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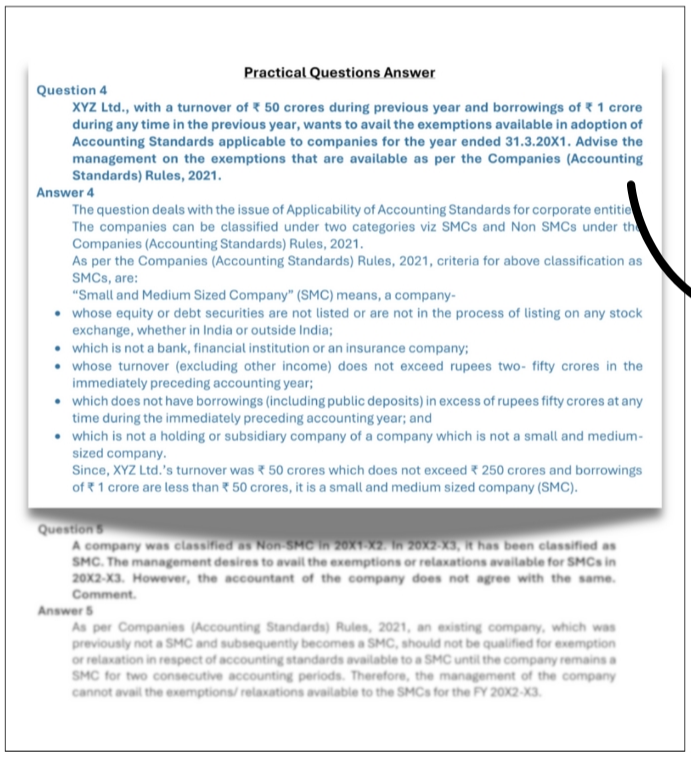
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Practical Questions Answer

Question 4

XYZ Ltd., with a turnover of ₹ 50 crores during previous year and borrowings of ₹ 1 crore during any time in the previous year, wants to avail the exemptions available in adoption of Accounting Standards applicable to companies for the year ended 31.3.20X1. Advise the management on the exemptions that are available as per the Companies (Accounting Standards) Rules, 2021.

Answer 4

The question deals with the issue of Applicability of Accounting Standards for corporate entities. The companies can be classified under two categories viz SMCs and Non SMCs under the Companies (Accounting Standards) Rules, 2021.

As per the Companies (Accounting Standards) Rules, 2021, criteria for above classification as SMCs, are:

"Small and Medium Sized Company" (SMC) means, a company-

- whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
- which is not a bank, financial institution or an insurance company;
- whose turnover (excluding other income) does not exceed rupees two- fifty crores in the immediately preceding accounting year;
- which does not have borrowings (including public deposits) in excess of rupees fifty crores at any time during the immediately preceding accounting year; and
- which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Since, XYZ Ltd.'s turnover was ₹ 50 crores which does not exceed ₹ 250 crores and borrowings of ₹ 1 crore are less than ₹ 50 crores, it is a small and medium sized company (SMC).

Question 5

A company was classified as Non-SMC in 20X1-X2. In 20X2-X3, it has been classified as SMC. The management desires to avail the exemptions or relaxations available for SMCs in 20X2-X3. However, the accountant of the company does not agree with the same. Comment.

Answer 5

As per Companies (Accounting Standards) Rules, 2021, an existing company, which was previously not a SMC and subsequently becomes a SMC, should not be qualified for exemption or relaxation in respect of accounting standards available to a SMC until the company remains a SMC for two consecutive accounting periods. Therefore, the management of the company cannot avail the exemptions/ relaxations available to the SMCs for the FY 20X2-X3.

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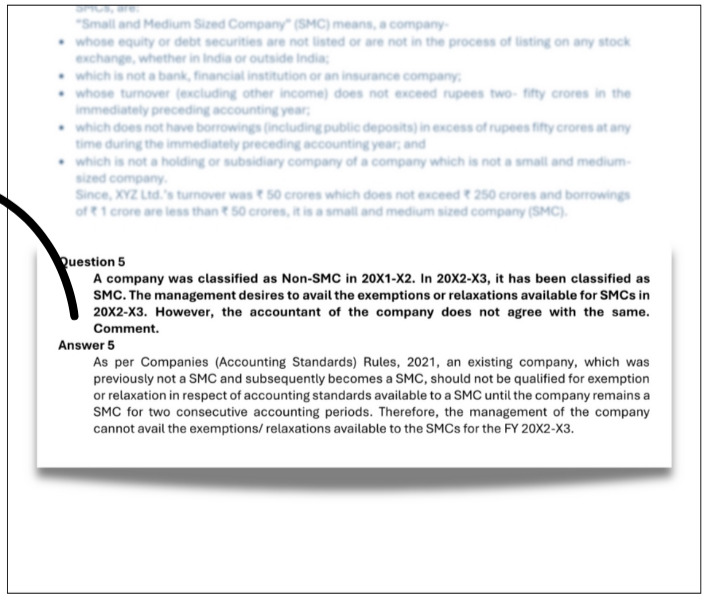
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SMCs, are:

"Small and Medium Sized Company" (SMC) means, a company-

- whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
- which is not a bank, financial institution or an insurance company;
- whose turnover (excluding other income) does not exceed rupees two- fifty crores in the immediately preceding accounting year;
- which does not have borrowings (including public deposits) in excess of rupees fifty crores at any time during the immediately preceding accounting year; and
- which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Since, XYZ Ltd.'s turnover was ₹ 50 crores which does not exceed ₹ 250 crores and borrowings of ₹ 1 crore are less than ₹ 50 crores, it is a small and medium sized company (SMC).

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Answer 5

As per Companies (Accounting Standards) Rules, 2021, an existing company, which was previously not a SMC and subsequently becomes a SMC, should not be qualified for exemption or relaxation in respect of accounting standards available to a SMC until the company remains a SMC for two consecutive accounting periods. Therefore, the management of the company cannot avail the exemptions/ relaxations available to the SMCs for the FY 20X2-X3.

ILLUSTRATION :

Question 1 (Illustration)

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

Answer 1

Computation of Business Income and Agriculture Income of Mr. B

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

Question 2 (Illustration)

Mr. C manufactures latex from the rubber plants grown by him in India. These are then sold in the market for ₹ 30 lakhs. The cost of growing rubber plants is ₹ 10 lakhs and that of manufacturing latex is ₹ 8 lakhs. Compute his total income.

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Answer 2

The total income of Mr. C comprises of agricultural income andbusiness income.
Total profits from the sale of latex = ₹ 30 lakhs – ₹ 10 lakhs – ₹ 8 lakhs= ₹ 12 lakhs.
Agricultural income = 65% of ₹ 12 lakhs = ₹ 7.8 lakhs
Business income = 35% of ₹ 12 lakhs = ₹ 4.2 lakhs

Question 3 (Illustration)

Mr. X has a total income of ₹ 16,00,000 for P.Y.2024-25, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2025- 26 under the default tax regime under section 115BAC.

Answer 3

Computation of Tax liability of Mr. X for A.Y. 2025-26

Tax liability:

First ₹ 3,00,000	- Nil		
Next ₹ 3,00,001 – ₹ 7,00,000	- @5% of ₹ 4,00,000	=	₹ 20,000
Next ₹ 7,00,001 – ₹ 10,00,000	- @10% of ₹ 3,00,000	=	₹30,000
Next ₹ 10,00,001 – ₹ 12,00,000	-@15% of ₹ 2,00,000	=	₹30,000
Next ₹ 12,00,001 – ₹ 15,00,000	-@20% of ₹ 3,00,000	=	₹ 60,000
Balance i.e., ₹ 16,00,000 minus ₹ 15,00,000	-@30% of ₹ 1,00,000	=	₹30,000
		=	₹1,70,000
Add: Health and Education cess@4%		=	₹ 6,800
		=	**₹1,76,800**

Question 4 (Illustration)

Mr. X has a total income of ₹ 16,00,000 for P.Y.2024-25, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2025-26 assuming his age is –

(a) 45 years
(b) 63 years
(c) 82 years

Assume that Mr. X has exercised the option to shift out/ opt out of the default tax regime.

Answer 4

(a) Computation of Tax liability of Mr. X (aged 45 years)

Tax liability:			
First ₹ 2,50,000	- Nil		
Next ₹ 2,50,001 – ₹ 5,00,000	- @5% of ₹ 2,50,000	=	₹ 12,500
Next ₹ 5,00,001 – ₹ 10,00,000	- @20% of ₹ 5,00,000	=	₹ 1,00,000
Balance i.e., ₹ 16,00,000 minus ₹ 10,00,000	- @30% of ₹ 6,00,000	=	₹ 1,80,000
		=	₹ 2,92,500
Add: Health and Education cess@4%		=	₹ 11,700
		=	**₹3,04,200**

(b) Computation of Tax liability of Mr. X (aged 63 years)

Tax liability:			
First ₹ 3,00,000	- Nil		

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Next ₹ 3,00,001 – ₹ 5,00,000	- @5% of ₹ 2,00,000	=	₹ 10,000
Next ₹ 5,00,001 – ₹ 10,00,000	- @20% of ₹ 5,00,000	=	₹ 1,00,000
Balance i.e., ₹ 16,00,000 minus ₹ 10,00,000	- @30% of ₹ 6,00,000	=	₹ 1,80,000
		=	₹ 2,90,000
Add: Health and Education cess@4%		=	₹ 11,600
		=	**₹3,01,600**

(c) Computation of Tax liability of Mr. X (aged 82 years)

Tax liability:			
First ₹ 5,00,000	- Nil		
Next ₹ 5,00,001 – ₹ 10,00,000	- @ 20% of ₹ 5,00,000	=	₹ 1,00,000
Balance i.e., ₹ 16,00,000 minus ₹ 10,00,000	- @ 30% of ₹ 6,00,000	=	₹ 1,80,000
		=	₹2,80,000
Add: Health and Education cess@4%		=	₹ 11,200
		=	**₹2,91,200**

Question 5 (Illustration)

Compute the tax liability of Mr. A (aged 42), having total income of ₹ 51 lakhs for the Assessment Year 2025-26. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. A has exercised the option to shift out of section 115BAC.

Answer 5

Computation of tax liability of Mr. A for the A.Y.2025-26

A	Income-tax (including surcharge) computed on total income of		₹ 51,00,000
	₹ 2,50,000 – ₹ 5,00,000 @5%	₹ 12,500	
	₹ 5,00,001 – ₹ 10,00,000 @20%	₹ 1,00,000	
	₹ 10,00,001 – ₹ 51,00,000 @30%	₹ 12,30,000	
	Total	**₹ 13,42,500**	
	Add: Surcharge @ 10%	₹ 1,34,250	₹ 14,76,750
B	Income-tax computed on total income of ₹ 50 lakhs (₹ 12,500 plus ₹ 1,00,000 plus ₹ 12,00,000)		₹13,12,500
C	Total Income Less ₹ 50 lakhs		₹ 1,00,000
D	Income-tax computed on total income of ₹ 50 lakhs plus the excess of total income over ₹ 50 lakhs (B +C)		₹ 14,12,500
E	Tax liability: lower of (A) and (D)		₹ 14,12,500
	Add: Health and education cess @4%		₹ 56,500
	Tax liability (including cess)		₹ 14,69,000
F	Marginal Relief (A – D)		₹ 64,250

Alternative method –

A	Income-tax (including surcharge) computed on total income of ₹ 51,00,000		
	₹ 2,50,000 – ₹ 5,00,000@5%	₹ 12,500	
	₹ 5,00,001 – ₹ 10,00,000@20%	₹ 1,00,000	

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	₹ 10,00,001 – ₹ 51,00,000@30%	₹12,30,000	
	Total	**₹13,42,500**	
	Add: Surcharge@10%	₹ 1,34,250	₹ 14,76,750
B	Income-tax computed on total income of ₹ 50 lakhs (₹ 12,500 plus ₹ 1,00,000 plus ₹ 12,00,000)		₹ 13,12,500
C	Excess tax payable (A)-(B)		₹ 1,64,250
D	Marginal Relief (₹ 1,64,250 – ₹ 1,00,000, being the amount of income in excess of ₹ 50,00,000)		**₹ 64,250**
E	Tax liability (A)-(D)		₹ 14,12,500
	Add: Health and education cess @4%		₹ 56,500
	Tax liability (including cess)		**₹ 14,69,000**

Question 6 (Illustration)

Compute the tax liability of Mr. B (aged 51) under the default tax regime, having total income of ₹ 1,01,00,000 for the Assessment Year 2025-26. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit.

Answer 6

Computation of tax liability of Mr. B for the A.Y. 2025-26

A	Income-tax (including surcharge) computed on total income of ₹ 1,01,00,000	
	₹ 3,00,000 – ₹ 7,00,000@5%	₹20,000
	₹ 7,00,001 – ₹10,00,000@10%	₹30,000
	₹ 10,00,001 – ₹ 12,00,000@15%	₹ 30,000
	₹ 12,00,001 – ₹ 15,00,000@20%	₹ 60,000
	₹ 15,00,001 – ₹1,01,00,000@30%	₹25,80,000
	Total	₹27,20,000
	Add: Surcharge@15%	₹ 4,08,000
	Tax liability without marginal relief	**₹ 31,28,500**
B	Income-tax computed on total income of ₹ 1 crore (₹ 1,40,000 plus ₹ 25,50,000)	₹ 26,90,000
	Add: Surcharge@10%	₹ 2,69,000
		₹ 29,59,000
C	Total Income *Less* ₹ 1 crore	₹ 1,00,000
D	Income-tax computed on total income of ₹ 1 crore *plus* the excess of total income over ₹ 1 crore **(B +C)**	₹ 30,59,000
E	**Tax liability: lower of (A) & (D)**	₹ 30,59,000
	Add: Health and education cess @4%	₹ 1,22,360
	Tax liability (including cess)	**₹ 31,81,360**
F	**Marginal relief (A-D)**	**₹ 69,000**

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Alternative method:

A	Income-tax (including surcharge) computed on total income of ₹ 1,01,00,000		
	₹ 3,00,000 – ₹ 7,00,000@5%	₹ 20,000	
	₹ 7,00,001 – ₹ 10,00,000@10%	₹ 30,000	
	₹ 10,00,001 – ₹ 12,00,000@15%	₹ 30,000	
	₹ 12,00,001 – ₹ 15,00,000@20%	₹ 60,000	
	₹ 15,00,001 – ₹ 1,01,00,000@30%	₹ 25,80,000	
	Total	₹ 27,20,000	
	Add: Surcharge @ 15%	₹ 4,08,000	₹ 31,28,000
B	Income-tax computed on total income of ₹ 1 crore [(₹ 1,40,000 plus ₹ 25,50,000) plus surcharge@10%]		₹ 29,59,000
C	Excess tax payable (A)-(B)		₹ 1,69,000
D	Marginal Relief (₹ 1,69,000 – ₹ 1,00,000, being the amount of income in excess of ₹ 1,00,00,000)		**₹ 69,000**
E	Tax liability (A) - (D)		₹ 30,59,000
	Add: Health and education cess @4%		₹ 1,22,360
	Tax liability (including cess)		**₹ 31,81,360**

Question 7 (Illustration)

Compute the tax liability of Mr. C (aged 58), having total income of ₹ 2,01,00,000 for the Assessment Year 2025-26. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. C has exercised the option to shift out of section 115BAC.

Answer 7

Computation of tax liability of Mr. C for the A.Y. 2025-26

(A)	Income-tax (including surcharge) Computed on total income of ₹ 2,01,00,000		
	₹ 2,50,000 – ₹ 5,00,000 @ 5%	₹ 12,500	
	₹ 5,00,001 – ₹ 10,00,000 @ 20%	₹ 1,00,000	
	₹ 10,00,001 – ₹ 2,01,00,000@30%	₹ 57,30,000	
	Total	₹ 58,42,500	
	Add: Surcharge @ 25%	₹ 14,60,625	₹ 73,03,125
(B)	Income-tax computed on total income of ₹ 2 crore (₹ 12,500 plus ₹ 1,00,000 plus ₹ 57,00,000)		₹ 58,12,500
	Add: Surcharge@15%		₹ 8,71,875
			₹ 66,84,375
(C)	Total Income *Less* ₹ 2 crore		₹ 1,00,000
(D)	Income-tax computed on total income of ₹ 2 crore plus the excess of total income over ₹ 2 crore **(B + C)**		₹ 67,84,375
(E)	**Tax liability (A) or (D), whichever is lower**		₹ 67,84,375
	Add: Health and education cess @4%		₹ 2,71,375
	Tax liability (including cess)		**₹ 70,55,750**

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(F)	**Marginal relief (A-D)**		**₹ 5,18,750**

Alternative method

(A)	Income tax (including surcharge) Computed on total income of ₹2,01,00,000		
	₹ 2,50,000 – ₹ 5,00,000 @ 5%	₹ 12,500	
	₹ 5,00,001 – ₹ 10,00,000 @ 20%	₹ 1,00,000	
	₹ 10,00,001 – ₹2,01,00,000@30%	₹57,30,000	
	Total	₹58,42,500	
	Add: Surcharge@25%	₹14,60,625	₹ 73,03,125
(B)	Income-tax computed on total income of ₹ 2 crore [(₹ 12,500 plus ₹ 1,00,000 plus ₹ 57,00,000) *plus,* surcharge@15%]		₹ 66,84,375
(C)	Excess tax payable (A)-(B)		₹ 6,18,750
(D)	Marginal Relief (₹ 6,18,750 – ₹ 1,00,000, being the amount of income in excess of ₹ 2,00,00,000)		**₹ 5,18,750**
(E)	Tax liability (A) - (D)		₹ 67,84,375
	Add: Health and educationcess@4%		₹ 2,71,375
	Tax liability (including cess)		**₹ 70,55,750**

Question 8 (Illustration)

Compute the tax liability of Mr. D (aged 65) in a most beneficial manner. He is having total income of ₹ 5,01,00,000 for the Assessment Year 2025-26. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit and is the same under both tax regimes.

Answer 8

Computation of tax liability of Mr. D under optional tax regimefor the A.Y. 2025-26

Income-tax (including surcharge) computed on total income of	₹ 5,01,00,000
₹ 3,00,000 – ₹ 7,00,000@5%	₹ 20,000
₹ 7,00,001 – ₹ 10,00,000@10%	₹ 30,000
₹ 10,00,001 – ₹ 12,00,000@15%	₹ 30,000
₹ 12,00,001 – ₹ 15,00,000@20%	₹ 60,000
₹ 15,00,001 – ₹ 5,01,00,000@30%	₹1,45,80,000
Total	₹1,47,20,000
Add: Surcharge@25%	₹36,80,000
	₹ 1,84,00,000
Add: Health and education cess @4%	₹ 7,36,000
Tax liability	**₹ 1,91,36,000**

Computation of tax liability of Mr. D under optional tax regimefor the A.Y. 2025-26

(A)	(including surcharge) computed on total income of ₹ 5,01,00,000		
	₹ 3,00,000 – ₹ 5,00,000 @ 5%	₹ 10,000	

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	₹ 5,00,001 – ₹ 10,00,000 @ 20%	₹ 1,00,000	
	₹ 10,00,001 – ₹ 5,01,00,000@30%	₹ 1,47,30,000	
	Total	₹ 1,48,40,000	
	Add: Surcharge @ 37%	₹ 54,90,800	₹ 2,03,30,800
(B)	Income-tax computed on total income of ₹ 5 crore		
	(₹ 10,000 plus ₹ 1,00,000 plus ₹ 1,47,00,000)		₹1,48,10,000
	Add: Surcharge@25%		₹37,02,500
			₹1,85,12,500
(C)	Total Income Less ₹ 5 crore		₹ 1,00,000
(D)	Income-tax computed on total income of ₹ 5 crore plus the excess of total income over ₹ 5 crore **(B + C)**		₹1,86,12,500
(E)	Tax liability (A) or (D), whichever is lower		₹1,86,12,500
	Add: Health and education cess@4%		₹7,44,500
	Tax liability (including cess)		**₹ 1,93,57,000**
(F)	Marginal Relief (A – D)		₹ **17,18,300**

Alternative method

(A)	Income-tax (including surcharge) computed on total income of ₹ 5,01,00,000		
	₹ 3,00,000 – ₹ 5,00,000@5%	₹ 10,000	
	₹ 5,00,001 – ₹ 10,00,000@20%	₹ 1,00,000	
	₹ 10,00,001 – ₹ 5,01,00,000@30%	₹ 1,47,30,000	
	Total	**₹ 1,48,40,000**	
	Add: Surcharge @ 37%	₹ 54,90,800	₹ 2,03,30,800
(B)	Income-tax computed on total income of ₹ 5 crore [(₹ 10,000 plus ₹ 1,00,000 plus ₹ 1,47,00,000) *Add:* surcharge @ 25%]		₹ 1,85,12,500
(C)	Excess tax payable (A)-(B)		₹ 18,18,300
(D)	**Marginal Relief** (₹ 18,18,300 – ₹ 1,00,000 being the amount of income in excess ₹ 5,00,00,000)		₹ **17,18,300**
(E)	Tax liability (A) - (D)		₹ 1,86,12,500
	Add: Health and education cess @4%		₹ 7,44,500
	Tax liability (including cess)		**₹ 1,93,57,000**

It is beneficial for Mr. D to pay tax under default tax regime under section 115BAC,since his tax liability would be lower by ₹ 2,21,000 (₹ 1,93,57,000 -₹ 1,91,36,000).

