to set off & carry forward)

- Loss under the head “Capital Gains” u/s 111 (1)
- Business loss u/s 112 (1)
- Speculation business loss u/s 113 (2)
- Loss from specified business u/s 114 (2)
- Loss from the activity of owning and maintaining race horses u/s 115 (2)

If return is not filed upto the due date as per section 263 (1) then, above losses are not allowed to be carried forward. However, loss of earlier years can be c/f if the return of loss of that year(s) was submitted within the due date & such loss has been assessed.

Note:

- restriction is on carried forward and not on set-off i.e. if return is filed late, then set-off of above losses are allowed but not allowed to C/F.

2. However, **House Property Loss** and **unabsorbed depreciation** can be carried forward for set-off even though return of loss has not been filed before the due date.

BELATED RETURN [Section 263(4)] (Erstwhile SECTION 139(4))

Any person who has **not furnished a return within the due date** u/s 263 (1) may furnish the return for any tax year at any time **earlier of –**

- (i) Within **9 months** from the **end of RTY**
- (ii) before the **completion of the assessment**

consequences of Belated return

- a) Not allowed to C/F losses as per section 121
- b) Interest u/s 423 @ 1% pm or part thereof
- c) Late fees u/s 428(a).

Fees For default in furnishing ROI [Section 428 (a)] (Erstwhile Section 234F)

If a person fails to file ROI within the due date specified u/s 263(1) then such person is liable to pay a fee as follows

- **₹1,000** if the **total income** does **not exceed ₹5,00,000**.
- **₹5,000** in any other case (i.e., **total income exceeds ₹5,00,000**)

REVISED RETURN [Section 263(5)] (Erstwhile SECTION 139(5))

If any person having **furnished a return** u/s 263(1) or **a belated return** u/s 263(4), discovers any omission or any wrong statement therein, he **may furnish a revised return** at any time **earlier of–**

- (i) before **12 months** from **end of RTY**.
- (ii) before the **completion of the assessment**

Fee for revising the return after 9 months but on or before 12 months [Section 428(b)]

- **₹1,000** if the **total income** does **not exceed ₹5,00,000**.
- **₹5,000** in any other case (i.e., **total income exceeds ₹5,00,000**)

Note:

- a) If belated return is revised after 31/12 but on or before 31/3, assessee shall have to pay the fee both u/s 428(a) & 428(b).
- b) If return has been furnished upto the due date u/s 263(1) is revised after 31/12, assessee shall have to pay fee only u/s 428(b)
- c) Revised return substitutes original return from the date original return was filed
- d) Assessee can revise the belated return as well
- e) Assessee can revise return any no. of times within the time limit.

Updated Return of Income [Section 263(6)] (Erstwhile Section 139(8A))

Furnishing of Updated Return

Updated return can be filed within 48 months from end of FY succeeding RTY by any person whether or not he has furnished ROI u/s 263 (1)/(4)/(5).

However no updated return can be submitted by any person where any show cause notice has been issued u/s 281 (Re-assessment Notice) in his case after 36 Month from end of FY succeeding RTY.

In following cases, Updated Return cannot be submitted:

1. If updated return is a return of loss.
2. If updated return results in refund, decreasing tax or increasing refund.
3. If updated return is already furnished for relevant TY.
4. Search has been initiated u/s 247 or books/assets requisitioned u/s 248.
5. Survey has been conducted u/s 253 [except TDS/TCS survey].
6. Notice has been issued u/s 294 (For Block Assessment) in pursuance to provision of section 295.
7. Search & survey have been conducted in case of any other person but money etc and BOA belongs to such person.
[In case of search and survey, no updated return for such year & earlier years]
8. Any proceeding is initiated, pending or completed for relevant TY.
9. If AO has information in respect of such person under Money Laundering Act, Black Money Act, Benami Property Act, Smugglers Act, Section 90/90A of ITA, 1961 or Section 159 of ITA, 2025 and same has been communicated to him prior to filing of updated return.

10. If any **prosecution proceedings** been initiated for relevant TY in respect of a person prior to date of furnishing of return under this sub-section.