Question 9 (Illustration)

Mr. Raghav aged 26 years and a resident in India, has a total income of ₹ 6,50,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2025-26 under default tax regime under section 115BAC.

Answer 9

Computation of tax liability of Mr. Raghav for A.Y. 2025-26

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Particulars	₹
Tax on total income of ₹ 6,50,000	
Tax@5%of ₹3,50,000	17,500
Less: Rebate u/s 87A (Lower of tax payable or ₹ 25,000)	17,500
Tax Liability	Nil

Question 10 (Illustration)

Mr. Pawan aged 35 years and a resident in India, has a total income of ₹ 7,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2025-26 under default tax regime under section 115BAC.

Answer 10

Computation of tax liability of Mr. Pawan for A.Y. 2025-26

Particulars	₹	
Step 1: Total Income of ₹ 7,15,000 - ₹ 7,00,000	15,000	**(A)**
Step 2: Tax on total income of ₹ 7,15,000		
Tax@10%of ₹ 15,000 + ₹ 20,000	21,500	**(B)**
Step 3: Since B>A, rebate u/s 87A would be B-A		
[₹ 21,500 - ₹ 15,000]	6,500	
	15,000	
Add: HEC@4%	600	
Tax Liability	**15,600**	

Question 11 (Illustration)

Mr. Piyush, aged 35 years and a resident in India, has a total income of ₹ 4,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2025-26 if he exercises the option to shift out of the default tax regime.

Answer 11

Computation of tax liability of Mr. Piyush for A.Y. 2025-26

Particulars	₹
Tax on total income of ₹ 4,15,000	
Tax@5%of ₹ 1,65,000	8,250
Less: Rebate u/s 87A (Lower of tax payable or ₹ 12,500)	8,250
Tax Liability	Nil

Question 12 (Illustration)

Mr. X, a resident, has provided the following particulars of his income for the P.Y. 2024-25.

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

Compute his tax liability for A.Y. 2025-26 assuming his age is -

(a) 45 years
(b) 70 years

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Answer 12

(A) Computation of tax liability (age 45 years)

Computation of total income of Mr. X for the A.Y. 2025-26 underdefault tax regime under section 115BAC

For the purpose of partial integration of taxes, Mr. X has satisfied both theconditions i.e.

1. Net agricultural income exceeds ₹ 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of ₹ 3,00,000.

His tax liability is computed in the following manner:

Particulars	₹	₹
Income from salary		10,80,000
Income from house property		2,50,000
Net agricultural income [₹ 4,80,000 – ₹ 1,70,000]	3,10,000	
Less: Exempt under section 10(1)	(3,10,000)	-
Gross Total Income		**13,30,000**
Less: Deductions under Chapter VI-A		-
Total Income		**13,30,000**

Step 1: ₹ 13,30,000 + ₹ 3,10,000 = ₹ 16,40,000
Tax on ₹ 16,40,000 = ₹ 1,82,000
(i.e., 5% of ₹ 4,00,000 plus 10% of ₹ 3,00,000 plus 15% of ₹ 2,00,000 plus 20% of ₹ 3,00,000 plus 30% of ₹ 1,40,000)

Step 2: ₹ 3,10,000 + ₹ 3,00,000 = ₹ 6,10,000
Tax on ₹ 6,10,000 = ₹ 15,500
(i.e. 5% of ₹ 3,10,000)

Step 3: ₹ 1,82,000 – ₹ 15,500 = ₹ 1,66,500

Step 4 & 5 : Total tax payable = ₹ 1,66,500
= ₹ 1,66,500 + 4% of ₹ 1,66,500 = ₹ 1,73,160.

Working Note:

Computation of total income of Mr. X for the A.Y. 2025-26 under normal provisions of the Act

For the purpose of partial integration of taxes, Mr. X has satisfied both theconditions i.e.

3. Net agricultural income exceeds ₹ 5,000 p.a., and
4. Non-agricultural income exceeds the basic exemption limit of ₹ 2,50,000.

His tax liability is computed in the following manner:

Particulars	₹	₹
Income from salary		10,80,000
Income from house property		2,50,000
Net agricultural income [₹ 4,80,000 – ₹ 1,70,000]	3,10,000	
Less: Exempt under section 10(1)	(3,10,000)	-

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Gross Total Income		13,30,000
Less: Deductions under Chapter VI-A		-
Total Income		**13,30,000**

Step 1: ₹ 13,30,000 + ₹ 3,10,000 = ₹ 16,40,000
Tax on ₹ 16,40,000 = ₹ 3,04,500
(i.e., 5% of ₹ 2,50,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 6,40,000)

Step 2: ₹ 3,10,000 + ₹ 2,50,000 = ₹ 5,60,000
Tax on ₹ 5,60,000 = ₹ 24,500
(i.e. 5% of ₹ 2,50,000 *plus* 20% of ₹ 60,000)

Step 3: ₹ 3,04,500 – ₹ 24,500 = ₹ 2,80,000

Step 4 & 5: Total tax payable = ₹ 2,80,000
= ₹ 2,80,000 + 4% of ₹ 2,80,000 = ₹ 2,91,200.

(A) Computation of tax liability (age 70 years)

Computation of total income of Mr. X for the A.Y. 2025-26 under default tax regime under section 115BAC

Tax liability of Mr. X would be same under default tax regime whether he is of age of 45 years of 70 years i.e., ₹ 1,73,160.

Computation of total income of Mr. X for the A.Y. 2025-26 undernormal provisions of the Act His tax liability is computed in the following manner:

Step 1: ₹ 13,30,000 + ₹ 3,10,000 = ₹ 16,40,000
Tax on ₹ 16,40,000 = ₹ 3,02,000
(i.e., 5% of ₹ 2,00,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 6,40,000)

Step 2: ₹ 3,10,000 + ₹ 3,00,000 = ₹ 6,10,000
Tax on ₹ 6,10,000 = ₹ 32,000
(i.e. 5% of ₹ 2,00,000 plus 20% of ₹ 1,10,000)

Step 3: ₹ 3,02,000 – ₹ 32,000 = ₹ 2,70,000

Step 4 & 5: Total tax payable = ₹ 2,70,000
= ₹ 2,70,000 + 4% of ₹ 2,70,000 = ₹ 2,80,800.

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TEST YOUR KNOWLEDGE:

Question 1

Who is an "Assesses"? Explain

Answer 1

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

In addition, the term includes –

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

Question 2

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

Answer 2

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

1) Where a ship, belonging to or chartered by a non-resident, carries passengers, livestock, mail or goods shipped at a port in India, the shipis allowed to leave the port only when the tax has been paid or satisfactory arrangement has been made for payment thereof. 7.5% ofthe freight paid or payable to the owner or the charterer or to any person on his behalf, whether in India or outside India on account of such carriage is deemed to be his income which is charged to tax in the same year in which it is earned.
2) Where it appears to the Assessing Officer that any individual may leave India during the current assessment year or shortly after its expiry and he has no present intention of returning to India, the total income of such individual for the period from the expiry of the respective previous year up to the probable date of his departure from India is chargeable to tax in that assessment year.
3) If an AOP/BOI etc. is formed or established for a particular event or purpose and the Assessing Officer apprehends that the AOP/BOI is likely to be dissolved in the same year or in the next year, he can make assessment of the income up to the date of dissolution as income of the relevant assessment year.
4) During the current assessment year, if it appears to the Assessing Officer that a person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets to avoid payment of any liability under this Act, the total income of such person for the period from the expiry of the previous year to the date, when the Assessing Officer commences proceedings under this section is chargeable to tax in that assessment year.
5) Where any business or profession is discontinued in any assessment year, the income of the period

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from the expiry of the previous year up to the date of such discontinuance may, at the discretion of the Assessing Officer, be charged to tax in that assessment year.

Question 3

Whether the income derived from saplings or seedlings grown in a nursery is taxable under the Income-tax Act, 1961? Examine.

Answer 3

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

Question 4

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

Answer 4

The two schools of Hindu law are Dayabaga school, prevalent in West Bengal and Assam, and Mitakshara school, prevalent in rest of India.

Under the Dayabaga school of Hindu Law, nobody acquires the right, sharein the property by birth as long as the head of family is living. Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property. Hence, the father and his brothers would be the coparceners of the HUF.

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

Question 5

What is the difference between an Association of Persons and Body of Individuals?

Answer 5

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

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

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

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

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Question 6

Mr. Sumit, a resident Indian, earns income of ₹ 15 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in India and ₹ 20 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia during the A.Y.2025-26. What would be his business income, assuming he has no other business?

Answer 6

Since Mr. Sumit is a resident, his global income would be taxable in India. Income of ₹ 20 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia would be his business income since it is from rubber plants grown **outside India.** 35% income from sale of rubber manufactured from latex obtained from rubber plants grown by him in India would be taxable as business income and balance 65% would be exempt as agricultural income.

Business income = 35% of ₹ 15 lakhs + ₹ 20 lakhs = ₹ 25.25 lakhs

Question 7

Mr. Raja, a resident Indian, earns income of ₹ 10 lakhs from sale of coffee grown and cured in India during the A.Y.2025-26. His friend, Mr. Shyam, a resident Indian, earns income of ₹ 20 lakhs from sale of coffee grown, cured, roasted and grounded by him in India during the A.Y.2025-26. What would be the business income chargeable to tax in India of Mr. Raja and Mr. Shyam?

Answer 7

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

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

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

Question 8

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

Answer 8

Dayabaga school of Hindu law is prevalent in Assam. In Dayabaga school of Hindu law, nobody acquires the right, share in the property by birth as long as the head of family is living.

Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property.

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

Question 9

Compute the tax liability under default tax regime of Mr. Kashyap (aged 35), having total income of ₹ 51,75,000 for the Assessment Year 2025-26. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit.

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Answer 9

Computation of tax liability of Mr. Kashyap for the A.Y.2025-26
under default tax regime

(A) Tax payable including surcharge on total income of ₹ 51,75,000

₹ 3,00,000 – ₹ 7,00,000 @5%	20,000	
₹ 7,00,001 – ₹ 10,00,000 @10%	30,000	
₹ 10,00,001 – ₹ 12,00,000 @15%	30,000	
₹ 12,00,001 – ₹ 15,00,000 @20%	60,000	
₹ 15,00,001 – ₹ 51,75,000 @30%	11,02,500	
Total		12,42,500
Add: Surcharge @ 10%	1,24,250	13,66,750
(B) Tax Payable on total income of ₹ 50 lakhs (₹ 1,40,000 plus ₹ 10,50,000)		11,90,000
(C) Total Income Less ₹ 50 lakhs		1,75,000
(D) Tax payable on total income of ₹ 50 lakhs plus the		
excess of total income over ₹ 50 lakhs **(B +C)**		₹ 13,65,000
(E) **Tax payable: lower of (A) and (D)**		13,65,000
Add: Health and education cess @4%		₹ 54,600
Tax liability		**14,19,600**
(F) Marginal Relief **(A – D)**		1,750

Alternative method -

(A) Tax payable including surcharge on total income of ₹ 51,75,000		
₹ 3,00,000 – ₹ 7,00,000 @5%	₹ 20,000	
₹ 7,00,001 – ₹ 10,00,000 @10%	₹ 30,000	
₹ 10,00,001 – ₹ 12,00,000 @15%	₹ 30,000	
₹ 12,00,001 – ₹ 15,00,000 @20%	₹ 60,000	
₹ 15,00,001 – ₹ 51,75,000 @30%	₹ 11,02,500	
Total	₹ 12,42,500	
Add: Surcharge@10%	₹ 1,24,250	₹ 13,66,750
(B) Tax Payable on total income of ₹ 50 lakhs (₹ 1,40,000 plus ₹ 10,50,000)		₹ 11,90,000
(C) Excess tax payable (A)-(B)		₹ 1,76,750
(D) Marginal Relief (₹ 1,76,750 – ₹ 1,75,000, being the amount of income in excess of ₹ 50,00,000)		**₹ 1,750**
(E) Tax payable (A)-(D)		₹ 13,65,000
Add: Health and education cess @4%		₹ 54,600
Tax liability		**₹ 14,19,600**

Question 10

Mr. Agarwal, aged 40 years and a resident in India, has a total income of ₹ 6,50,00,000, comprising long term capital gain taxable @20% under section 112 of ₹ 55,00,000, short term capital gain taxable @15% under section 111A of ₹ 65,00,000 and other income of ₹ 5,30,00,000. Compute his tax liability for A.Y.2025-26 under the default tax regime and optional tax regime as per the normal

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provisions of the Act assuming that the total income and its components are the same in both tax regimes

Answer 10

Computation of tax liability of Mr. Agarwal for the A.Y.2025-26 **under default tax regime**

Particulars		₹
Tax on total income of ₹ 6,50,00,000		
Tax@20% of ₹ 55,00,000		0,000
Tax@15% of ₹ 65,00,000		,000
Tax on other income of ₹ 5,30,00,000		
₹ 3,00,000 – ₹ 7,00,000 @5%	00	
₹ 7,00,000 – ₹ 10,00,000 @10%	00	
₹ 10,00,000 – ₹ 12,00,000 @15%	00	
₹ 12,00,000 – ₹ 15,00,000 @20%	00	
₹ 15,00,000 – ₹ 5,30,00,000 @30%	,50,000	,90,000
		,65,000
Add: Surcharge @15% on ₹ 20,75,000	,250	
@25% on ₹ 1,55,90,000	7,500	8,750
		,73,750
Add: Health and education cess @4%		,950
Tax Liability		**,48,700**

Computation of tax liability of Mr. Agarwal for the A.Y.2025-26 under normal provisions of the Act

Particulars		₹
Tax on total income of ₹ 6,50,00,000		
Tax@20% of ₹ 55,00,000		11,00,000
Tax@15% of ₹ 65,00,000		9,75,000
Tax on other income of ₹ 5,30,00,000		
₹ 2,50,000 – ₹ 5,00,000 @5%	12,500	
₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,000 – ₹ 5,30,00,000 @30%	,56,00,000	1,57,12,500
		1,77,87,500
Add: Surcharge @15% on ₹ 20,75,000	3,11,250	
@37% on ₹ 1,57,12,500	58,13,625	61,24,875
		2,39,12,375
Add: Health and education cess @4%		9,56,495
Tax Liability		**2,48,68,870**

Question 11

Mr. Sharma aged 62 years and a resident in India, has a total income of ₹ 2,30,00,000, comprising long term capital gain taxable @12.5% under section 112 of ₹ 52,00,000, short term capital gain taxable @20% under section 111A of ₹ 64,00,000 and other income of ₹ 1,14,00,000. Compute his tax liability

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for A.Y.2025-26 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes.

Answer 11

Computation of tax liability of Mr. Sharma for the A.Y.2025-26 under default tax regime

Particulars		₹
Tax on total income of ₹ 2,30,00,000		
Tax@12.5% of ₹ 52,00,000		6,50,000
Tax@20% of ₹ 64,00,000		12,80,000
Tax on other income of ₹ 1,14,00,000		
₹ 3,00,000 – ₹ 7,00,000 @5%	20,000	
₹ 7,00,000 – ₹ 10,00,000 @10%	30,000	
₹ 10,00,000 – ₹ 12,00,000 @15%	30,000	
₹ 12,00,000 – ₹ 15,00,000 @20%	60,000	
₹ 15,00,000 – ₹ 1,14,00,000 @30%	29,70,000	31,10,000
		50,40,000
Add: Surcharge @15%		7,56,000
		57,96,000
Add: Health and education cess @4%		2,31,840
Tax Liability		**60,27,840**

Computation of tax liability of Mr. Sharma for the A.Y.2025-26 under normal provisions of the Act

Particulars		₹
Tax on total income of ₹ 2,30,00,000		
Tax@12.5% of ₹ 52,00,000		6,50,000
Tax@20% of ₹ 64,00,000		12,80,000
Tax on other income of ₹ 1,14,00,000		
₹ 3,00,000 – ₹ 5,00,000 @5%	10,000	
₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,000 – ₹ 1,14,00,000 @30%	31,20,000	32,30,000
		51,60,000
Add: Surcharge @15%		7,74,000
		59,34,000
Add: Health and education cess @4%		2,37,360
Tax Liability		**61,71,360**

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Chapter 2
Residence And Scope of Income

ILLUSTRATION:

Question 1 (Illustration)

Mr. Anand is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in carriage of passengers in international traffic departing from Chennai port on 6th June, 2024. From the following details for the P.Y. 2024-25, determine the residential status of Mr. Anand for A.Y. 2025- 26, assuming that his stay in India in the last 4 previous years (preceding P.Y. 2024-25) is 400 days:

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Anand	6th June, 2024
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Anand	9th December,2024

Answer 1

In this case, since Mr. Anand is an Indian citizen and leaving India during P.Y. 2024-25 as a member of the crew of the Indian ship, he would be resident in India if he stayed in India for 182 days or more.
The voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Chennai port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage for the purposes of section 6(1).
Therefore, the period beginning from 6th June, 2024 and ending on 9th December, 2024, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Anand, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 187 days [25+31+31+30+31+30+9] have to be excluded from the period of his stay in India. Consequently, Mr. Anand's period of stay in India during the P.Y. 2024- 25 would be 178 days [i.e., 365 days – 187 days]. Since his period of stay in India during the P.Y. 2024-25 is less than 182 days, he is a non-resident for A.Y. 2025-26.

Question 2 (Illustration)

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

(a) Find out his residential status for the assessment year 2025-26.

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

(c) What would be your answer if Srinath had visited India for 120 days instead of 100 days every year, including P.Y.2024-25?

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Answer 2

(a) Determination of Residential Status of Mr. Brett Lee for the A.Y. 2025-26: -

Period of stay during previous year 2024-25 = 100 days

Calculation of period of stay during 4 preceding previous years (100 x 4 = 400 days)

2023-24	100 days
2022-23	100 days
2021-22	100 days
2020-21	100 days
Total	**400 days**

Mr. Brett Lee has been in India for a period more than 60 days during previous year 2024-25 and for a period of more than 365 days during the 4 immediately preceding previous years. Therefore, since he satisfies one ofthe basic conditions under section 6(1), he is a resident for the assessment year 2025-26.

Computation of period of stay during 7 preceding previous years = 100 x 7=700 days

2023-24	100 days
2022-23	100 days
2021-22	100 days
2020-21	100 days
2019-20	100 days
2018-19	100 days
2017-18	100 days
Total	**700 days**

Since his period of stay in India during the past 7 previous years is less than730 days, he is a not-ordinarily resident during the assessment year 2025- 26. (See Note below)

Therefore, Mr. Brett Lee is a resident but not ordinarily resident during theprevious year 2024-25 relevant to the assessment year 2025-26.

Note: An individual, not being an Indian citizen, would be not-ordinarily resident person if he satisfies any one of the conditions specified under section 6(6), i.e.,

(i) If such individual has been non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year, or

(ii) If such individual has during the 7 previous years preceding the relevant previous year been in India for a period of 729 days or less.

In this case, since Mr. Brett Lee satisfies condition (ii), he is a not-ordinarily resident for the A.Y. 2025-26.

(b) If the above facts relate to Mr. Srinath, an Indian citizen, who residing in Australia, comes on a visit to India, he would be treated as non-resident in India, irrespective of his total income (excluding income from foreign sources), since his stay in India in the current financial year is, in any case,less than 120 days.

(c) In this case, if Srinath's total income (excluding income from foreign sources) exceeds Rs.

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15 lakh, he would be treated as resident but not ordinarily resident in India for P.Y.2024-25, since his stay in India is 120 daysin the P.Y.2024-25 and 480 days (i.e., 120 days x 4 years) in the immediatelyfour preceding previous years.

If his total income (excluding income from foreign sources) does not exceed Rs. 15 lakhs, he would be treated as non-resident in India for the P.Y. 2024-25, since his stay in India is less than 182 days in the P.Y. 2024-25.

Question 3 (Illustration)

Mr. B, a Canadian citizen, comes to India for the first time during the P.Y. 2020-21. During the financial years 2020-21 2021-22, 2022-23, 2023-24 and 2024-25 he was in India for 55 days, 60 days, 90 days, 150 days and 70 days, respectively. Determine his residential status for the A.Y. 2025-26.

Answer 3

During the previous year 2024-25, Mr. B was in India for 70 days and during the 4 years preceding the previous year 2024-25, he was in India for 355 days (i.e. 55+ 60+ 90+ 150 days).

Thus, he does not satisfy the basic condition under section 6(1). Therefore, he is a non-resident for the previous year 2024-25.

Question 4 (Illustration)

The business of a HUF is transacted from Australia and all the policy decisions are taken there. Mr. E, the Karta of the HUF, who was born in Kolkata, visits India during the P.Y. 2024-25 after 15 years. He comes to India on 1.4.2024 and leaves for Australia on 1.12.2024. Determine the residential status of Mr. E and the HUF for A.Y. 2025-26.

Answer 4

(a) During the P.Y. 2024-25, Mr. E has stayed in India for 245 days (i.e. 30+31+30+31+31+30+31+30+1 days). Therefore, he is a resident. However, since he has come to India after 15 years, he does not satisfy the conditionfor being ordinarily resident.

Therefore, the residential status of Mr. E for the P.Y. 2024-25 is resident butnot ordinarily resident.

(b) since the business of the HUF is transacted from Australia and policy decisions are taken there, it is assumed that the control and management isin Australia i.e., the control and management is wholly outside India. Therefore, the HUF is a non-resident for the P.Y. 2024-25.

Question 5 (Illustration)

From the following particulars of income furnished by Mr. Anirudh pertaining to the year ended 31.3.2025, compute the total income for the assessment year 2025-26, if he is:

(i) Resident and ordinary resident;
(ii) Resident but not ordinarily resident;
(iii) Non-resident

		Rs.
(a)	Short term capital gains on sale of shares of an Indian Company received in Germany	15,000
(b)	Dividend from a Japanese Company received in Japan	10,000

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(c)	**Rent from property in London deposited in a bank in London, lateron remitted to India through approved banking channels**	**75,000**
(d)	**Dividend from RP Ltd., an Indian Company**	**6,000**
(e)	**Agricultural income from land in Gujarat**	**25,000**

Answer 5

Computation of total income of Mr. Anirudh for the A.Y. 2025-26

Particulars	**Resident & ordinarily resident Rs.**	**Resident but not ordinarily resident Rs.**	**Non-Resident Rs.**
1) Short term capital gains on sale of shares of an Indian company, receivedin Germany	15,000	15,000	15,000
2) Dividend from a Japanese company,received in Japan	10,000	-	-
3) Rent from property in London deposited in a bank in London [See Note (i) below]	52,500	-	-
4) Dividend from RP Ltd., an IndianCompany	6,000	6,000	6,000
5) Agricultural income from land in Gujarat [See Note (ii) below]	-	-	-
Total Income	**83,500**	**21,000**	**21,000**

Notes:

(i) It has been assumed that the rental income is the gross annual value of the property. Therefore, deduction @30% under section 24, has been provided and the net income so computed is taken into account for determining thetotal income of a resident and ordinarily resident.

	Rs.
Rent received (assumed as gross annual value)	75,000
Less: Deduction under section 24 (30% of Rs. 75,000)	22,500
Income from house property	52,500

(ii) Agricultural income is exempt under section 10(1).

Question 6 (Illustration)

Mr. David, an Indian citizen aged 40 years, a Government employee serving in the Ministry of External Affairs, left India for the first time on 31.03.2024 due to his transfer to High Commission of Canada. He did not visit India any time during the previous year 2024-25. He has received the following income for the Financial Year 2024-25:

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

Compute his Gross Total Income for Assessment Year 2025-26.

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Answer 6

As per section 6(1), Mr. David is a non-resident for the A.Y. 2025-26, since he was not present in India at any time during the previous year 2024-25.

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

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

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

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

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

Gross Total Income of Mr. David for A.Y. 2025-26

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

Question 7 (Illustration)

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

Answer 7

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

The income deemed to accrue or arise in India under section 9 comprises, interalia, income by way of fees for technical services, which includes any consideration for rendering of any managerial, technical or consultancy services. Therefore, payment to a management consultant relating to project financing is covered within the scope of "fees for technical services".

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

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

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Question 8 (Illustration)

Compute the total income in the hands of an individual aged 35 years, being a resident and ordinarily resident, resident but not ordinarily resident, and non-resident for the A.Y. 2025-26, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)–

Particulars	Amount (Rs.)
Interest on UK Development Bonds, 50% of interest received in India	10,000
Income from a business in Chennai (50% is received in India)	20,000
Short term capital gains on sale of shares of an Indian company received in London	20,000
Dividend from British company received in London	5,000
Long term capital gains on sale of plant at Germany, 50% of profits are received in India	40,000
Income earned from business in Germany which is controlled from Delhi (Rs. 40,000 is received in India)	70,000
Profits from a business in Delhi but managed entirely from London	15,000
Income from house property in London deposited in a Bank at London, brought to India (Computed)	50,000
Interest on debentures in an Indian company received in London	12,000
Fees for technical services rendered in India but received in London	8,000
Profits from a business in Mumbai managed from London	26,000
Income from property situated in Nepal received there (Computed)	16,000
Past foreign untaxed income brought to India during the previous year	5,000
Income from agricultural land in Nepal, received there and then brought to India	18,000
Income from profession in Kenya which was set up in India, received there but spent in India	5,000
Gift received on the occasion of his wedding	20,000
Interest on savings bank deposit in State Bank of India	12,000
Income from a business in Russia, controlled from Russia	20,000
Dividend from Reliance Petroleum Limited, an Indian Company	5,000
Agricultural income from a land in Rajasthan	15,000

Answer 8

Computation of total income for the A.Y. 2025-26

Particulars	Resident and ordinarily resident (₹)	Resident but not ordinarily resident (₹)	Non-resident Rs.
Interest on UK Development Bonds, 50% of interest received in India	10,000	5,000	5,000
Income from a business in Chennai (50% is received in India)	20,000	20,000	20,000

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Short term capital gains on sale of shares of an Indian company received in London	20,000	20,000	20,000
Dividend from British company received in London	5,000	-	-
Long term Capital gains on sale of plant at Germany, 50% of profits are received in India	40,000	20,000	20,000
Income earned from business in Germany which is controlled from Delhi, out of which Rs. 40,000 is received in India	70,000	70,000	40,000
Profits from a business in Delhi but managed entirely from London	15,000	15,000	15,000
Income from house property in London deposited in a Bank at London, later on remitted to India	50,000	-	-
Interest on debentures in an Indian company received in London	12,000	12,000	12,000
Fees for technical services rendered in India but received in London	8,000	8,000	8,000
Profits from a business in Mumbai managed from London	26,000	26,000	26,000
Income from property situated in Nepal and received there	16,000	-	-
Past foreign untaxed income brought to India during the previous year	-	-	-
Income from agricultural land in Nepal, received there and then brought to India	18,000	-	-
Income from profession in Kenya which was set up in India, received there but spent in India	5,000	5,000	-
Gift received on the occasion of his wedding **[not taxable]**	-	-	-
Interest on savings bank deposit in State Bank of India	12,000	12,000	12,000
Income from a business in Russia, controlled from Russia	20,000	-	-
Dividend from Reliance Petroleum Limited, an Indian Company	5,000	5,000	5,000
Agricultural income from a land in Rajasthan **[Exempt under section 10(1)]**	-	-	
Gross Total Income	**3,52,000**	**2,18,000**	**1,83,000**
Less: Deduction under section 80TTA [Interest on savings bank account subject to a maximum of Rs.10,000]	10,000	10,000	10,000
Total Income	**3,42,000**	**2,08,000**	**1,73,000**

TEST YOUR KNOWLEDGE:

Question 1

Mr. Ram, an Indian citizen, left India on 22.09.2024 for the first time to work as an officer of a company in Germany. Determine the residential status of Ramfor the A.Y. 2025-26.

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Answer 1

Under section 6(1), an individual is said to be resident in India in any previous year if he satisfies any one of the following conditions -

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

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

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

During the previous year 2024-25, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e., 30+31+30+31+31+22 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days stay in India during the relevant previous year, he is a non-resident for the A.Y. 2025-26.

Question 2

Mr. Dey, residing in US since 1990, visits India for 30 days every year. He came back to India on 1.4.2023 for permanent settlement. What will be his residential status for A.Y. 2025-26?

Answer 2

Mr. Dey is a resident in A.Y. 2025-26 since he has stayed in India for a period of 365 days (more than 182 days) during the P.Y. 2024-25.

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

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

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

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

For the previous year 2024-25 (A.Y. 2025-26), his status would be "Resident but not ordinarily resident" since he was non-resident in 9 out of 10 previous years immediately preceding the P.Y. 2024-25. He was resident only in the P.Y. 2023-24. Prior to that, he was non-resident in all the years since his stay in India was only for 30 days each year.

He can be resident but not ordinarily resident also due to the fact that he has stayed in India only for 546 days [366 days in P.Y. 2023-24 + (30 days x 6 years)] in 7 previous years immediately preceding the P.Y. 2024-25, which is less than 730 days.

Question 3

Mr. Ramesh & Mr. Suresh are brothers and they earned the following incomes during the F.Y. 2024-25. Mr. Ramesh settled in Canada in the year 1996 and Mr. Suresh settled in Delhi. Compute the total income for the A.Y.2025-26 assuming that both have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Sr. No.	Particulars	Mr. Ramesh (₹)	Mr. Suresh (₹)
1.	Interest on Canada Development Bonds (only 50% of interest received in India)	35,000	40,000
2.	Dividend from British company, received in London	28,000	20,000
3.	Profits from a business in Nagpur, but managed directly from	1,00,000	1,40,000

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	London		
4.	Short term capital gain on sale of shares of an Indian company, received in India	60,000	90,000
5.	Income from a business in Chennai	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada	1,00,000	-
7.	Interest on savings bank deposit in UCO Bank, Delhi	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh	55,000	45,000
9.	Rent received in respect of house property at Bhopal	1,00,000	60,000
10.	Life insurance premium paid	---	30,000

Answer 3

Computation of total income of Mr. Ramesh & Mr. Suresh for the A.Y. 2025-26

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

Notes:

1. Mr. Ramesh is a non-resident since he has been living in Canada since 1996. Mr. Suresh, is settled in Delhi, and thus, assumed as a residentand ordinarily resident.
2. In case of a resident and ordinarily resident, his global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:
   (i) Income received or deemed to be received in India; and
   (ii) Income accruing or arising or deemed to accrue or arise in India.
   Therefore, fees for technical services rendered in India would be taxable in the hands of Mr.

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Ramesh, even though he is a non-resident.

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

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

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

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

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

6. In case of an individual, interest up to ₹ 10,000 from savings account with, inter alia, a bank is allowable as deduction under section 80TTA.

Question 4

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

Answer 4

This statement is correct.

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

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

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

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

Question 5

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

(i) Salary payable by Central Government to Mr. John, a citizen of India of ₹ 7,00,000 for the services rendered outside India considering that he pays tax as per the provisions of section 115BAC.

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

(iii) Post office savings bank interest of ₹ 19,000 received by a resident assessee, Mr. Ram, aged 46 years if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

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

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

Answer 5

	Taxable/ Not Taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	6,25,000	As per section 9(1)(iii), salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India. Therefore, salary paid by Central Government to Mr. John for services rendered outside India would be deemed to accrue or arise in India since he is a citizen of India. He would be entitled to standard deduction of ₹ 75,000 under section 16(ia).
(ii)	Taxable	5,00,000	As per section 9(1)(v)(c), interest payable by a non-resident on moneys borrowed and used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient.
(iii)	Partly Taxable	5,500	The interest on Post office savings bank a/c would be exempt u/s 10(15)(i) only to the extent of ₹ 3,500 in case of an individual a/c. Further, interest upto ₹ 10,000, would be allowed as
			deduction u/s 80TTA from Gross Total Income. Balance ₹ 5,500 i.e., ₹ 19,000 - ₹ 3,500 - ₹ 10,000 would be taxable in the hands of Mr. Ram, a resident.

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(iv)	Not Taxable	-	Royalty paid by a resident to a non-resident in respect of a business carried outside India would not be taxable in the hands of the non-resident provided the same is not received in India. This has been provided as an exception to deemed accrual mentioned in section 9(1)(vi)(b).
(v)	Taxable	5,00,000	In case of a non-resident, any income which accrues or arises in India or which is deemed to accrue or arise in India or which is received in India or is deemed to be received in India is taxable in India. Therefore, legal charges paid in India to a non-resident lawyer of UK, who visited India to represent a case at the Delhi High Court would be taxable in India.

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ILLUSTRATIONS:

Question 1 (Illustration)

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

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

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

Answer 1

HRA received	₹ 1,80,000
Less: Exempt under section 10(13A) **[Note]**	₹ 1,36,800
Taxable HRA	₹ 43,200

Note: Exemption shall be least of the following three limits:

(a)	the actual amount received (₹15,000 × 12)	= ₹1,80,000
(b)	excess of the actual rent paid by the assessee over 10% of his salary = Rent Paid (-) 10% of salary for the relevant period = (₹16,000×12) (-) 10% of [(₹40,000+₹6,000) × 12] = ₹1,92,000 - ₹55,200	= ₹ 1,36,800
(c)	40% salary as his accommodation is situated at Kanpur = 40% of [(₹40,000+ ₹6,000) × 12]	= ₹2,20,800

Note: For the purpose of exemption under section 10(13A), salary includes dearness allowance only when the terms of employment so provide, but excludes all other allowances and perquisites.

Question 2 (Illustration)

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

Transport allowance : ₹ 1,800

p.m.Tribal area allowance : ₹ 500

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p.m.

Compute his taxable allowances.

Answer 2

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

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

Children Education Allowance:

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

If Mr. Srikant pays tax under default tax regime under section 115BAC

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

Question 3 (Illustration)

Mr. Sagar who retired on 1.10.2024 is receiving ₹ 5,000 p.m. as pension. On 1.2.2025,he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

(a) He is a government employee.

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

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

Answer 3

(a) He is a government employee

Uncommuted pension received (October – March)		₹24,000
[(₹ 5,000 × 4 months) + (40% of ₹5,000 × 2 months)]		
Commuted pension received	₹3,00,000	
Less: Exempt u/s 10(10A)	₹3,00,000	NIL
Taxable pension		₹24,000

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

Uncommuted pension received (October – March)		₹24,000
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]		
Commuted pension received	₹3,00,000	
Less: Exempt u/s 10(10A)		
$\left(\frac{1}{3} \times \frac{₹\ 3,00,000}{60\%} \times 100\%\right)$	₹1,66,667	₹1,33,333
Taxable pension		**₹1,57,333**

(c) *He is a private sector employee and did not receive any gratuity at thetime of retirement*

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Uncommuted pension received (October – March)		₹24,000
[(₹ 5,000 × 4 months) + (40% of ₹5,000 × 2 months)]		
Commuted pension received	₹3,00,000	
Less: Exempt u/s 10(10A)		
$\left(\frac{1}{2} \times \frac{₹\ 3,00,000}{60\%} \times 100\%\right)$	₹2,50,000	₹50,000
Taxable pension		₹74,000

Question 4 (Illustration)

Mr. Ravi retired on 15.6.2024 after completion of 26 years 8 months of service and received gratuity of ₹ 15,00,000. At the time of retirement, his salary was:

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

Compute his taxable gratuity assuming:

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

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

(c) He is a government employee.

Answer 4

(a) He is covered by the Payment of Gratuity Act 1972

Gratuity received at the time of retirement		₹15,00,000
Less: Exemption under section 10(10)		
Least of the following:		
i. Gratuity received	₹15,00,000	
ii. Statutory limit	₹20,00,000	
iii. 15 days' salary based on last drawn salary for each completed year of serviceor part thereof in excess of 6 months		
$\frac{15}{26}$ × last drawn salary× years of service		
$\frac{15}{26}$ ×(50,000+10,000)× 27 =	₹9,34,615	₹9,34,615
Taxable Gratuity		**₹5,65,385**

(b) He is not covered by the Payment of Gratuity Act 1972

Gratuity received at the time of retirement	₹15,00,000
Less: Exemption under section 10(10) **(Note)**	₹8,58,000
Taxable Gratuity	**₹6,42,000**

Note: Exemption under section 10(10) is least of the following:

(i) Gratuity received	₹15,00,000
(ii) Statutory limit	₹20,00,000
(iii) Half month's salary based on average salary of last 10 months preceding the month of retirement for each completed year of service.	

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i.e. $\frac{1}{2}$ × Average salary× years of service

$$\frac{1}{2} \times \left[\frac{(50{,}000 \times 10) + (10{,}000 \times 60\% \times 10) + \left[1\% \times 1{,}20{,}000 \times \frac{10}{12}\right]}{10}\right] \times 26$$

= ₹8,58,000

(c) He is a government employee

Gratuity received at the time of retirement	₹ 15,00,000
Less: Exemption under section 10(10)	₹ 15,00,000
Taxable Gratuity	**Nil**

Question 5 (Illustration)

Mr. Gupta retired on 1.12.2024 after 20 years of service and received leave salary of₹ 5,00,000. Other details of his salary income are:

Basic Salary	**:**	**₹ 5,000 p.m. (₹ 1,000 was increased w.e.f. 1.4.2024)**
Dearness Allowance	**:**	**₹ 3,000 p.m. (60% of which is for retirement benefits)**
Commission	**:**	**₹ 500 p.m.**
Bonus	**:**	**₹ 1,000 p.m.**
Leave availed during service	**:**	**480 days**

He was entitled to 30 days leave every year.

You are required to compute his taxable leave salary assuming:

(a) He is a government employee.

(b) He is a non-government employee.

Answer 5

(a)	**He is a government employee**	
	Leave Salary received at the time of retirement	₹5,00,000
	Less: Exemption under section 10(10AA)	₹5,00,000
	Taxable Leave salary	Nil
(b)	**He is a non-government employee**	
	Leave Salary received at the time of retirement	₹5,00,000
	Less: Exempt under section 10(10AA) [See Note below]	₹ 26,400
	Taxable Leave Salary	₹4,73,600

Note: Exemption under section 10(10AA) is least of the following:

(i)	Leave salary received	₹ 5,00,000
(ii)	Statutory limit	₹ 25,00,000

(iii) 10 months' salary based on average salary of last 10 months

$$\text{i.e.}\left[10 \times \frac{\text{Salary of last 10 months i.e.Feb.– Nov.}}{\text{10 months}}\right]$$

$$=\left[10 \times \frac{(5{,}000\times8)+(4{,}000\times2)+(60\%\times3{,}000\times10)}{\text{10 months}}\right] \quad ₹66{,}000$$

(iv) Cash equivalent of leave standing at the credit ofthe employee based on the average salary of last10 months' (max. 30 days per year of service)

Leave Due = Leave allowed – Leave taken

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= (30 days per year × 20 years) – 480 days = 120 days

i.e. $\left[\frac{\text{Leave due (in days)}}{30\text{days}} \times \text{Average salary p. m.}\right]$

= $\left[\frac{120\text{ days}}{30\text{days}} \times \frac{₹66,000}{10}\right]$ ₹ 26,400

Question 6 (Illustration)

Mr. A retires from service on December 31, 2024, after 25 years of service. Followingare the particulars of his income/investments for the previous year 2024-25:

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

Out of the amount received from the unrecognized provident fund, the employer's contribution was ₹ 2,20,000 and the interest thereon ₹ 50,000. The employee's contribution was ₹ 2,70,000 and the interest thereon ₹ 60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the assessment year 2025-26?

Answer 6

Taxable portion of the amount received from the URPF in the hands of Mr. A forthe A.Y. 2025-26 is computed hereunder:

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

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

Question 7 (Illustration)

Will your Answer be any different if the fund mentioned above was a recognised provident fund?