Tax on Updated Return [Section 267] (Erstwhile 140B)

If assessee has not furnished ROI earlier	If assessee has furnished ROT earlier:
Total tax on income as per updated ROI	Total tax on income as per updated ROI
(+) Interest [234A/B/C]	(+) Interest [234A/B/C]
(-) TDS/TCS/Advance tax	(-) Tax paid as per earlier return
(-) AMT credit set-off	(-) Interest aid in earlier return
	(-) TDS/TCS/Advance tax
	(-) AMT credit set-off

Additional Tax on Updated Return

- If updated return is furnished **after expiry of time u/s 263(4) / (5) but before completion of 12 months** from end of FY Succeeding the relevant TY:
25% of aggregate of [tax + interest] payable as per updated return
- If updated return is furnished **after expiry of 12 months but before completion of 24 months** from end of FY Succeeding the relevant TY.
50% of aggregate of [tax + interest] payable as per updated return
- If updated return is furnished **after expiry of 24 months but before completion of 36 months** from end of FY Succeeding the relevant TY.
60% of aggregate of [tax + interest] payable as per updated return
- If updated return is furnished **after expiry of 36 months but before completion of 48 months** from end of FY Succeeding the relevant TY.
70% of aggregate of [tax + interest] payable as per updated return

Where updated return is filed **in pursuance of a notice issued u/s 280** within the period specified in the said notice, the **additional income tax** payable shall be **increased by a further sum of 10%** of aggregate of [tax + interest].

Note: If loss or unabsorbed depreciation c/f or tax credit c/f is to be reduced for any subsequent TY as a result of furnishing of updated return of income for a TY, an updated return is required to be furnished for each such subsequent TY.

DEFECTIVE RETURN [Section 263(7)] (Erstwhile SECTION 139(9))

1. Return shall be considered as defective, if –
 - a) Return is not filed in prescribed form
 - b) Tax proof is not provided along with return filed.
 - c) Audit report is not submitted.
2. If return is defective then AO may intimate the defect to the assessee and give him an opportunity to rectify the defect within a period of 15 days or extended period at the discretion of AO.
3. If the defect is not rectified within the time allowed, then the return would be treated as an invalid return.

PERMANENT ACCOUNT NUMBER (PAN) & Aadhar Number [SECTION 262] (Erstwhile Section 139A/139AA)

- Following persons are required to apply for allotment of PAN:

Person	Time Limit For Application
Every person, if his total income during any Tax year exceeds BEL	On / before the 31st May, immediately following such tax year.
Every person carrying on business or profession whose total sales, turnover or gross receipts are or is likely to exceed 5 lakhs in an Tax Year	Before the end of that tax year.
Every person who is required to furnish a return of income u/s 263	Before the end of that tax year.
Resident, other than individual, which enters into a financial transaction aggregating to 2,50,000 or more in TY	On / before the 31st May, immediately following such tax year.
Every person who is a managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer of any person referred in (iv) above or any person competent to act on behalf of such person referred in (iv) above	On / before the 31st May, immediately following such tax year.

Every person who intends to enter such transactions as prescribed under rule 159	At least 7 days before the date on which he intends to enter into the said transaction.
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- Quoting of PAN is mandatory
 - a) In all returns.
 - b) In all challans for payment of tax.
 - c) In all documents relating to specified transaction.
- Transaction for which PAN is Mandatory (Rule 159)

	Nature of transaction	Value of transaction
1	Making an application to any banking company or co-operative bank for issue of a credit card.	All such transactions.
2	Opening of an account with a depository, participant, custodian of securities or any other person registered under section 12(1A) of the SEBI Act, 1992.	All such transactions.
3	Payment to the Reserve Bank of India for acquiring bonds issued by it.	Amount exceeding Rs. 50,000.
4	Payment to a Mutual Fund for purchase of its units.	Amount exceeding Rs. 50,000.
5	Contract for sale or purchase of securities (other than shares).	Amount exceeding Rs. 1,00,000 per transaction.
6	Deposit with a banking company/co-operative bank or Post Office.	Cash deposits aggregating to Rs. 10,00,000 or more in a financial year, in one or more account of a person.
7	Withdrawal with a banking company/co-operative bank or Post Office.	Cash withdrawals aggregating to Rs. 10,00,000 or more in a financial year, in one or more account of a person.

8	Sale or purchase of motor vehicle or vehicle requiring registration, except tractor; or motor cycle.	Amount exceeding Rs. 5,00,000.
9	Sale or purchase of shares of a company not listed in recognised stock exchange.	Amount exceeding Rs. 1,00,000 per transaction.
10	Payment to a company or an institution for acquiring debentures or bonds issued by it.	Amount exceeding Rs. 50,000.
11	Purchase or sale or gift or joint development agreement by any person of any immovable property.	Amount exceeding Rs. 20,00,000 or SDV exceeding Rs. 20,00,000.
12	Opening an account other than a time-deposit and a Basic Savings Bank Deposit Account with a banking company or co-operative bank.	All such transactions.
13	A time deposit with a banking company/co-operative bank, Post Office, Nidhi, or specified NBFC.	Amount exceeding Rs. 50,000 or aggregating to more than Rs. 5,00,000 during a financial year.
14	Commencement of account-based relationship with an insurer.	Insurance premium exceeds Rs. 50,000 during a financial year.
15	Payment to a hotel, restaurant, convention centre, banquet hall, or event manager against a bill or bills at any one time.	Payment in cash exceeding Rs. 1,00,000.
16	Sale or purchase of goods or services of any nature other than those specified at Sl. Nos. 1 to 15.	Amount exceeding Rs. 2,00,000 per transaction.