Answer 7

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

Question 8 (Illustration)

Mr. B is working in XYZ Ltd. and has given the details of his income for the P.Y. 2024-25. You are required to compute his gross salary from the details given below:

Basic Salary	**₹ 10,000 p.m.**

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

Answer 8

Computation of Gross Salary of Mr. B for the A.Y.2025-26

Particulars	₹	₹
Basic Salary [₹10,000 × 12]		1,20,000
Dearness Allowance [₹8,000 × 12]		96,000
Commission on turnover [0.1% × ₹50,00,000]		5,000
Bonus		40,000
Gratuity **[Note 1]**		25,000
Employers contribution to RPF [20% of ₹ 1,20,000]	24,000	
Less: Exempt **[Note 2]**	20,760	3,240
Interest accrued in the RPF @ 13% p.a.	13,000	
Less: Exempt @ 9.5% p.a.	9,500	3,500
Gross Salary		**2,92,740**

Note 1: Gratuity received during service is fully taxable.

Note 2: Employers contribution in the RPF is exempt up to 12% of the salary.

i.e., 12% of [Basic Salary + Dearness Allowance forming part of retirement benefits +Commission based on turnover] = 12% of [₹1,20,000 + (50% × ₹96,000) + ₹5,000] = 12% of ₹1,73,000 = ₹20,760

Note 3: Employee's contribution to RPF is **not** taxable. It is eligible for deductionunder section 80C. if he exercises the option of shifting out of the default t tax regime provided under section 115BAC(1A).

Question 9 (Illustration)

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

Answer 9

Voluntary retirement compensation received		₹7,00,000
Exemption under section 10(10C) [**See Note below**]		₹ 5,00,000
Taxable voluntary retirement compensation		₹2,00,000
Note: Exemption is to the extent of least of the following:		
(i) Compensation actually received	=	₹7,00,000
(ii) Statutory limit	=	₹5,00,000
(iii) 3 months' salary × completed years of service		

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= (₹20,000 + ₹5,000) × 3 × 30 years ₹22,50,000

(iv) Last drawn salary × remaining months of service left
= (₹20,000 + ₹5,000) × 6 × 12 months ₹18,00,000

Question 10 (Illustration)

Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 1.9.2022. His basic salary is ₹ 6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2023, 31.3.2024 and 31.3.2025 is ₹9,81,137 , ₹ 27,43,048 and ₹ 46,48,555, respectively. Compute the perquisite value chargeable to tax in the hands of Mr. X u/s 17(2)(vii) and 17(2)(viia) for the A.Y. 2024-25 and A.Y. 2025-26. Prior to 1.9.2022, he was a consultant, whose professional fees was taxable under the head "Profits and gains of business or profession".

Answer 10

Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) for A.Y. 2024-25

1. Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2023-24 –₹7,50,000 = ₹27,600

2. Perquisite value taxable u/s 17(2)(viia) =Annual accretion on perquisitetaxable u/s 17(2)(vii) = (PC/2)*R + (PC1 + TP1)*R
= (27,600/2) x 0.111 + 0
= ₹1,532

PC ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized providentfund during P.Y. 2022- 23 = ₹27,600

PC1 Nil since employer's contribution is less than ₹ 7.5 lakh to recognized provident fund in P.Y. 2022-23 and there is no employer's contribution in P.Y. 2020-21. And 2021-22.

TP1 Nil

R I/Favg = 2,06,711/18,62,093 = 0.111

I RPF balance as on 31.3.2024 – employee's and employer's contribution during the year – RPF balance as on 1.4.2023 = ₹ 2,06,711 (₹ 27,43,048 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 9,81,137)

Favg Balance to the credit of recognized provident fund as on 1st April, 2022 + Balance to the credit of recognized provident fund as on 31st March, 2024)/2 = (₹9,81,137 + ₹ 27,43,048)/2 = ₹18,62,093

Note – Interest on the aggregate of following will also be chargeable to tax during A.Y.2024-25 –

(i) ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2022-23]

(ii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2023-24]

(iii) interest accrued on ₹ 2,03,600 being excess employee's contribution of P.Y. 2022-23

Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia)for A.Y. 2025-26

1. Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2024-25 –₹7,50,000 = ₹27,600
2. Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisitetaxable u/s 17(2)(vii) = (PC/2)*R + (PC1 + TP1)*R

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= (27,600/2) x 0.09479 + (27,600 + 1,532) x 0.09479
= ₹1,308 + ₹2,761 = ₹4,069

PC	ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2024-25 = ₹ 27,600
PC1	Amount of employer's contribution in excess of ₹ 7,50,000 to RPF in P.Y. 2020-21, P.Y. 2021-22 and P.Y. 2022-23 = ₹ 27,600
TP1	Taxable perquisite under section 17(2)(viia) for the P.Y. 2023-24 = ₹1,532
R	I/Favg = 3,50,307/36,95,802 = 0.09479
I	RPF balance as on 31.3.2025– employee's and employer'scontribution during the year – RPF balance as on 1.4.2024 = ₹3,50,307 (₹46,48,555 – ₹7,77,600 – ₹ 7,77,600 – ₹27,43,048)
Favg	Balance to the credit of recognized provident fund as on 1st April, 2024 + Balance to the credit of recognized provident fund as on 31st March, 2025)/2 = (₹27,43,048 + ₹46,48,555)/2 = ₹36,95,802

Note – Interest on the aggregate of following will also be chargeable to tax during A.Y. 2025-26 –

(i) ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2022-23]
(ii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2023-24]
(iii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2024-25]
(iv) interest accrued on ₹ 2,03,600 being excess employee's contribution of P.Y. 2022-23
(v) interest accrued on ₹ 5,27,600 being excess employee's contribution of P.Y. 2023-24

Question 11 (Illustration)

Mr. D went on a holiday on 25.12.2024 to Delhi with his wife and three children (one son – age 5 years; twin daughters – age 3 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was ₹ 60,000 (₹ 45,000 for adults and ₹ 15,000 for the three minor children). Compute the amount of LTC exempt if Mr. D exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 11

Since the son's age is more than the twin daughters, Mr. D can avail exemption forall his three children. The restriction of two children is not applicable to multiple births after one child. The holiday being in India and the journey being performed by air (economy class), the entire reimbursement met by the employer is fully exempt in the hands of Mr. D, since he is exercising the option of shifting out ofthe default tax regime provided under section 115BAC(1A).

Question 12 (Illustration)

In the above illustration, will there be any difference if among his three children the twins were 5 years old and the son 3 years old? Discuss.

Answer 12

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

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

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

Question 13 (Illustration)

Compute the taxable value of the perquisite in respect of medical facilities received by Mr. G from his employer during the P.Y. 2024-25:

Medical premium paid for insuring health of Mr. G	**₹ 7,000**
Treatment of Mr. G by his family doctor	**₹ 5,000**
Treatment of M₹ G in a Government hospital	**₹ 25,000**
Treatment of Mr. G's grandfather in a private clinic	**₹ 12,000**
Treatment of Mr. G's mother (68 years and dependant) by family doctor	**₹ 8,000**
Treatment of Mr. G's sister (dependant) in a nursing home	**₹ 3,000**
Treatment of Mr. G's brother (independent)	**₹ 6,000**
Treatment of Mr. G's father (75 years and dependent) abroad	**₹ 50,000**
Expenses of staying abroad of the patient and	**₹ 30,000**
Limit specified by RBI	**₹ 75,000**

Answer 13

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

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

Payment of premium on personal accident insurance policies

If an employer takes personal accident insurance policies on the life of employeesand pays the insurance premium, no immediate benefit would become payable and benefit will accrue at a future date only if certain events take place.

Moreover, the employers would be taking such policy in their business interest only, so as to indemnify themselves from payment of any compensation. Therefore, the premium so paid will not constitute a taxable perquisite in the employees' hands.

Question 14 (Illustration)

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

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Basic salary	**₹ 8,500 p.m.**
Dearness Allowance	**₹ 2,000 p.m. (30% is for retirement benefits)**
Bonus	**₹ 1,500 p.m.**

Even though the company allotted the house to him on 1.4.2024, he occupied the same only from 1.11.2024. Calculate the taxable value of the perquisite for A. Y. 2025-26.

Answer 14

Value of the rent free unfurnished accommodation
= 10% of salary for the relevant period
= 10% of [(₹8,500 × 5) + (₹2,000 × 30% × 5) + (₹1,500 × 5)] **[See Note below]**
= 10% of ₹53,000 = ₹5,300.

Note: Since, Mr. C occupies the house only from 1.11.2024, we have to include the salary due to him only in respect of months during which he has occupied the accommodation. Hence salary for 5 months (i.e. from 1.11.2024 to 31.03.2025) willbe considered.

Question 15 (Illustration)

Using the data given in the above Question 14 , compute the value of the perquisite if Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this accommodation.

Answer 15

First of all, we have to see whether the accommodation is provided at a concessional rate. If the value of accommodation computed in prescribed manner exceeds the rent recoverable, or payable by, the assessee, the accommodation would be deemed to have been provided at a concessional rate.
In this case, 10% of salary would be ₹ 5,300 (i.e. 10% of ₹ 53,000). The rent paid by the employee is ₹ 5,000 (i.e., ₹ 1,000 x 5). Since 15% of salary exceeds the rent recovered from the employee, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation	= ₹ 5,300
Less: Rent paid by the employee (₹1,000 × 5)	= ₹ 5,000
Perquisite value of accommodation given at concessional rent	**= ₹ 300**

Question 16 (Illustration)

Using the data given in Question 14, compute the value of the perquisite if ABC Ltd. has taken this accommodation on a lease rent of ₹ 1,025 p.m. and Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this accommodation.

Answer 16

Here again, we have to see whether there is a concession in the matter of rent.
In the case of accommodation taken on lease by the employer, there would be deemed to be a concession in the matter of rent if the rent paid by the employer or 15% of salary, whichever is lower, exceeds rent recoverable from the employee.
In this case, 10% of salary is ₹ 5,300 (i.e. 10% of ₹ 53,000). Rent paid by the employer is ₹ 5,125 (i.e. ₹ 1,025 x 5). The lower of the two is ₹ 5,125, which exceeds the rent paid by the employee i.e., ₹ 5,000 (₹ 1,000 x 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation **[Note]**	= ₹ 5,125
Less: Rent paid by the employee (₹1,000 × 5)	= ₹ 5,000
value of accommodation given at concessional rent	**= ₹ 125**

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Note: Value of the accommodation is lower of

(i)	Lease rent paid by the company for relevant period = ₹1,025 × 5	= ₹5,125
(ii)	10% of salary for the relevant period (computed earlier)	= 5,300

Question 17 (Illustration)

Using the data given in above Question 14, compute the value of the perquisite if ABC Ltd. has provided a television (WDV ₹ 10,000; Cost ₹ 25,000) and two air conditioner ₹ The rent paid by the company for the air conditioners is ₹ 400 p.m. each. The television was provided on 1.1.2025. However, Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this furnished accommodation.

Answer 17

Here again, we have to see whether the accommodation is provided at a concessional rate. In the case of accommodation owned by the employer in a city having a population exceeding 40 lakhs, the accommodation would be deemed to have been provided at a concessional rate, if 10% of salary exceeds rent recoverable from the employee. In case of furnished accommodation, the excess of hire charges paid or 10% p.a. of the cost of furniture, as the case may be, over and above the charges paid or payable by the employee has to be added to the value arrived at above to determine whether the accommodation is provided at a concessional rate.

In this case, 10% of salary is ₹ 5,300 (i.e. 10% of ₹ 53,000). The value of furniture of ₹ 4,625 **(See Note below)** is to be added to 10% of salary. The rent paid by the employee is ₹ 5,000 (i.e. ₹ 1,000 x 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation (computed earlier)	= ₹ 5,300
Add: Value of furniture provided by the employer **[Note]**	= ₹ 4,625
Value of furnished accommodation	**= ₹ 9,925**
Less: Rent paid by the employee (₹ 1,000 × 5)	= ₹ 5,000
Value of furnished accommodation given at a concessional rent	**= ₹ 4,925**

Note: Value of the furniture provided = (₹ 400 p.m. × 2 × 5 months) + (₹ 25,000 × 10% p.a. for 3 months) = ₹ 4,000 + ₹ 625 = ₹ 4,625

Question 18 (Illustration)

Using the data given in Question 17 above, compute the value of the perquisite if Mr. C is a government employee. The licence fees determined by the Government for this accommodation was ₹ 700 p.m.

Answer 18

In the case of Government employees, the accommodation would be deemed to have been provided at a concessional rate, if the licence fees determined by the employer as increased by the value of furniture and fixture exceeds the rent recovered/ recoverable from the employee.

In this case, ₹ 3,500 (licence fees: ₹ 700 x 5) + ₹ 4,625 (Value of furniture) is the value of furnished accommodation. The rent paid by the employee is ₹ 5,000 (i.e. ₹ 1,000 x 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation (₹ 700 × 5)	= ₹ 3,500
Add: Value of furniture provided by the employer (computed earlier)	= ₹ 4,625

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Value of furnished accommodation	**= ₹ 8,125**
Less: Rent paid by the employee (₹ 1,000 × 5)	= ₹ 5,000
Perquisite value of furnished accommodation given at concessional rent	**= ₹ 3,125**

Question 19 (Illustration)

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

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

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

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

Answer 19

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

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

Question 20 (Illustration)

Mr. X retired from the services of M/s Y Ltd. on 31.01.2025, after completing service of 30 years and one month. He had joined the company on 1.1.1995 at the age of 30 years and received the following on his retirement:

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

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

(iii) As per the scheme of the company, he was offered a car which was purchasedon 30.01.2022 by the company for ₹ 5,00,000. Company has recovered ₹ 2,00,000 from him for the car. Company depreciates the vehicles at the rateof 15% on Straight Line Method.

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

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

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

Following are the other particulars:

(i) He has drawn a basic salary of ₹ 20,000 and 50% dearness allowance permonth for the period from 01.04.2024 to 31.01.2025.

(ii) Received pension of ₹ 5,000 per month for the period 01.02.2025 to 31.03.2025 after commutation of pension.

Compute his gross total income from the above for Assessment Year 2025-26 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

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Answer 20

Computation of Gross Total Income of Mr. X for A.Y. 2025-26

Particulars	₹
Basic Salary = ₹20,000 x 10	2,00,000
Dearness Allowance = 50% of basic salary	1,00,000
Gift Voucher **(See Note - 1)**	6,000
Transfer of car **(See Note - 2)**	56,000
Gratuity **(See Note - 3)**	80,769
Leave encashment **(See Note - 4)**	1,30,000
Uncommuted pension (₹5000 x 2)	10,000
Commuted pension **(See Note - 5)**	1,50,000
Gross Salary	7,32,769
Less: Standard deduction u/s 16(ia)	50,000
Taxable Salary /Gross Total Income	**6,82,769**

Notes:

(1) As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of giftreceived by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt. In this case, theamount was received on his retirement and the sum exceeds the limit of ₹5,000.
Therefore, the entire amount of ₹6,000 is liable to tax as perquisite.
Note – An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 1,000 and gross taxable income would be ₹ 7,27,769.

(2) **Perquisite value of transfer of car:** As per Rule 3(7)(viii), the value of benefit to the employee, arising from the transfer of an asset, being a motorcar, by the employer is the actual cost of the motor car to the employer as reduced by 20% of WDV of such motor car for each completed year during which such motor car was put to use by the employer. Therefore, the value of perquisite on transfer of motor car, in this case, would be:

Particulars	₹
Purchase price (30.1.2022)	5,00,000
Less: Depreciation @ 20%	1,00,000
WDV on 29.1.2023	4,00,000
Less: Depreciation @ 20%	80,000
WDV on 29.1.2024	3,20,000
Less: Depreciation @ 20%	64,000
WDV on 29.1.2025	2,56,000
Less: Amount recovered	2,00,000
Value of perquisite	**56,000**

The rate of 15% as well as the straight line method adopted by the company for depreciation of vehicle is **not** relevant for calculation of perquisite value of car in the hands of Mr. X.

(3) Taxable gratuity

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Particulars		₹
Gratuity received		6,00,000
Less:	Exempt under section 10(10) - Least of theof the following:	
	(i) Notified limit = ₹20,00,000	
	(ii) Actual gratuity = ₹ 6,00,000	
	(iii) 15/26 x last drawn salary x no. of completed years of services or part in excess of 6 months 15/26 x ₹30,000 x 30 = ₹ 5,19,231	5,19,231
Taxable Gratuity		**80,769**

Note: As per the Payment of Gratuity Act, 1972, D.A. is included in the meaning of salary. Since in this case, Mr. X is covered under payment of Payment of Gratuity Act, 1972, D.A. has to be included within the meaning of salary for computation of exemption under section 10(10).

(4) Taxable leave encashment

Particulars		₹
Leave Salary received		3,30,000
Less: Exempt under section 10(10AA) - Least of the following:		
(i) Notified limit	₹25,00,000	
(ii) Actual leave salary	₹3,30,000	
(iii) 10 months x ₹20,000	₹2,00,000	
(iv) Cash equivalent of leave to his credit $\left[\frac{330}{30} \times 20{,}000\right]$	₹2,20,000	2,00,000
Taxable Leave encashment		**1,30,000**

Note – It has been assumed that dearness allowance does not form part of salaryfor retirement benefits. In case it is assumed that dearness allowance forms part of pay for retirement benefits, then, the third limit for exemption under section 10(10AA) in respect of leave encashment would be ₹ 3,00,000 (i.e. 10 x ₹ 30,000) and the fourth limit ₹ 3,30,000, in which case, the taxable leave encashment would be ₹ 30,000 (₹ 3,30,000 - ₹ 3,00,000). In such a case, the gross total income would be ₹ 6,32,769.

(5) **Commuted Pension**

Since Mr. X is a non-government employee in receipt of gratuity, exemption under section 10(10A) would be available to the extent of 1/3rd of the amount of the pension which he would have received had he commuted the whole of the pension.

Particulars	₹
Amount received	3,00,000
Exemption under section 10(10A) = $\frac{1}{3} \times \left[3{,}00{,}000 \times \frac{3}{2}\right]$	1,50,000
Taxable amount	**1,50,000**

(6) The taxability provisions under section 56(2)(x) are not attracted in respectof television received from colleagues, since television is not included in the definition of property therein.

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Question 21 (Illustration)

Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisitesprovided by the company to him for the entire financial year 2024-25:

(i) Domestic servant was provided at the residence of Bala. Salary of domestic servant is ₹ 1,500 per month. The servant was engaged by him and the salaryis reimbursed by the company (employer).
In case the company has employed the domestic servant, what is the value of perquisite?

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

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

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

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

(vi) Housing loan @ 6% per annum. Amount outstanding on 1.4.2024 is ₹ 6,00,000.Shri Bala pays ₹ 12,000 per month towards principal, on 5th of each month.

Compute the chargeable perquisite in the hands of Mr. Bala for the A.Y. 2025-26.
The lending rate of State Bank of India as on 1.4.2024 for housing loan may betaken as 10%.

Answer 21

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

(i) Domestic servant was employed by the employee and the salary of suchdomestic servant was paid/ reimbursed by the employer. It is taxable as perquisite for all categories of employees.
Taxable perquisite value = ₹1,500 × 12 = ₹18,000.
If the company had employed the domestic servant and the facility of such servant is given to the employee, then the perquisite is taxable only in thecase of specified employees. The value of the taxable perquisite in such acase also would be ₹18,000.

(ii) Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution inor near the locality. However, there would be no perquisite if the cost ofsuch education per child does not exceed ₹1,000 per month.
Therefore, there would be no perquisite in respect of cost of free education provided to his child Arthy, since the cost does not exceed ₹ 1,000 per month.
However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds ₹ 1,000 per month. The taxable perquisite value would be ₹14,400 (₹1,200 × 12).
Note – An alternate view possible is that only the sum in excess of ₹ 1,000 per month is taxable. In such a case, the value of perquisite would be ₹ 2,400.

(iii) Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges

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incurred by the employer shall be the value of perquisite. However, this will not apply to laptops and compute₹In this case, the movable assets are television, refrigerator and air conditioner and actual cost of such assets is ₹1,10,000.

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

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

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

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

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

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

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

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

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at4% for the month (₹)
April, 2024	5,88,000	1,960
May, 2024	5,76,000	1,920
June, 2024	5,64,000	1,880
July, 2024	5,52,000	1,840
August, 2024	5,40,000	1,800
September, 2024	5,28,000	1,760
October, 2024	5,16,000	1,720
November, 2024	5,04,000	1,680
December, 2024	4,92,000	1,640
January, 2025	4,80,000	1,600
February, 2025	4,68,000	1,560
March, 2025	4,56,000	1,520
Total value of this perquisite		**20,880**

Total value of taxable perquisite

= ₹ 74,280 [i.e. ₹ 18,000 + ₹ 14,400 + ₹ 11,000 + ₹ 10,000 + ₹ 20,880].

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

Question 22 (Illustration)

AB Co. Ltd. allotted 1000 sweat equity shares to Sri Chand in June 2024. The shares were allotted at ₹ 200 per share as against the fair market value of ₹ 300 per share on the date of exercise of option by the allottee viz. Sri Chand. The fair market value was computed in accordance with the method prescribed under the Act.

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

(ii) In the case of subsequent sale of those shares by Sri Chand, what would bethe cost of acquisition of those sweat equity shares?

Answer 22

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

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

(ii) As per section 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation under section 17(2)(vi). *(The provisions of section 49 are discussed in Unit 4: Capital Gains of this chapter)*

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

Question 23 (Illustration)

X Ltd. provided the following perquisites to its employee Mr. Y for the P.Y. 2024-25 –

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

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

(3) A Car of 1,200 cc which is owned by X Ltd. and given to Mr. Y to be used bothfor official and personal purposes. All running and maintenance expenses are fully met by the employer. He is also provided with a chauffeur.

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

Compute the value of perquisites chargeable to tax for the A.Y.2025-26, assuminghis salary for perquisite valuation to be ₹ 10 lakh.

Answer 23

Computation of the value of perquisites chargeable to tax in the hands of Mr. Yfor the A.Y.2025-26

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	Particulars	Amount in ₹		
(1)	**Value of accommodation at concessional rate**			
	Actual amount of lease rental paid by X Ltd.	1,80,000		
	10% of salary i.e., 10% of ₹ 10,00,000	1,00,000		
	Lower of the above		1,00,000	
	***Less:* Rent paid by Mr. Y (₹ 5,000 × 12)**		**60,000**	
	Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y (₹ 3,000 × 12)		40,000	
			36,000	76,000
(2)	Perquisite value of Santro car owned by X Ltd. and provided to Mr. Y for his personal and official use [(₹ 1,800 + ₹ 900) × 12]			32,400
(3)	Value of gift voucher*			10,000
	Value of perquisites chargeable to tax			**1,18,400**

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

Question 24 (Illustration)

Mr. Goyal receives the following emoluments during the previous year ending 31.03.2025.

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

Mr. Goyal contributes ₹ 5,000 towards recognized provident fund. He has no other income. Determine the income from salary for A.Y. 2025-26, if Mr. Goyal is a State Government employee.

Answer 24

Computation of salary of Mr. Goyal for the A.Y.2025-26 under default tax regime under section 115BAC

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

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

Computation of salary of Mr. Goyal for the A.Y.2025-26 under the optional tax regime (normal provisions of the Act)

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

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

Question 25 (Illustration)

In the case of Mr. Hari, who turned 71 years on 28.3.2025, you are informed that the salary (computed) for the previous year 2024-25 is ₹ 10,20,000 and arrears of salary received is ₹ 3,45,000. Further, you are given the following details relating to the earlier years to which the arrears of salary received is attributable to:

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

Compute the relief available under section 89 and the tax payable for the A.Y. 2025-26

Assume that Mr. Hari exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Note: Rates of Taxes:

Assessment Year	Slab rates of income-tax	
	For resident individuals of the ageof 60 years or more at any time during the previous year	For other resident individuals

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	Slabs	Rate	Slabs	Rate
2011–12	Upto ₹ 2,40,000	Nil	Upto ₹ 1,60,000	Nil
	₹ 2,40,001 - ₹ 5,00,000	10%	₹ 1,60,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 8,00,000	20%	₹ 5,00,001 - ₹ 8,00,000	20%
	Above ₹ 8,00,000	30%	Above ₹ 8,00,000	30%
2012–13	Upto ₹ 2,50,000	Nil	Upto ₹ 1,80,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	10%	₹ 1,80,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 8,00,000	20%	₹ 5,00,001 - ₹ 8,00,000	20%
	Above ₹ 8,00,000	30%	Above ₹ 8,00,000	30%
2013–14	Upto ₹ 2,50,000	Nil	Upto ₹ 2,00,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	10%	₹ 2,00,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 10,00,000	20%	₹ 5,00,001 - ₹ 10,00,000	20%
	Above ₹ 10,00,000	30%	Above ₹ 10,00,000	30%

Note – Education cess@2% and secondary and higher education cess@1% wasattracted on the income-tax for all above preceding years.

Answer 25

Computation of tax payable by Mr. Hari for the A.Y.2025-26

Particulars	Incl. arrears of salary ₹	Excl. arrearsof salary ₹
Current year salary (computed)	10,20,000	10,20,000
Add: Arrears of salary	3,45,000	-
Taxable Salary	13,65,000	10,20,000
Income-tax thereon	2,19,500	1,16,000
Add : Health and education cess @4%	8,780	4,640
Total payable	**2,28,280**	**1,20,640**

Computation of tax payable on arrears of salary if charged to tax in therespective AYs

Particulars	A.Y. 2011-12		A.Y. 2012-13		A.Y. 2013-14	
	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)
Taxable salary	7,10,000	7,10,000	8,25,000	8,25,000	9,50,000	9,50,000
Add: Arrears of salary	1,03,000	-	1,17,000	-	1,25,000	-
Taxable salary	**8,13,000**	**7,10,000**	**9,42,000**	**8,25,000**	**10,75,000**	**9,50,000**
Tax on the above	97,900	76,000	1,34,600	99,500	1,47,500	1,15,000
Add: Cess@3%	2,937	2,280	4,038	2,985	4,425	3,450
Tax payable	**1,00,837**	**78,280**	**1,38,638**	**1,02,485**	**1,51,925**	**1,18,450**

Computation of relief under section 89

	Particulars	₹	₹
i	Tax payable in A.Y.2025-26 on arrears:		
	Tax on income including arrears	2,28,280	
	Less : Tax on income excluding arrears	1,20,640	1,07,640

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ii	Tax payable in respective years on arrears :		
	Tax on income including arrears (₹ 1,00,837 + ₹ 1,38,638 + ₹ 1,51,925)	3,91,400	
	Less: Tax on income excluding arrears (₹ 78,280 + ₹ 1,02,485 + ₹ 1,18,450)	2,99,215	92,185
	Relief under section 89 - difference between tax on arrears in A.Y 2025-26 and tax on arrears in the respective years		**15,455**

Tax payable for A.Y.2025-26 after relief under section 89

Particulars	₹
Income-tax payable on total income including arrears of salary	2,28,280
Less : Relief under section 89 as computed above	15,455
Tax payable after claiming relief	**2,12,825**

TEST YOUR KNOWLEDGE

Question 1

Mr. Mohit is employed with XY Ltd. on a basic salary of ₹ 10,000 p.m. He is also entitled to dearness allowance @100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of ₹ 6,000 p.m. which was increased to ₹ 7,000 p.m. with effect from 01.01.2025. He also got an increment of ₹ 1,000 p.m. in his basic salary with effect from 01.02.2025. Rent paid by him during the previous year 2024-25 is as under:

April and May, 2024 - Nil, as he stayed with his parents

June to October, 2024 - ₹ 6,000 p.m. for an accommodation in Ghaziabad November, 2024 to March, 2025 - ₹ 8,000 p.m. for an accommodation in Delhi

Compute his gross salary for assessment year 2025-26 assuming he has not opted for the provisions of section 115BAC(1A).

Answer 1

Computation of gross salary of Mr. Mohit for A.Y. 2025-26

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

Note: Computation of Taxable House Rent Allowance (HRA)

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

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Relevant period (inmonths	2	5	2	1	2
Salary for the relevantperiod (Salary per month × relevantperiod)	30,000	75,000	30,000	15,000	33,000
Rent paid for therelevant period	Nil	30,000 (₹ 6,000×5)	16,000 (₹ 8,000×2)	8,000 (₹8,000×1)	16,000 (₹ 8,000×2)
House rent allowance (HRA) received during the relevant period **(A)**	12,000 (₹6,000×2)	30,000 (₹ 6,000×5)	12,000 (₹ 6,000×2)	7,000 (₹7,000×1)	14,000 (₹ 7,000×2)
Least of the following is exempt [u/s 10(13A)]	N.A.				
1. Actual HRA received	-	30,000	12,000	7,000	14,000
2. Rent paid (–) 10%of salary	-	22,500	13,000	6,500	12,700
3. 40% of salary(Residence atGhaziabad – June to Oct, 2024) 50% of salary (Residence at Delhi– Nov, 24 - March, 25)	-	30,000 (40% × ₹ 75,000)	15,000 (50% ×₹ 30,000)	7,500 (50% ×₹ 15,000)	16,500 (50% ×₹ 33,000)
Exempt HRA (B)	**Nil**	**22,500**	**12,000**	**6,500**	**12,700**
Taxable HRA [Actual HRA (–) Exempt HRA] **(A-B)**	12,000	7,500	Nil	500	1,300

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

Question 2

Ms. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the previous year 2024-25:

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

Examine the taxability of the above benefits and allowances in the hands of Rakhi.

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Answer 2

Tax treatment of medical benefits, allowances and Mediclaim premium in thehands of Ms. Rakhi for A.Y. 2025-26

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

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Question 3

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

(i) A company owned accommodation is provided to him in Delhi. Furniture costing ₹ 2,40,000 was provided on 1.8.2024.

(ii) A personal loan of ₹ 5,00,000 on 1.7.2024 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding. (Assume SBI rate of interest on 1.4.2024 was 12.75% p.a.)

(iii) His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for ₹ 60,000 on 1.5.2021. The motor cycle was finally sold to him on 1.8.2024 for ₹ 30,000.

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

Compute the income from salary of Mr. X for the A.Y. 2025-26 assuming Mr. X exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 3

Computation of Income from Salary of Mr. X for the A.Y. 202-26

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

Note 1: Value of rent free unfurnished accommodation

= 10% of salary or the relevant period

= 10% of (₹3,00,000 + ₹12,000 + ₹12,000) = ₹32,400

Note 2: Value of perquisite for interest on personal loan

= [₹5,00,000 × (12.75% - 6.75%) for 9 months] = ₹22,500

Note 3: Depreciated value of the motor cycle

= Original cost – Depreciation @ 10% p.a. for 3 completed year

= ₹60,000 – (₹60,000 × 10% p.a. × 3 years) = ₹42,000.

Perquisite = ₹42,000 – ₹30,000 = ₹12,000.

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Question 4

Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2025:

(i)	**Basic salary upto 31.10.2024**	**₹ 50,000 p.m.**
	Basic salary from 01.11.2024	**₹ 60,000 p.m.**

Note: Salary is due and paid on the last day of every month.

(ii) Dearness allowance @ 40% of basic salary.

(iii) Bonus equal to one month salary. Paid in October 2024 on basic salary plus dearness allowance applicable for that month.

(iv) Contribution of employer to recognized provident fund account of the employee @16% of basic salary.

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

(vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2024.

(vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2024 meant for both official and personal use. Repair and running expenses of ₹ 45,000 from 01.11.2024 to 31.03.2025, were fully met by the employer. The motor car was self-driven bythe employee.

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

Compute the salary income chargeable to tax in the hands of Mr. Balaji for theassessment year 2025-26 assuming he has not opted for the provisions of section 115BAC(1A).

Answer 4

Computation of Taxable Salary of Mr. Balaji for A.Y. 2025-26

Particulars		**₹**
Basic salary [(₹50,000 × 7) + (₹60,000 × 5)]		6,50,000
Dearness Allowance (40% of basic salary)		2,60,000
Bonus (₹50,000 + 40% of ₹50,000) (**See Note 1**)		70,000
Employers contribution to recognised provident fund in excessof 12% of salary = 4% of ₹6,50,000 (**See Note 2**)		26,000
Professional tax paid by employer		2,000
Perquisite of Motor Car (₹2,400 for 5 months) (**See Note 4**)		12,000
Gross Salary		**10,20,000**
Less: Deduction under section 16		
Standard deduction u/s 16(ia)	₹50,000	
Professional tax u/s 16(iii) (**See Note 6**)	₹2,500	52,500
Taxable Salary		**9,67,500**

Notes:

1. Since bonus was paid in the month of October, the basic salary of ₹50,000 for the month of October is considered for its calculation.
2. It is assumed that dearness allowance does not form part of salary for computing retirement

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benefits.

3. As per Rule 3(7)(vii), facility of use of laptop and computer is a tax free perquisite, whether used for official or personal purpose or both.
4. As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be ₹ 2,400 per month. The car was provided to the employee from 01.11.2024, therefore the perquisite value has been calculated for 5 months.
5. Mr. Balaji can avail exemption under section 10(5) on the entire amount of ₹ 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child.
   It is assumed that the Leave Travel Concession was availed for journey within India.
   He is eligible to claim benefit of exemption u/s 10(5) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
6. As per section 17(2)(iv), a "perquisite" includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of ₹ 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. Asper section 16(iii), a deduction from the salary is provided on account of taxon employment i.e. professional tax paid during the year.
   Therefore, in the present case, the professional tax paid by the employer on behalf of the employee ₹ 2,000 is first included in the salary and deductionof the entire professional tax of ₹2,500 is provided from salary.

Question 5

From the following details, find out the salary chargeable to tax for the A.Y.2025-26 assuming he has not opted for the provisions of section 115BAC(1A)-

Mr. X is a regular employee of Rama & Co., in Gurgaon. He was appointed on 1.1.2024 in the scale of ₹ 20,000 -₹ 1,000 - ₹ 30,000. He is paid 10% D.A. & Bonus equivalent to one month pay based on salary of March every year. He contributes15% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. DA forms part of pay for retirement benefits.

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

(i) Facility of laptop costing ₹ 50,000.
(ii) Company reimbursed the medical treatment bill of his brother of ₹ 25,000, who is dependent on him.
(iii) The monthly salary of ₹ 1,000 of a house keeper is reimbursed by the company.
(iv) A gift voucher of ₹ 10,000 on the occasion of his marriage anniversary.
(v) Conveyance allowance of ₹ 1,000 per month is given by the company towardsactual reimbursement of conveyance spent on official duty.
(vi) He is provided personal accident policy for which premium of ₹ 5,000 is paidby the company.
(vii) He is getting telephone allowance @₹ 500 per month.

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Answer 5

Computation of taxable salary of Mr. X for A.Y. 2025-26

Particulars	₹
Basic pay [(₹20,000×9) + (₹21,000×3)] = ₹1,80,000 + ₹63,000	2,43,000
Dearness allowance [10% of basic pay]	24,300
Bonus	21,000
Employer's contribution to Recognized Provident Fund in excessof 12% (15%-12% =3% of ₹2,67,300) **[See Note 1 below]**	8,019
Taxable allowances	
Telephone allowance	6,000
Taxable perquisites	
Rent-free accommodation **[See Note 1 & 2 below]**	29,430
Medical reimbursement	25,000
Reimbursement of salary of housekeeper	12,000
Gift voucher **[See Note 5 below]**	10,000
Gross Salary	**3,78,749**
Less: Deduction under section 16(ia) – Standard deduction	50,000
Salary income chargeable to tax	**3,28,749**

Notes:

1. Since dearness allowance forms part of salary for retirement benefits, the perquisite value of rent-free accommodation and employer's contribution to recognized provident fund have been accordingly worked out.
2. Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 10% of salary, whichever is lower.
   For the purposes of valuation of rent free house, salary includes:
   (i) Basic salary i.e., ₹ 2,43,000
   (ii) Dearness allowance i.e. ₹ 24,300
   (iii) Bonus i.e., ₹ 21,000
   (iv) Telephone allowance i.e., ₹ 6,000
   Therefore, salary works out to ₹ 2,43,000 + ₹ 24,300 + ₹ 21,000 + ₹ 6,000 = ₹ 2,94,300.
   10% of salary = ₹ 2,94,300 × 10/100 = ₹ 29,430
   Value of rent-free house = Lower of rent paid by the employer (i.e. ₹ 1,20,000) or 10% of salary (i.e., ₹ 29,430). Therefore, the perquisite value is ₹ 44,145.
3. Facility of use of laptop is not a taxable perquisite.
4. Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.
5. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000.

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

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

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6. Premium of ₹ 5,000 paid by the company for personal accident policy is not liable to tax.

Question 6

You are required to compute the income from salary of Mr. Raja under default tax regime from the following particulars for the year ended 31-03-2025:

(A) He retired on 31-12-2024 at the age of 60, after putting in 25 years and 9 months of service, from a private company at Delhi.

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

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

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

(E) He is receiving ₹ 5,000 as pension. On 1.2.2025, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension.

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

Answer 6

Computation of income under the head "Salaries"
of Mr. Raja for the A.Y.2025-26 under default tax regime

Particulars	₹	₹
Basic Salary = ₹ 25,000 x 9 months		2,25,000
House Rent Allowance = ₹ 6,000 x 9 months[Fully taxable under default tax regime]		54,000
Gratuity	3,50,000	
Less: Least of the following exempt undersection 10(10)(ii)	3,50,000	Nil
(i) Actual Gratuity received ₹3,50,000		
(iii) 15 days salary for every year of completed service [15/26 x ₹ 25,000 x 26] =₹ 3,75,000		
(iii) Notified limit = ₹20,00,000		
Leave encashment	3,15,000	
Less: Least of the following exempt undersection 10(10AA)	2,50,000	65,000
(i) ₹25,00,000		
(ii) Leave salary actually received ₹3,15,000		
(iii) ₹2,50,000, being 10 months' salary x ₹25,000		
(iv) Cash equivalent of leave standing at thecredit of the employee based on theaverage salary of last 10 months' (max. 30days per year of service) for every year of actual service rendered for the employer from whose service he has retired 375/30 x ₹25,000 = ₹3,12,500 [Leave Due = Leave allowed – Leave taken]		

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= 750 (30 days per year × 25 years) – 375 days (15 days x 25) = 375 days]		
Uncommuted Pension received [₹5,000 x 1) +(₹5,000 x 2 x 40%)		9,000
Commuted Pension received	3,00,000	
Less: Exempt under section 10(10A)		
1/3 x ₹3,00,000/60% x 100%)	1,66,667	1,33,333
Gift Voucher [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt]		Nil
Mobile Phone received as gift from colleagues (Neither taxable under the head "Salaries" nor "Income from other sources", since taxability provisions under section 56(2)(x) are not attracted in respect of mobile phone received from colleagues, as mobile phone is not included in the definition of "property" thereunder)		Nil
Gross Salary		**4,86,333**
Less: Standard deduction u/s 16 [Actual salary or ₹ 75,000, whichever is less] [Allowable under default tax regime]		75,000
Net Salary		**4,11,333**

Question 7

Ms. Akansha, a salaried employee, furnishes the following details for the financial year 2024-25:

Particulars	₹
Basic salary	**6,20,000**
Dearness allowance	**4,20,000**
Commission	**75,000**
Entertainment allowance	**9,000**
Medical expenses reimbursed by the employer	**18,000**
Profession tax (of this, 50% paid by employer)	**4,000**
Health insurance premium paid by employer	**8,000**
Gift voucher given by employer on her birthday	**10,000**
Life insurance premium of Akansha paid by employer	**26,000**
Laptop provided for use at home. Actual cost of Laptop to employer	**45,000**
Children of the assessee are also using the Laptop at home]	
Employer company owns a Maruti Suzuki Swift car, which was provided to the assessee, both for official and personal use.	
Driver was also provided. (Engine cubic capacity more than 1.6 litres). All expenses are met by the employer	

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Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are notavailable]	**7,000**

You are required to compute the income chargeable under the head salaries for the assessment year 2025-26 if she pays tax under default tax regime.

Answer 7

Computation of income chargeable under the head "Salaries"of Ms. Akansha for A.Y.2025-26 under default tax regime

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

Note: As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would

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be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 10,000 was received by Ms. Akansha from her employer on the occasion of her birthday.
Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 10,000 is liable to tax as perquisite. The above solution has been worked out accordingly.
An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. Accordingly, the gross salary and net salary would be ₹ 12,21,600 and ₹ 11,46,600, respectively.

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ILLUSTRATION:

Question 1 (Illustration)

Jayashree owns five houses in India, all of which are let-out. Compute the GAV of each house from the information given below –

Particulars	HouseI (₹)	HouseII (₹)	House III (₹)	House IV (₹)	House V (₹)
Municipal Value	80,000	55,000	65,000	24,000	80,000
Fair Rent	90,000	60,000	65,000	25,000	75,000
Standard Rent	N.A.	75,000	58,000	N.A.	78,000
Actual rent received/receivable	72,000	72,000	60,000	30,000	72,000

Answer 1

As per section 23(1), Gross Annual Value (GAV) is the higher of Expected rent and actual rent received. Expected rent is higher of municipal value and fair rent but restricted to standard rent.