- Penalty for failure to comply with section 262

Default / failure	Penalty
Failure to comply with the provisions of section 262.	Rs. 10,000.
Quoting or intimating a false PAN or Aadhaar number, knowing or believing it to be false, in any document referred to in section 262	Rs. 10,000 for each default.
Failure to quote or authenticate PAN or Aadhaar number in any document referred to in section 262	Rs. 10,000 for each default.

Person receiving such documents fails to ensure correct quoting or authentication of PAN or Aadhaar number in prescribed transaction documents.	Rs. 10,000 for each default.
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- **Aadhar Number**

- A person eligible to obtain Aadhaar **must quote the Aadhaar number** in the **PAN application form** and in the **return of income**. (Section 262(5))
- A person who has been allotted PAN and is eligible to obtain Aadhaar **must intimate Aadhaar** to the prescribed income-tax authority in the prescribed form and manner. (Section 262(6)(a))
- If Aadhaar is **not intimated** as required, the **PAN allotted** to that person **becomes inoperative** as prescribed. (Section 262(6)(b))
- A person who is required to quote PAN but has not been allotted PAN and has Aadhaar **may quote Aadhaar instead of PAN**, and PAN will be allotted in the prescribed manner. (Section 262(7)(a))
- A person who has been allotted PAN and has intimated Aadhaar under section 262(6) may quote Aadhaar instead of PAN. (Section 262(7)(b))
- Every person entering into prescribed transactions must quote PAN or Aadhaar in the relevant documents and authenticate it in the prescribed manner. (Section 262(9)(a))
- The person receiving such document **must ensure** that **PAN or Aadhaar** has been **correctly quoted** and authenticated. (Section 262(9)(b))
- The Board may make rules regarding the manner of authentication of PAN or Aadhaar. (Section 262(10)(e))
- The Central Government may notify that sections 262(5) and 262(6) will not apply to certain persons, classes, or areas. (Section 262(12))
 - Residing in Assam, Jammu & Kashmir and Meghalaya
 - Non resident
 - Age of 80 years or more at any time during T.Y.
 - Not a citizen of India

VERIFICATION OF RETURN [Section 265] (Erstwhile Section 140)

Assessee	Cases	Verified By
Individual	In General	Individual Himself

	Where the individual concerned is absent from India	Individual himself or by the duly authorized person of such individual
	Where the individual is mentally incapacitated	Guardian of such individual or any other person competent to act on his behalf
	Where by any other reason it is not possible for the individual to verify the return	Any person duly authorised by him
HUF	In general	Karta
	Where the 'karta' is absent from India or is mentally incapacitated	Any adult member of the family
Firm	In General	Managing partner
	If due to any reason it is not possible for managing partner to verify or where there is no managing partner	Any adult partner
Limited liability partnership	In General	Designated partner
	If due to any unavoidable reason such designated partner is not able to verify the return, or where there is no designated partner as such	Any partner or any other prescribed person
Local authority	Principal Officer	
Political Party	Chief Executive Officer	
Company	In General	Managing Director (MD)
	If due to any reason it is not possible for MD to	Any director or any other prescribed person

	verify or where there is no MD	
	Where an application for corporate insolvency resolution process has been admitted by the Adjudicating Authority under Insolvency and Bankruptcy Code, 2016	Insolvency professional appointed by such Adjudicating Authority
	Non-resident company	A person holding a valid power of attorney. Copy of such power of attorney must be attached with the return
	Company in process of winding up	Liquidator of the company
	Where the management of the company has been taken over by the Central or State Government	Principal officer
Any other association	Any member or principal officer	
Any other person	Such person or any other person competent to act on its behalf	

Self-Assessment [Section 266] (Erstwhile Section 140A)

- Assessee is required to **pay due tax before filing of ROI** [after considering advance tax, TCS, AMT credit] **along with interest and fees.**
- If there is **short payment**, then amount paid is **first adjusted towards fees**, then **interest** and balance towards **tax.**