Computation of GAV of each house owned by Jayashree

	Particulars	House I (₹)	House II (₹)	House III (₹)	House IV (₹)	House V (₹)
(i)	Municipal value	80,000	55,000	65,000	24,000	80,000
(ii)	Fair rent	90,000	60,000	65,000	25,000	75,000
(iii)	**Higher of (i) & (ii)**	90,000	60,000	65,000	25,000	80,000
(iv)	Standard rent	N.A.	75,000	58,000	N.A.	78,000
(v)	**Expected rent [Lower of (iii) & (iv)]**	90,000	60,000	58,000	25,000	78,000
(vi)	Actual rent received/receivable	72,000	72,000	60,000	30,000	72,000
	GAV [Higher of (v) & (vi)]	**90,000**	**72,000**	**60,000**	**30,000**	**78,000**

Question 2 (Illustration)

Rajesh, a British national, is a resident and ordinarily resident in India during the P.Y. 2024-25. He owns a house in London, which he has let out at £ 10,000 p.m. The municipal taxes paid to the Municipal Corporation of London is £ 8,000 during the P.Y. 2024-25. The value of one £ in Indian rupee to be taken at ₹ 95. ComputeRajesh's Net Annual Value of the property for the A.Y. 2025-26.

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Answer 2

For the P.Y. 2024-25, Mr. Rajesh, a British national, is resident and ordinarily resident in India. Therefore, income received by him by way of rent of the house property located in London is to be included in the total income in India. Municipal taxes paid in London is be to allowed as deduction from the gross annual value.

Computation of Net Annual Value of the property of Mr. Rajesh for A.Y. 2025-26

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

Question 3 (Illustration)

Mr. Manas owns two house properties one at Bombay, wherein his family resides and the other at Delhi, which is unoccupied. He lives in Chandigarh for his employment purposes in a rented house. For acquisition of house property at Bombay, he has taken a loan of ₹ 30 lakh@10% p.a. on 1.4.2023. He has not repaid any amount so far. In respect of house property at Delhi, he has taken a loan of ₹ 5 lakh@11% p.a. on 1.10.2023 towards repairs. Compute the deduction which would be available to him under section 24(b) for A.Y.2025-26 in respect of interest payable on such loan if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 3

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

He is eligible for deduction under section 24(b) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of deduction u/s 24(b) for A.Y.2025-26

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

Question 4 (Illustration)

Anirudh has a property whose municipal valuation is ₹ 1,30,000 p.a. The fair rent is₹ 1,10,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 1,20,000 p.a. The property was let out for a rent of ₹ 11,000 p.m. throughout the previous year. Unrealised rent was ₹ 11,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @10% of municipal valuation. Interest on

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borrowed capital was₹ 40,000 for the year. Compute his income from house property for A.Y.2025-26.

Answer 4

Computation of Income from house property of Mr. Anirudh for A.Y. 2025-256

Particulars		Amount in ₹	
Computation of GAV			
Step 1	Compute ER		
	ER = Higher of MV of ₹ 1,30,000 p.a. and FR of ₹ 1,10,000 p.a., but restricted to SR of ₹ 1,20,000 p.a.	1,20,000	
Step 2	Compute actual rent received/receivable		
	Actual rent received/ receivable less unrealizedrent as per Rule 4 = ₹ 1,32,000 - ₹ 11,000	1,21,000	
Step 3	Compare ER of ₹ 1,20,000 and Actual rentreceived/receivable of ₹ 1,21,000		
Step 4	GAV is the higher of ER and Actual rentreceived/receivable	1,21,000	
Gross Annual Value (GAV)			**1,21,000**
Less:	Municipal taxes (paid by the owner during theprevious year) = 10% of ₹ 1,30,000		13,000
Net Annual Value (NAV)			**1,08,000**
Less:	**Deductions under section 24**		
	(a) 30% of NAV	32,400	
	(b) Interest on borrowed capital(actual without any ceiling limit)	40,000	72,400
Income from house property			**35,600**

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be ₹ 1,32,000, being higher of expected rent of ₹ 1,20,000 and actual rent of ₹ 1,32,000. Thereafter, unrealized rent of ₹ 11,000 and municipal taxes of ₹ 13,000 would be deducted from GAV of ₹ 1,32,000 to arrive at the NAV of ₹ 1,08,000.

Question 5 (Illustration)

Ganesh has a property whose municipal valuation is ₹ 2,50,000 p.a. The fair rent is₹ 2,00,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 2,10,000 p.a. The property was let out for a rent of ₹ 20,000 p.m. However, the tenant vacated the property on 31.1.2025. Unrealized rent was ₹ 20,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @8% of municipal valuation. Interest on borrowed capital was ₹ 65,000 for the year. Compute the income from house property of Ganesh for A.Y. 2025-26.

Answer 5

Computation of income from house property of Ganesh for A.Y. 2025-26

Particulars		Amount in ₹	
Computation of GAV			
Step 1	Compute ER Higher of MV of ₹ 2,50,000 p.a. & FR of ₹ 2,00,000 p.a., but restricted	2,10,000	

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	to SR of ₹ 2,10,000 p.a.		
Step 2	Compute Actual rent received/ receivable Actual rent received/ receivable for let outperiod less unrealized rent as per Rule 4 = ₹ 2,00,000 – ₹ 20,000	1,80,000	
Step 3	Compare ER & Actual rent received/ receivable		
Step 4	In this case the actual rent of ₹ 1,80,000 is lower than ER of ₹ 2,10,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 2,20,000 (₹ 1,80,000 + ₹ 40,000, being notional rent for February and March 2023). Therefore, actual rent is the GAV.	1,80,000	
Gross Annual Value (GAV)			**1,80,000**
Less:	Municipal taxes (paid by the owner duringthe previous year) = 8% of ₹ 2,50,000		20,000
Net Annual Value (NAV)			**1,60,000**
Less:	**Deductions under section 24**		
	(a) 30% of NAV = 30% of ₹ 1,60,000	48,000	
	(b) Interest on borrowed capital (actual without any ceiling limit)	65,000	1,13,000
Income from house property			**47,000**

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be ₹ 2,00,000, being the actual rent, since the actual rent is lower than the expected rent of ₹ 2,10,000 owing to vacancy. Thereafter, unrealized rent of ₹ 20,000 and municipal taxes of ₹ 20,000 would be deducted from GAV of ₹ 2,00,000 to arrive at the NAV of ₹ 1,60,000.

Question 6 (Illustration)

Poorna has one house property at Indira Nagar in Bangalore. She stays with her family in the house. The rent of similar property in the neighborhood is ₹ 25,000 p.m. The municipal valuation is ₹ 2,80,000 p.a.. Municipal taxes paid is ₹ 8,000. The house construction began in April 2018 with a loan of ₹ 20,00,000 taken from SBI Housing Finance Ltd. @9% p.a. on 1.4.2018. The construction was completed on 30.11.2020. The accumulated interest up to 31.3.2020 is ₹ 3,60,000. On 31.3.2025, Poorna paid ₹ 2,40,000 which included ₹ 1,80,000 as interest. There was no principal repayment prior to this date. Compute Poorna's income from house property for A.Y. 2025-26 assuming that she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 6

Computation of income from house property of Smt. Poorna forA.Y. 2025-26

Particulars		**Amount ₹**
Annual Value of house used for self-occupation undersection 23(2)		Nil
Less:	**Deduction under section 24**	

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	Interest on borrowed capital Interest on loan was taken for construction of house onor after 1.4.99 and same was completed within the prescribed time - interest paid or payable subject to a maximum of ₹ 2,00,000 (including apportioned pre- construction interest) will be allowed as deduction. In this case the total interest is ₹ 1,80,000 + ₹ 72,000 (Being 1/5th of ₹ 3,60,000) = ₹ 2,52,000. However, the interest deduction is restricted to ₹ 2,00,000.	2,00,000
Loss from house property		**(2,00,000)**

Question 7 (Illustration)

Smt. Rajalakshmi owns a house property at Adyar in Chennai. The municipal value of the property is ₹ 5,00,000, fair rent is ₹ 4,20,000 and standard rent is₹ 4,80,000. The property was let-out for ₹ 50,000 p.m. up to December 2024. Thereafter, the tenant vacated the property and Smt. Raja Lakshmi used the housefor self-occupation. Rent for the months of November and December 2024 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied. She paid municipal taxes @12% during the year. She had paid interest of ₹ 25,000 during the year for amount borrowed for repairs for thehouse property. Compute her income from house property for the A.Y. 2025-26.

Answer 7

Computation of income from house property of Smt. Raja Lakshmi for A.Y. 2025-26

Particulars		**Amount in ₹**	
Computation of GAV			
Step 1	Compute ER for the whole year ER = Higher of MV of ₹ 5,00,000 and FR of ₹ 4,20,000, but restricted to SR of ₹ 4,80,000	4,80,000	
Step 2	Compute Actual rent received/ receivable Actual rent received/receivable for the period let out less unrealized rent as per Rule 4 = (₹ 50,000 × 9) – (₹ 50,000 × 2) = ₹ 4,50,000 - ₹ 1,00,000	3,50,000	
Step 3	Compare ER for the whole year with the actual rent received/ receivable for the let out period i.e. ₹ 4,80,000 and ₹ 3,50,000		
Step 4	GAV is the higher of ER computed for the whole year and Actual rent received/ receivable computed for the let-out period	4,80,000	
Gross Annual Value (GAV)			**4,80,000**
Less:	Municipal taxes (paid by the owner during theprevious year) = 12% of ₹ 5,00,000		60,000
Net Annual Value (NAV)			**4,20,000**
Less:	**Deductions under section 24**		
	(a) 30% of NAV = 30% of ₹ 4,20,000	1,26,000	
	(b) Interest on borrowed capital	25,000	1,51,000
Income from house property			**2,69,000**

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be ₹ 4,80,000, being higher of expected rent of ₹ 4,80,000 and actual rent of ₹ 4,50,000.

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Thereafter, unrealized rent of ₹ 1,00,000 and municipal taxes of ₹ 60,000 would be deducted from GAV of ₹ 4,80,000 to arrive atthe NAV of ₹ 3,20,000. The deduction u/s 24(a) would be ₹ 96,000, being 30% of ₹ 3,20,000. The income from house property would, therefore, be ₹ 1,99,000.

Question 8 (Illustration)

Ganesh has three houses, all of which are self-occupied. The particulars of the houses for the P.Y. 2024-25 are as under:

Particulars	House I	House II	House III
Municipal valuation p.a.	**₹ 3,00,000**	**₹ 3,60,000**	**₹ 3,30,000**
Fair rent p.a.	**₹ 3,75,000**	**₹ 2,75,000**	**₹ 3,80,000**
Standard rent p.a.	**₹ 3,50,000**	**₹ 3,70,000**	**₹ 3,75,000**
Date of completion/purchase	**31.3.2000**	**31.3.2002**	**01.4.2016**
Municipal taxes paid during the year	**12%**	**8%**	**6%**
Interest on money borrowed for repair ofproperty during the current year	**-**	**55,000**	
Interest for current year on money borrowed in April, 2017 for purchase of property			**1,75,000**

Compute Ganesh's income from house property for A.Y.2025-26 and suggest which houses should be opted by Ganesh to be assessed as self-occupied so that his tax liability is minimum.

Answer 8

Let us first calculate the income from each house property assuming that they are deemed to be let out.

Computation of income from house property of Ganesh for the A.Y. 2025-26

Particulars		Amount in ₹		
		House I	**House II**	**House III**
Gross Annual Value (GAV) ER is the GAV of house property ER = Higher of MV and FR, butrestricted to SR		3,50,000	3,60,000	3,75,000
Less:	Municipal taxes (paid by the owner during the previous year)	36,000	28,800	19,800
Net Annual Value (NAV)		**3,14,000**	**3,31,200**	**3,55,200**
Less:	**Deductions under section 24**			
	(a) 30% of NAV	94,200	99,360	1,06,560
	(b) Interest on borrowed capital	-	55,000	1,75,000
Income from house property		**2,19,800**	**1,76,840**	**73,640**

Ganesh can opt to treat any two of the above house properties as self-occupied

Under default tax regime under section 115BAC

OPTION 1 (House I and II– self-occupied and House III – deemed to be let out)

If House I and II are opted to be self-occupied, the income from house property shallbe –

Particulars	Amount in ₹

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House I (Self-occupied)	Nil
House II (Self-occupied) (No interest deduction)	Nil
House III (Deemed to be let-out)	73,640
Income from house property	**73,640**

OPTION 2 (House I and III – self-occupied and House II – deemed to be let out)
If House I and III are opted to be self-occupied, the income from house property shallbe –

Particulars	Amount in ₹
House I (Self-occupied)	Nil
House II (Deemed to be let-out)	1,76,840
House III (Self-occupied) (No interest deduction)	Nil
Income from house property	**1,76,840**

OPTION 3 (House II and III – self-occupied and House I – deemed to be let out)
If House II and III are opted to be self-occupied, the income from house property shallbe –

Particulars	Amount in ₹
House I (Deemed to be let-out)	2,19,800
House II (Self-occupied) (No interest deduction)	-
House III (Self-occupied) (No interest deduction)	-
Income from house property	2,19,800

Since Option 1 is most beneficial, Ganesh should opt to treat House I and II as self-occupied and House III as deemed to be let out. His income from house property would be ₹ 73,640 for the A.Y. 2025-26 under default tax regime under section 115BAC.

Question 9 (Illustration)

Prem owns a house in Madras. During the previous year 2024-25, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes at a rent of ₹ 8,000 p.m. Municipal value of the property is ₹ 3,00,000 p.a., fair rent is ₹ 2,70,000 p.a. and standard rent is ₹ 3,30,000 p.a. He paid municipal taxes @10% of municipal value during the year. A loan of ₹ 25,00,000 was taken by him during the year 2020 for acquiring the property. Interest on loan paid during the previous year 2024-25 was ₹ 1,20,000. Compute Prem's income from house property for the A.Y.2025-26 assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

What would be Prem's income from house property under the default tax regime?

Answer 9

There are two units of the house. Unit I with 2/3rd area is used by Prem for self-occupation throughout the year and no other benefit is derived from that unit,hence it will be treated as self-occupied and its annual value will be Nil. Unit 2 with 1/3rd area is let-out throughout the previous year and its annual value has tobe determined as per section 23(1).

Computation of income from house property of Mr. Prem for A.Y.2025-26 under the optional tax regime (i.e., the normal provisions of the Act)

Particulars	Amount in ₹	
Unit I (2/3rd area – self-occupied)		
Annual Value		Nil

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Less:	**Deduction under section 24(b)2/3rd of ₹ 1,20,000**		**80,000**
Income from Unit I (self-occupied)			**(80,000)**
Unit II (1/3rd area – let out)			
Computation of GAV			
Step I	Compute ER		
	ER = Higher of MV and FR, restricted to SR However, in this case, SR of ₹ 1,10,000 (1/3rd of ₹ 3,30,000) is more than the higher of MV of ₹ 1,00,000 (1/3rd of ₹ 3,00,000) and FR of ₹ 90,000 (1/3rd of ₹ 2,70,000). Hence the higher of MV and FR is the ER. In this case, it is the MV.	1,00,000	
Step 2	Compute actual rent received/ receivable ₹ 8,000X 12 = ₹ 96,000	96,000	
Step 3	Compare ER and Actual rent received/ receivable		
Step 4	GAV is the higher of ER and actual rentreceived/ receivable i.e. higher of ₹ 1,00,000 and ₹ 96,000	1,00,000	
Gross Annual Value(GAV)			**1,00,000**
Less:	Municipal taxes paid by the owner during theprevious year relating to let-out portion 1/3rd of (10% of ₹ 3,00,000) = ₹ 30,000/3 = ₹10,000		10,000
Net Annual Value(NAV)			**90,000**
Less:	Deductions under section 24		
	(a) 30% of NAV = 30% of ₹ 90,000	27,000	
	(b) Interest paid on borrowed capital (relatingto let out portion) 1/3rd of ₹ 1,20,000	40,000	67,000
	Income from Unit II (let-out)		**23,000**
Loss under the head "Income from house property" = (₹ 80,000) + ₹ 23,000 = (₹57,000)			

Under the default tax regime, Prem would not be entitled to interest deduction of ₹ 80,000 under section 24(b) in respect of self-occupied portion (Unit 1). Hence, income from house property would be ₹ 23,000, being income from Unit II, which is let out.

Question 10 (Illustration)

Mr. Anand sold his residential house property in March, 2024.

In June, 2024, he recovered rent of ₹ 10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2018 to March 2020. He could not realise two months rent of ₹ 20,000 from him and to that extent his actual rent was reduced while computing income from house property for A.Y.2020-21.

Further, he had let out his property from April, 2020 to February, 2024 to Mr. Satish. In April, 2022, he had increased the rent from ₹ 12,000 to ₹ 15,000 per month and the same was a subject matter of dispute. In September, 2024, the matter was finally settled and Mr. Anand received ₹ 69,000 as arrears of rent for the period April 2022 to February, 2024.

Would the recovery of unrealised rent and arrears of rent be taxable in the hands of Mr. Anand, and if so in which year?

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Answer 10

Since the unrealised rent was recovered in the P.Y.2024-25, the same would be taxable in the A.Y.2025-26 under section 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year. Further, the arrears of rent was also received in the P.Y.2024-25, and hence the same would be taxable in the A.Y.2025-26 under section 25A, even though Mr. Anand was not the owner of the house in that year. A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Anand for A.Y.2025-26.

Computation of income from house property of Mr. Anand for A.Y. 2025-26

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

Question 11 (Illustration)

Ms. Aparna co-owns a residential house property in Calcutta along with her sister Ms. Dimple, where her sister's family resides. Both of them have equal share in the property and the same is used by them for self-occupation. Interest is payable in respect of loan of ₹ 50,00,000@10% taken on 1.4.2023 for acquisition of such property. In addition, Ms. Aparna owns a flat in Pune in which she and her parents reside. She has taken a loan of ₹ 3,00,000@12% on 1.10.2023 for repairs of this flat. Compute the deduction which would be available to Ms. Aparna and Ms. Dimple under section 24(b) for A.Y.2025-26, if both exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 11

Computation of deduction u/s 24(b) available to Ms. Aparna for A.Y.2025-26

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

Computation of deduction u/s 24(b) available to Ms. Dimple for A.Y.2025-24

Particulars	₹
Interest on loan taken for acquisition of residentialproperty at house Calcutta	
₹ 50,00,000 x 10% = ₹ 5,00,000	

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Ms. Dimple's share = 50% of ₹ 5,00,000 = ₹ 2,50,000	
Restricted to ₹ 2,00,000	2,00,000
Deduction under section 24(b)	**2,00,000**

TEST YOUR KNOWLEDGE:

Question 1

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

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

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

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

Compute the income from this property chargeable in the hands of Mr. Raman forthe A.Y. 2025-26.

Answer 1

Computation of income from house property of Mr. Raman for A.Y. 2024-25

Particulars	**(₹)**	**(₹)**
Gross Annual Value **(See Note 1 below)**		1,80,000
Less: Municipal taxes – paid by the tenant, hence notdeductible		Nil
Net Annual Value (NAV)		1,80,000
Less: Deductions under section 24		
(i) 30% of NAV	54,000	
(ii) Interest on housing loan **(See Note 2 below)**		
- Interest on loan taken from bank	25,000	
- Interest on fresh loan to repay old loan for thisproperty	5,000	84,000
Income from house property		**96,000**
50% share taxable in the hands of Mr. Raman **(See Note 3)**		**48,000**

Notes:

1. Computation of Gross Annual Value (GAV)

GAV is the higher of Expected rent and actual rent received. Expected rent isthe higher of municipal value and fair rent, but restricted to standard rent.

Particulars	**₹**	**₹**	**₹**	**₹**
(a) Municipal value	1,60,000			
(b) Fair rent	1,50,000			
(c) Higher of (a) and (b)		1,60,000		

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(d) Standard rent		1,70,000		
(e) Expected rent [lower of (c)and (d)]			1,60,000	
(f) Actual rent [₹ 15,000 x 12]			1,80,000	
(g) Gross Annual Value [higherof (e)and (f)]				1,80,000

2. Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24.
3. Section 26 provides that where a house property is owned by two or more persons whose shares are definite and ascertainable, the share of each such person in the income of house property, as computed in accordance with sections 22 to 25, shall be included in his respective total income. Therefore, 50% of the total income from the house property is taxable in the hands of Mr. Raman since he is an equal owner of the property.

Question 2

Mr. X owns one residential house in Mumbai. The house is having two identical units. First unit of the house is self-occupied by Mr. X and another unit is rented for ₹ 8,000 p.m. The rented unit was vacant for 2 months during the year. The particulars of the house for the previous year 2024-25 are as under:

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

Compute income from house property of Mr. X for the A.Y. 2025-26 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 2

Computation of Income from house property for A.Y. 2025-26

Particulars	**₹**	**₹**
(A) Rented unit (50% of total area – See Note below)		
Step I - Computation of Expected Rent		
Municipal valuation (₹ 1,90,000 x ½)	95,000	
Fair rent (₹ 1,85,000 x ½)	92,500	
Standard rent (₹ 1,62,000 x ½)	81,000	
Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent	81,000	
Step II - Actual Rent		

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Rent receivable for the whole year (₹8,000 x 10)	80,000	
Step III – Computation of Gross Annual Value		
The actual rent of ₹ 80,000 is lower than ER of ₹ 81,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 96,000 (₹ 80,000 + ₹ 16,000, being notional rent for two months. Therefore, the actual rent is the GAV.	80,000	
Gross Annual Value		**80,000**
Less: Municipal taxes (5% of ₹ 95,000)		4,750
Net Annual value		**75,250**
Less: Deductions under section 24 -		
(i) 30% of net annual value	22,575	
(ii) Interest on borrowed capital (₹ 750 x 12)	9,000	31,575
Taxable income from let out portion		**43,675**
(B) Self-occupied unit (50% of total area – See Notebelow)		
Annual value	Nil	
Less: Deduction under section 24 -		
Interest on borrowed capital (₹ 750 x 12)	9,000	9,000
Loss from self-occupied portion		**(9,000)**
Income from house property		**34,675**

Note: No deduction will be allowed separately for light and water charges, leasemoney paid, insurance charges and repairs.

Question 3

Mr. Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 96,000, ₹ 1,26,000 and ₹ 1,08,000 (per annum), respectively. During the Financial Year 2024-25, one-third of the portion of the house was let out for residential purpose at a monthly rent of ₹ 5,000. The remaining two-third portion was self-occupied by him. Municipal tax @ 11 % of municipal value was paid during the year.

The construction of the house began in June, 2017 and was completed on 31-5-2020. Vikas took a loan of ₹ 1,00,000 on 1-7-2017 for the construction of building. He paid interest on loan @ 12% per annum and every month such interest was paid.

Compute income from house property of Mr. Vikas for the A.Y. 2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 3

Computation of income from house property of Mr. Vikas for the A.Y. 2025-26

Particulars	₹	₹
Income from house property		
I. Self-occupied portion (Two third)		
Net Annual value		Nil

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Less: Deduction under section 24(b)			
Interest on loan (See Note below) (₹ 18,600 x 2/3) [Allowable since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]			12,400
Loss from self-occupied property			**(12,400)**
II. Let-out portion (One third)			
Gross Annual Value			
(a) Actual rent received (₹ 5,000 x 12)	₹ 60,000		
(b) Expected rent [higher of municipal valuation (i.e., ₹ 96,000) and fair rent (i.e., ₹ 1,26,000) but restricted to standard rent (i.e., ₹ 1,08,000)] = ₹36000 (1,08,000 x 1/3)	₹ 36,000		
Higher of (a) or (b)		60,000	
Less: Municipal taxes (₹ 96,000 x 11% x 1/3)		3,520	
Net Annual Value		**56,480**	
Less: Deductions under section 24			
(a) 30% of NAV		16,944	
(b) Interest on loan **(See Notebelow)** (₹ 18,600 x 1/3)		6,200	**33,336**
Income from house property			**20,936**

Note:

Interest on loan taken for construction of building

Interest for the year (1.4.2024 to 31.3.2025) = 12% of ₹ 1,00,000 = ₹ 12,000

Pre-construction period interest = 12% of ₹ 1,00,000 for 33 months (from 1.07.2017 to 31.3.2020) = ₹ 33,000

Pre-construction period interest to be allowed in 5 equal annual installments of ₹ 6,600from the year of completion of construction i.e. from F.Y. 2020-21 till F.Y. 2024-25.

Therefore, total interest deduction under section 24 = ₹ 12,000 + ₹ 6,600 = ₹ 18,600.

Question 4

Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in Indiaduring the financial year 2024-25. She owns a house property at Los Angeles, U.S.A., which is used as her residence. The annual value of the house is $ 20,000. The value of one USD ($) may be taken as ₹ 75. She took ownership and possession of a flat in Chennai on 1.7.2024, which is usedfor self-occupation, while she is in India. The flat was used by her for 7 months only during the year ended 31.3.2025. The municipal valuation is ₹ 3,84,000 p.a. and the fair rent is ₹ 4,20,000 p.a. She paid the following to Corporation of Chennai:

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

She had taken a loan from Standard Chartered Bank in June, 2022 for purchasing this flat. Interest on loan was as under:

Particulars	₹
Period prior to 1.4.2024	**49,200**
1.4.2024 to 30.6.2024	**50,800**

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1.7.2024 to 31.3.2025	**1,31,300**

She had a house property in Bangalore, which was sold in March, 2021. In respectof this house, she received arrears of rent of ₹ 60,000 in March, 2025. This amounthas not been charged to tax earlier.

Compute the income chargeable from house property of M₹ Rohini Ravi for the A.Y. 2025-26 if she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Would your answer change if she pays tax under the default tax regime under section 115BAC?

Answer 4

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

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

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

Accordingly, the income from house property of Mrs. Rohini Ravi for A.Y.2025-26 will be calculated as under:

	Particulars	₹	₹
1.	**Self-occupied house at Los Angeles**		
	Annual value		Nil
	Less: Deduction under section 24		Nil
	Chargeable income from this house property		**Nil**
2.	**Self-occupied house property at Chennai**		
	Annual value		Nil
	Less: Deduction under section 24		
	Interest on borrowed capital **(See Notebelow)**		1,91,940
			(1,91,940)
3.	**Arrears in respect of Bangalore property (Section 25A)**		
	Arrears of rent received	60,000	
	Less: Deduction @ 30% u/s 25A(2)	18,000	42,000
Loss under the head "Income from house property"			**(1,49,940)**

Note: Interest on borrowed capital

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

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Interest deduction under section 24(b) is allowable since she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(ii) Yes, the answer would change if she pays tax under the default tax regime under section 115BAC. Under the default tax regime, deduction under section 24(b) for interest is not available. Hence, she cannot claim deduction of ₹ 1,91,940 in respect of the Chennai house. Accordingly, income from house property would be ₹ 42,000.

Question 5

Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 2016-2017. The property consists of eight identical units and is situated at Cochin.

During the financial year 2024-25, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of ₹ 12,000 per month per unit. The municipal value of the house property is ₹ 9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

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

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

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

The other income of Mr. Arun and Mr. Bimal are ₹ 2,90,000 and ₹ 1,80,000, respectively, for the financial year 2024-25.

Compute the income under the head 'Income from House Property' and the total income of two brothers for the A.Y. 2025-26 if they pay tax under the default tax regime under section 115BAC. Also, show the computation of income under this head, if they both exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 5

(i) If Arun and Bimal pay tax under the default tax regime under section 115BAC

Computation of total income for the A.Y. 2025-26

Particulars	Arun (₹)	Bimal(₹)
Income from house property		
I. Self-occupied portion (25%)		
Annual value	Nil	Nil
Less: Deduction under section 24(b)	Nil	Nil
Loss from self-occupied property	Nil	Nil
II. Let-out portion (75%) – See Working Note below	1,25,850	1,25,850
Income from house property	1,25,850	1,25,850
Other Income	2,90,000	1,80,000
Total Income	**4,15,850**	**3,05,850**

Working Note – Computation of Income from Let-Out Portion of House Property

Particulars	₹	₹

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Let-out portion (75%)		
Gross Annual Value		
(a) Municipal value (75% of ₹ 9 lakh)	6,75,000	
(b) Actual rent [(₹ 12000 x 6 x 12) – (₹ 12,000 x 1 x 4)]	8,16,000	
= ₹ 8,64,000 - ₹ 48,000		
- whichever is higher		8,16,000
Less: Municipal taxes 75% of ₹ 1,80,000 (20% of ₹ 9 lakh)		1,35,000
Net Annual Value (NAV)		6,81,000
Less: Deduction under section 24		
(a) 30% of NAV	2,04,300	
(b) Interest on loan taken for the house [75% of ₹ 3		
lakh]	2,25,000	4,29,300
Income from let-out portion of house property		**2,51,700**
Share of each co-owner (50%)		**1,25,850**

(ii) If Arun and Bimal have exercised the option of shifting out of the defaulttax regime provided under section 115BAC(1A)

Computation of total income for the A.Y. 2025-26

Particulars	Arun (₹)	Bimal(₹)
Income from house property		
I. Self-occupied portion (25%)		
Annual value	Nil	Nil
Less: Deduction under section 24(b)		
Interest on loan taken for construction ₹ 37,500 (being 25% of ₹ 1.5 lakh) [Allowable since they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]	37,500	37,500
Loss from self occupied property	(37,500)	(37,500)
II. Let-out portion (75%) – See Working Noteabove	1,25,850	1,25,850
Income from house property	**88,350**	**88,350**
Other IncomeTotal	2,90,000	1,80,000
Total Income	**3,78,350**	**2,68,350**

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Chapter 3.3 Profits And Gains of Business or Profession

ILLUSTRATION

Question 1 (Illustration)

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

	Particulars	₹
(1)	Opening balance of plant and machinery as on 1.4.2024 (i.e., WDV as on 31.3.2024 after reducing depreciation for P.Y. 2023-24)	30,00,000
(2)	New plant and machinery purchased and put to use on 8.06.2024	20,00,000
(3)	New plant and machinery acquired and put to use on 15.12.2024	8,00,000
(4)	Computer acquired and installed in the office premises on 2.1.2025	3,00,000

Compute the amount of depreciation and additional depreciation for the A.Y. 2025- 26, if Mr. X has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that all the assets were purchased by way of account payee cheque.

Answer 1

Computation of depreciation and additional depreciation for A.Y. 2025-26

Particulars	Plant & Machinery (15%)	Computer (40%)
Normal depreciation		
@15% on ₹ 50,00,000 [See Working Notes 1 & 2]	7,50,000	-
@7.5% (50% of 15%, since put to use for less than 180 days) on ₹8,00,000	60,000	-
@20% (50% of 40%, since put to use for less than 180 days) on ₹ 3,00,000		60,000
Additional Depreciation		
@20% on ₹ 20,00,000 (new plant and machinery put to use for more than 180 days)	4,00,000	-
@10% (50% of 20%, since put to use for less than 180 days) on ₹ 8,00,000	80,000	-
Total depreciation	**12,90,000**	**60,000**

Working Notes:

(1) Computation of written down value of Plant & Machinery

Particulars	Plant & Machinery (₹)	Computer (₹)
Opening balance as on 01.04.2024	30,00,000	-
Add: Plant & Machinery purchased on 08.06.2024	20,00,000	-
Add: Plant & Machinery acquired on 15.12.2024	8,00,000	-
Computer acquired and installed in the office premises	-	3,00,000

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Written down value as on 31.03.2025	**58,00,000**	**3,00,000**

(2) Composition of plant and machinery included in the WDV

Particulars	Plant & Machinery (₹)	Computer (₹)
Plant and machinery put to use for 180 days or more [₹30,00,000 (WDV) + ₹ 20,00,000 (purchased on 8.6.2024)]	50,00,000	
Plant and machinery put to use for < 180 days	8,00,000	-
Computers put to use for < 180 days	-	3,00,000
	58,00,000	**3,00,000**

Notes:

(1) Where an asset acquired during the previous year is put to use for less than 180 days in that previous year, the amount of deduction allowable as normal depreciation and additional depreciation would be restricted to 50% of amount computed in accordance with the prescribed percentage.

Therefore, normal depreciation on plant and machinery acquired and put to use on 15.12.2024 and computer acquired and installed on 02.01.2025, is restricted to 50% of 15% and 40%, respectively. The additional depreciation on the said plant and machinery is restricted to ₹ 80,000, being 10% (i.e., 50% of 20%) of ₹ 8 lakh.

Mr. X is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(2) As per third proviso to section 32(1)(ii), the balance additional depreciation of ₹ 80,000 being 50% of ₹ 1,60,000 (20% of ₹ 8,00,000) would be allowed as deduction in the A.Y.2026-27.

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

However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant installed in office premises, residential accommodation or in any guest house.

Accordingly, additional depreciation is not allowable on computer installed in the office premises.

Question 2 (Illustration)

A car purchased by Dr. Soman on 10.08.2021 for ₹ 5,25,000 for personal use is brought into professional use on 1.07.2024 by him, when its market value was ₹ 2,50,000.

Compute the actual cost of the car and the amount of depreciation for the A.Y. 2025-26 assuming the rate of depreciation to be 15%.

Answer 2

As per section 43(1), the expression "actual cost" would mean the actual cost of asset to the assessee. The purchase price of ₹ 5,25,000 is, therefore, the actual cost of the car to Dr. Soman. Market value (i.e.

₹ 2,50,000) on the date when the asset is brought into professional use is not relevant.

Therefore, amount of depreciation on car as per section 32 for the A.Y.2025-26 would be ₹ 78,750, being

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₹ 5,25,000 x 15%.

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

Question 3 (Illustration)

A newly qualified Chartered Accountant Mr. Dhaval, commenced practice and has acquired the following assets in his office during F.Y. 2024-25 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for A.Y.2025-26. Assume that all the assets were purchased by way of account payee cheque.

Sl.No.	Description	Date of acquisition	Date when put to use	Amount ₹
1.	Computer including computer software	27 Sept'24	1 Oct'24	35,000
2.	Computer UPS	2 Oct'24	8 Oct'24	8,500
3.	Computer printer	1 Oct'24	1 Oct'24	12,500
4.	Books (other than annual publications are of ₹ 12,000)	1 Apr'24	1 Apr'24	13,000
5.	Office furniture (Acquired from a practicing C.A.)	1 Apr'24	1 Apr'24	3,00,000
6.	Laptop	26 Sep'24	8 Oct'24	43,000

Answer 3

Computation of depreciation allowable for A.Y.2025-26

Asset		Rate	Depreciation (₹)
Block 1	Furniture **[See working note below]**	10%	30,000
Block 2	Plant (Computer including computer software, Computer UPS, Laptop, Printers and Books) **[See working note below]**	40%	34,500
Total depreciation allowable			64,500

Working Note:

Computation of depreciation

Block of Assets	₹
Block 1: Furniture – [Rate of depreciation - 10%]	
Put to use for more than 180 days [₹ 3,00,000@10%]	**30,000**
Block 2: Plant [Rate of depreciation- 40%]	
(a) Computer including computer software (put to use for more than 180 days) [₹ 35,000 @ 40%]	14,000
(b) Computer UPS (put to use for less than 180 days) [₹ 8,500 @20%]	1,700

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[See note below]	
(c) Computer Printer (put to use for more than 180 days) [₹ 12,500 @40%]	5,000
(d) Laptop (put to use for less than 180 days) [₹ 43,000 @20%] [See note below]	8,600
(e) Books (being annual publications or other than annual publications) (Put to use for more than 180 days) [₹ 13,000 @40%]	5,200
	34,500

Note Where an asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, the deduction on account of depreciation would be restricted to 50% of the prescribed rate. In this case, since Mr. Dhaval commenced his practice in the P.Y. 2024-25 and acquired the assets during the same year, the restriction of depreciation to 50% of the prescribed rate would apply to those assets which have been put to use for less than 180 days in that year, namely, laptop and computer UPS.

Question 4 (Illustration)

Mr. Gamma, a proprietor started a business of manufacture of tyres and tubes for motor vehicles on 1.1.2024. The manufacturing unit was set up on 1.5.2024. He commenced his manufacturing operations on 1.6.2024. The total cost of the plant and machinery installed in the unit is ₹ 120 crore. The said plant and machinery included second hand plant and machinery bought for ₹ 20 crore and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of ₹ 15 crore.

Compute the amount of depreciation allowable under section 32 of the Income-tax Act, 1961 in respect of the assessment year 2025-26. Assume that all the assets were purchased by way of account payee cheque and Mr. Gamma has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 4

Computation of depreciation allowable for the A.Y. 2025-26 in the hands of Mr. Gamma

Particulars		₹ in crore	
Total cost of plant and machinery		120.00	
Less: Used for Scientific Research (Note 1)		15.00	
		105.00	
Normal Depreciation at 15% on ₹ 105 crore			15.75
Additional Depreciation:			
Cost of plant and machinery		120.00	
Less: Second-hand plant and machinery (Note 2)	20.00		
Plant and machinery used for scientific research, the whole of the actual cost of which is allowable as deduction u/s 35(1)(iv) read with section 35(2)(ia) (Note 2)	15.00	35.00	
Additional Depreciation at 20%		85.00	17.00
Depreciation allowable for A.Y.2025-26			**32.75**

Notes:

1. As per section 35(2)(iv), no depreciation shall be allowed in respect of plant and machinery

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purchased for scientific research relating to assessee's business, since deduction is allowable under section 35 in respect of such capital expenditure.

2. Mr. Gamma is entitled to additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged in, inter alia, the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.
However, additional depreciation shall not be allowed in respect of, inter alia, –
   (i) any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person;
   (ii) any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profit and gains of business or profession" of any one previous year.
   In view of the above provisions, additional depreciation cannot be claimed in respect of -
   (i) Second hand plant and machinery;
   (ii) New plant and machinery purchased for scientific research relating to assessee's business in respect of which the whole of the capital expenditure can be claimed as deduction under section 35(1)(iv) read with section 35(2)(ia) & (iv).

Question 5 (Illustration)

Mr. A, furnishes the following particulars for the P.Y.2024-25. Compute the deduction allowable under section 35 for A.Y.2025-26, while computing his income under the head "Profits and gains of business or profession", if.

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

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

	Particulars	₹
1.	Amount paid to notified approved Indian Institute of Science, Bangalore, for scientific research	1,00,000
2.	Amount paid to IIT, Delhi for an approved scientific research programme	2,50,000
3.	Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority	4,00,000
4.	Expenditure incurred on in-house scientific research and development facility as approved by the prescribed authority related to his business	
	(a) Revenue expenditure on scientific research	3,00,000
	(b) Capital expenditure (including cost of acquisition of land ₹ 5,00,000) on scientific research	7,50,000

Answer 5

(i) If Mr. A is paying tax under default tax regime under section 115BAC

Computation of deduction under section 35 for the A.Y.2025-26

Particulars	₹	Section	Allowability	Amount of deduction (₹)

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Payment for scientific research				
Indian Institute of Science, Bangalore	1,00,000	35(1)(ii)	Not allowable under default tax regime	Nil
IIT, Delhi	2,50,000	35(2AA)		Nil
X Ltd.	4,00,000	35(1)(iia)		Nil
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	35(1)(i)	Allowable under default tax regime	3,00,000
Capital expenditure (excluding cost of acquisition of land ₹ 5,00,000)	2,50,000	35(1)(iv) read with 35(2)(ia)		2,50,000
Deduction allowable under section 35				**5,50,000**

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

Computation of deduction under section 35 for the A.Y.2025-26

Particulars	₹	Section	% of deduction	Amount of deduction (₹)
Payment for scientific research				
Indian Institute of Science	1,00,000	35(1)(ii)	100%	1,00,000
IIT, Delhi	2,50,000	35(2AA)	100%	2,50,000
X Ltd.	4,00,000	35(1)(iia)	100%	4,00,000
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	35(1)(i)	100%	3,00,000
Capital expenditure (excluding cost of acquisition of land ₹ 5,00,000)	2,50,000	35(1)(iv) read with 35(2)(ia)	100%	2,50,000
Deduction allowable under section 35				**13,00,000**

Question 6 (Illustration)

Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2024. He incurred capital expenditure of ₹ 80 lakh, ₹ 60 lakh and ₹ 50 lakh, respectively, on purchase of land and building during the period January, 2024 to March, 2024 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2023. The cost of land included in the above figures is ₹ 50 lakh, ₹ 40 lakh and ₹ 30 lakh, respectively. During the P.Y. 2024-25, he incurred capital expenditure of ₹ 20 lakh, ₹ 15 lakh &

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₹ 10 lakh, respectively, for extension/reconstruction of the building purchased and used exclusively for the above businesses.

Compute the income under the head "Profits and gains of business or profession" for the A.Y.2025-26 and the loss to be carried forward, assuming that Mr. A is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) and has fulfilled all the conditions specified under section 35AD and wants to claim deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading "C – Deductions in respect of certain incomes". The profits from the business of setting up a warehousing facility for storage of food grains, sugar and edible oil (before claiming deduction under section 35AD and section 32) for the A.Y. 2025-26 is ₹ 16 lakhs, ₹ 14 lakhs and ₹ 31 lakhs, respectively. Also, assume in respect of expenditure incurred, the payments are made by account payee cheque or use of ECS through bank account.

Answer 6

Computation of profits and gains of business or profession for A.Y.2025-26

Particulars	₹ (in lakhs)
Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32)	31
Less: Depreciation under section 32 10% of ₹ 30 lakh, being (₹ 50 lakh – ₹ 30 lakh + ₹ 10 lakh)	3
Income chargeable under "Profits and gains from business or profession"	**28**

Computation of income/loss from specified business under section 35AD

	Particulars	Food Grains	Sugar	Total
		₹ (in lakhs)		
(A)	Profits from the specified business of setting up a warehousing facility (before providing deduction u/s 35AD)	16	14	30
	Less: Deduction under section 35AD			
(B)	Capital expenditure incurred prior to 1.4.2024 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2024 (excluding the expenditure incurred on acquisition of land) = ₹ 30 lakh (₹ 80 lakh – ₹ 50 lakh) and ₹ 20 lakh (₹ 60 lakh – ₹ 40 lakh)	30	20	50
(C)	Capital expenditure incurred during the P.Y. 2024-25	20	15	35
(D)	**Total capital expenditure (B + C)**	**50**	**35**	**85**
(E)	**Deduction under section 35AD** 100% of capital expenditure (food grains/ sugar)	**50**	**35**	**85**
	Total deduction u/s 35AD for A.Y.2025-26	**50**	**35**	**85**
(F)	**Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)**	**(34)**	**(21)**	**(55)**

Notes:

(i) Deduction of 100% of the capital expenditure is available under section 35AD for A.Y.2025-26 in

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respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 1.4.2012 or on or after 1.4.2009, respectively.

(ii) However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.

(iii) Mr. A can, however, claim depreciation@10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2024-25.

(iv) Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of ₹ 55 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of ₹ 28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.

Question 7 (Illustration)

Mr. Suraj, a proprietor, commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2024. He incurred capital expenditure of ₹ 50 lakh during the period January, 2024 to March, 2024 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2024. Further, during the P.Y. 2024-25, he incurred capital expenditure of ₹ 2 crore (out of which ₹ 1.50 crore was for acquisition of land) exclusively for the above business.

Compute the income under the head "Profits and gains of business or profession" for the A.Y.2025-26, assuming that he has fulfilled all the conditions specified under section 35AD and opted for claiming deduction under section 35AD; and he has not claimed any deduction under Chapter VI-A under the heading "C – Deductions in respect of certain incomes". He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y.2025-26 is ₹ 25 lakhs. Assume that he also has another existing business of running a four-star hotel in Coimbatore, which commenced operations fifteen years back, the profits from which are ₹ 120 lakhs for the A.Y.2025-26. Also, assume that payments for capital expenditure were made by net banking.

Answer 7

Computation of profits and gains of business or profession for A.Y. 2025-26

Particulars		**₹**
Profits from the specified business of new hotel in Madurai (before providing deduction under section 35AD)		25 lakh
Less: Deduction under section 35AD		
Capital expenditure incurred during the P.Y.2024-25 (excluding the expenditure incurred on acquisition of land) = ₹ 200 lakh – ₹ 150 lakh	50 lakh	
Capital expenditure incurred prior to 1.4.2024 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2024	50 lakh	

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Total deduction under section 35AD for A.Y.2025-26		100 lakh
Loss from the specified business of new hotel in Madurai		**(75 lakh)**
Profit from the existing business of running a hotel in Coimbatore		120 lakh
Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A		**45 lakh**

Question 8 (Illustration)

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

Unit A commenced operations on 1.4.2023 and it claimed deduction of ₹ 100 lacs incurred on purchase of two buildings for ₹ 50 lacs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y.2024-25. However, in February, 2025, Unit A transferred one of its buildings to Unit B. Examine the tax implications of such transfer in the hands of Mr. Arnav.

Answer 8

Since the capital asset, in respect of which deduction of ₹ 50 lacs was claimed u/s 35AD, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in the P.Y.2024-25, the deeming provision u/s 35AD(7B) is attracted during the A.Y.2025-26.

Particulars	**₹**
Deduction allowed u/s 35AD for A.Y.2024-25	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2024-25 [10% of ₹ 50 lacs]	5,00,000
Deemed income under section 35AD(7B)	**45,00,000**

Mr. Arnav, however, by virtue of proviso to Explanation 13 to section 43(1), can claim depreciation u/s 32 on the building in Unit B for A.Y.2025-26. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

Particulars	₹
Actual cost to the assessee	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2024-25 [10% of ₹ 50 lacs]	5,00,000
Actual cost in the hands of Mr. Arnav in respect of building in its Unit B	**45,00,000**

Question 9 (Illustration)

Delta Ltd. credited the following amounts to the account of resident payees in the month of March, 2025 without deduction of tax at source. What would be the consequence of non-deduction of tax at source by Delta Ltd. on these amounts during the financial year 2024-25, assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by Delta Ltd.?

	Particulars	**Amount in ₹**
(1)	**Salary to its employee, Mr. X (credited and paid in March, 2025)**	**12,00,000**
(2)	**Directors' remuneration (credited in March, 2025 and paid in April, 2025)**	**28,000**

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Would your answer change if Delta Ltd. has deducted tax on directors' remuneration in April, 2025 at the time of payment and remitted the same in July, 2025?

Answer 9

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

Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible u/s 192 or any sum credited or paid by way of directors' remuneration on which tax is deductible u/s 194J, would attract disallowance@30% u/s 40(a)(ia). Whereas in case of salary, tax has to be deducted u/s 192 at the time of payment, in case of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier. Therefore, in both the cases i.e., salary and directors' remuneration, tax is deductible in the P.Y.2024-25, since salary was paid in that year and directors' remuneration was credited in that year. Therefore, the amount to be disallowed u/s 40(a)(ia) while computing business income for A.Y.2025-26 is as follows –

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

If the tax is deducted on directors' remuneration in the next year i.e., P.Y.2025-26 at the time of payment and remitted to the government, the amount of ₹ 8,400 would be allowed as deduction while computing the business income of A.Y. 2026-27.

Question 10 (Illustration)

During the financial year 2024-25, the following payments/expenditure were made/ incurred by Mr. Raja, a resident individual (whose turnover during the year ended 31.3.2024 was ₹ 99 lacs):

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

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

(iii) Commission of ₹ 16,000 was paid to Mr. Vidyasagar, a resident, on 2.7.2024 without deduction of tax at source.

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

Answer 10

Disallowance under section 40(a)(ia) of the Income-tax Act, 1961 is attracted where the assessee fails to deduct tax at source as is required under the Act, or having deducted tax at source, fails to remit the same to the credit of the Central Government within the stipulated time limit.

(i) The obligation to deduct tax at source from interest paid to a resident arises u/s 194A in the case of an individual, whose total turnover in the immediately preceding P.Y., i.e., P.Y.2023-24 exceeds ₹ 1 crore. Thus, in present case, since the turnover of the assessee is less than ₹ 1 crore, he is not liable to deduct tax at source. Hence, disallowance u/s 40(a)(ia) is not attracted in this case.

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(ii) The disallowance of 30% of the sums payable under section 40(a)(ia) would be attracted in respect of all sums on which tax is deductible under Chapter XVII- B. Section 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII-B. The obligation to deduct tax at source under section 192 arises, in the hands all assessee-employer even if the turnover amount does not exceed ₹ 1 crore in the immediately preceding previous year.
Therefore, in the present case, the disallowance under section 40(a)(ia) is attracted for failure to deduct tax at source under section 192 from salary payment. However, only 30% of the amount of salary paid without deduction of tax at source would be disallowed.

(iii) The obligation to deduct tax at source under section 194H from commission paid in excess of ₹ 15,000 to a resident arises in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y.2023-24 exceeds ₹ 1 crore. Thus, in present case, since the turnover of the assessee is less than ₹ 1 crore, he is not liable to deduct tax at source u/s 194H. Mr. Raja is not required to deduct tax at source u/s 194M also since the aggregate of such commission to Mr. Vidyasagar does not exceed ₹ 50 lakh during the P.Y. 2024-25. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

Question 11 (Illustration)

A firm has paid ₹ 8,50,000 as remuneration to its partners for the P.Y.2024-25, in accordance with its partnership deed, and it has a book profit of ₹ 10 lakhs. What is the remuneration allowable as deduction?

Answer 11

The allowable remuneration calculated as per the limits specified in section 40(b)(v) would be –

Particulars	₹
On first ₹ 6 lakh of book profit [₹ 6,00,000 × 90%]	5,40,000
On balance ₹ 4 lakh of book profit [₹ 4,00,000 × 60%]	2,40,000
	7,80,000

The excess amount of ₹ 70,000 (i.e., ₹ 8,50,000 – ₹ 7,80,000) would be disallowed as per section 40(b)(v).

Question 12 (Illustration)

Rao & Jain, a partnership firm consisting of two partners, reports a net profit of ₹ 17,00,000 before deduction of the following items:

(1) Salary of ₹ 40,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).

(2) Depreciation on plant and machinery under section 32 (computed) ₹ 1,50,000.

(3) Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest is ₹ 5,00,000.

Compute:

(i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.

(ii) Allowable working partner salary for the A.Y. 2025-26 as per section 40(b).

Answer 12

(i) As per Explanation 3 to section 40(b), "book profit" shall mean the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit.

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In the present case, the net profit given is before deduction of depreciation on plant and machinery, interest on capital of partners and salary to the working partners. Therefore, the book profit shall be as follows:

Computation of Book Profit of the firm under section 40(b)

Particulars		₹	₹
Net Profit (before deduction of depreciation, salary and interest)			17,00,000
Less:	Depreciation under section 32	1,50,000	
	Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (₹ 5,00,000 ×12%)	60,000	2,10,000
Book Profit			**14,90,000**

(ii) Salary actually paid to working partners = ₹ 40,000 × 2 × 12 = ₹ 9,60,000.

As per the provisions of section 40(b)(v), the salary paid to the working partners is allowed subject to the following limits –

On the first ₹ 6,00,000 of book profit or in case of loss	₹ 3,00,000 or 90% of book profit, whichever is more
On the balance of book profit	60% of the balance book profit

Therefore, the maximum allowable working partners' salary for the A.Y. 2025-26 in this case would be:

Particulars	₹
On the first ₹ 6,00,000 of book profit [(₹ 3,00,000 or 90% of ₹ 6,00,000) whichever is more]	5,40,000
On the balance of book profit [60% of (₹ 14,90,000 -₹ 6,00,000)]	5,34,000
Maximum allowable partners' salary	10,74,000

Hence, allowable working partners' salary for the A.Y.2025-26 as per the provisions of section 40(b)(v) is ₹ 9,60,000.

Question 13 (Illustration)

X Ltd. contributes 20% of basic salary to the account of each employee under a pension scheme referred to in section 80CCD. Dearness Allowance is 40% of basic salary and it forms part of pay of the employees. Compute the amount of deduction allowable under section 36(1)(iva), if the basic salary of the employees aggregate to ₹ 10 lakh. Would disallowance under section 40A(9) be attracted, and if so, to what extent?

Answer 13

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

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

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Excess contribution disallowed under section 40A(9)	4,000

Question 14 (Illustration)

Hari, an individual, carried on the business of purchase and sale of agricultural commodities like paddy, wheat, etc. He borrowed loans from Andhra Pradesh State Financial Corporation (APSFC) and Indian Bank and has not paid interest as detailed hereunder:

		₹
(i)	Andhra Pradesh State Financial Corporation (P.Y. 2023-24 & 2024-25)	15,00,000
(ii)	Indian Bank (P.Y. 2024-25)	30,00,000
		45,00,000

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2024-25, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments. During the year ended 31.3.2025, Hari paid 5 installments to APSFC and 3 installments to Indian Bank. Hari claimed the entire interest of ₹ 45,00,000 as an expenditure while computing the income from business of purchase and sale of agricultural commodities. Examine whether his claim is valid and if not what is the amount of interest, if any, allowable.

Answer 14

According to section 43B, any interest payable on the term loans to specified financial institutions and any interest payable on any loans and advances to, inter alia, scheduled banks shall be allowed only in the year of payment of such interest irrespective of the method of accounting followed by the assessee. Where there is default in the payment of interest by the assessee, such unpaid interest may be converted into loan. Such conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose of section 43B. The amount of unpaid interest so converted as loan shall be allowed as deduction only in the year in which the converted loan is actually paid.

In the given case of Hari, the unpaid interest of ₹ 15,00,000 due to APSFC and of ₹ 30,00,000 due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion. Hence, claim of Hari that the entire

interest of ₹ 45,00,000 is to be allowed as deduction in the year of conversion is not tenable. The deduction shall be allowed only to the extent of repayment made during the financial year. Accordingly, the amount of interest eligible for deduction for the A.Y.2025-26 shall be calculated as follows:

	Interest outstanding	**Number of Instalments**	**Amount per instalment**	**Instalments paid**	**Interest allowable (₹)**
APSFC	15 lakh	60	25,000	5	1,25,000
Indian Bank	30 lakh	60	50,000	3	1,50,000
Total amount eligible for deduction					**2,75,000**

Question 15 (Illustration)

Vinod is a person carrying on profession as film artist. His gross receipts from profession are as under:

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Particulars	₹
Financial year 2021-22	1,15,000
Financial year 2022-23	1,80,000
Financial year 2023-24	2,10,000

What is his obligation regarding maintenance of books of accounts for Assessment Year 2025-26 under section 44AA of Income-tax Act, 1961?

Answer 15

Section 44AA(1) requires every person carrying on any profession, notified by the Board in the Official Gazette (in addition to the professions already specified therein), to maintain such books of account and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of the Income-tax Act, 1961.

As per Rule 6F, a person carrying on a notified profession shall be required to maintain specified books of accounts:

(i) if his gross receipts in all the three years immediately preceding the relevant previous year has exceeded ₹ 1,50,000; or

(ii) if it is a new profession which is setup in the relevant previous year, it is likely to exceed ₹ 1,50,000 in that previous year.

In the present case, Vinod is a person carrying on profession as film artist, which is a notified profession. Since his gross receipts have not exceeded ₹ 1,50,000 in financial year 2021-22, the requirement under section 44AA to compulsorily maintain the prescribed books of account is not applicable to him.

Mr. Vinod, however, required to maintain such books of accounts as would enable the Assessing Officer to compute his total income.

Question 16 (Illustration)

Mr. Praveen engaged in retail trade, reports a turnover of ₹ 2,98,50,000 for the financial year 2024-25. Amount received in cash during the P.Y. 2024-25 is ₹ 14,00,000 and balance through prescribed electronic modes on or before 31st july 2025. His income from the said business as per books of account is ₹ 15,00,000 computed as per the provisions of Chapter IV-D "Profits and gains from business or Profession" of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. A.Y. 2024-25 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 44AD.

(i) Is Mr. Praveen also eligible for presumptive determination of his income chargeable to tax for the assessment year 2025-26?

(ii) If so, determine his income from retail trade as per the applicable presumptive provision.

(iii) In case Mr. Praveen wants to declare profits as per books of account from retail trade, what are his obligations under the Income-tax Act, 1961?

(iv) What is the due date for filing his return of income under both the options?

Answer 16

(i) Yes. Since his cash receipts during the P.Y. does not 5% of the total turnover (14,00,000/2,98,50,000 x 100) and his total turnover for the F.Y.2024-25 is below ₹ 300 lakhs, he is eligible for presumptive taxation scheme under section 44AD in respect of his retail trade business.

(ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be ₹ 18,19,000 (₹ 1,12,000, being 8% of ₹ 14,00,000 + ₹ 17,07,000, being 6% of ₹ 2,84,50,000).

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(iii) Mr. Praveen had declared profit for the previous year 2023-24 in accordance with the presumptive provisions and if he wants to declare profits as per books of account which is lower than the presumptive income for any of the five consecutive assessment years i.e., A.Y. 2025-26 to A.Y. 2029-30, he would not be eligible to claim the benefit of presumptive taxation for five assessment years subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance the presumptive provisions i.e. if he declares profits lower than the presumptive income in say P.Y. 2024-25 relevant to A.Y.2025-26, then he would not be eligible to claim the benefit of presumptive taxation for A.Y. 2026-27 to A.Y. 2030-31.
Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.

(iv) In case he declares presumptive income under section 44AD, the due date would be 31st July, 2025.
In case he declares profits as per books of account which is lower than the presumptive income, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2025.

Question 17 (Illustration)

Mr. X commenced the business of operating goods vehicles on 1.4.2024. He purchased the following vehicles during the P.Y.2024-25. Compute his income under section 44AE for A.Y.2025-26.

	Gross Vehicle Weight (in kilograms)	Number	Date of purchase
(1)	7,000	2	10.04.2024
(2)	6,500	1	15.03.2025
(3)	10,000	3	16.07.2024
(4)	11,000	1	02.01.2025
(5)	15,000	2	29.08.2024
(6)	15,000	1	23.02.2025

Would your answer change if the goods vehicles purchased in April, 2024 were put to use only in July, 2024?

Answer 17

Since Mr. X does not own more than 10 vehicles at any time during the previous year 2024-25, he is eligible to opt for presumptive taxation scheme under section 44AE. ₹ 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.
Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1)	**(2)**	**(3)**	**(4)**
Number of Vehicles	**Date of purchase**	**No. of months for which vehicle is owned**	**No. of months × No. of vehicles [(1) × (3)]**
For Heavy goods vehicle			
2	29.08.2024	8	16

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1	23.02.2025	2	2
			18
For goods vehicle other than heavy goods vehicle			
2	10.4.2024	12	24
1	15.3.2025	1	1
3	16.7.2024	9	27
1	02.1.2025	3	3
			55

The presumptive income of Mr. X under section 44AE for A.Y.2025-26 would be - ₹ 6,82,500, i.e., 55 × ₹ 7,500, being for other than heavy goods vehicle + 18 x ₹ 1,000 x 15 ton being for heavy goods vehicle.

The answer would remain the same even if the two vehicles purchased in April, 2024 were put to use only in July, 2024, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

Question 18 (Illustration)

Miss Vivitha, a resident and ordinarily resident in India, has derived the following income from various operations (relating to plantations and estates owned by her) during the year ended 31-3-2025:

S. No.	Particulars	₹
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	3,00,000
(ii)	Income from sale of coffee grown and cured in Yercaud, Tamil Nadu.	1,00,000
(iii)	Income from sale of coffee grown, cured, roasted and grounded, in Colombo. Sale consideration was received at Chennai.	2,50,000
(iv)	Income from sale of tea grown and manufactured in Shimla.	4,00,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	80,000

You are required to compute the business income and agricultural income of Miss Vivitha for the A.Y. 2025-26.

Answer 18

Computation of business income and agricultural income of Ms. Vivitha for the A.Y.2025-26

Sr. No.	Source of income	Gross (₹)	Business income		Agricultural income
			%	₹	₹
(i)	Sale of centrifuged latex from rubber plants grown in India.	3,00,000	35%	1,05,000	1,95,000
(ii)	Sale of coffee grown and cured in India.	1,00,000	25%	25,000	75,000
(iii)	Sale of coffee grown, cured, Roasted and grounded outside	2,50,000	100%	2,50,000	-

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	India. (See Note 1 below)				
(iv)	Sale of tea grown and manufactured in India	4,00,000	40%	1,60,000	2,40,000
(v)	Saplings and seedlings grown in nursery in India (See Note 2 below)	80,000		Nil	80,000
	Total			**5,40,000**	**5,90,000**

Notes:

1. Where income is derived from sale of coffee grown, cured, roasted and grounded by the seller in India, 40% of such income is taken as business income and the balance as agricultural income. However, in this question, these operations are done in Colombo, Sri lanka. Hence, there is no question of such apportionment and the whole income is taxable as business income. Receipt of sale proceeds in India does not make this agricultural income. In the case of an assessee, being a resident and ordinarily resident, the income arising outside India is also chargeable to tax.
2. Explanation 3 to section 2(1A) provides that the income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income whether or not the basic operations were carried out on land. Therefore, such income would be exempt u/s 10(1).

TEST YOUR KNOWLEDGE

Question 1

Mr. Venus., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai, for the year ending 31-3-2025:

	(₹ in lakhs)
WDV of Plant and Machinery on 31.3.2024	30.00
Depreciation including additional depreciation for P.Y. 2023-24	4.75
New machinery purchased on 1-9-2024	10.00
New machinery purchased on 1-12-2024	8.00
Computer purchased on 3-1-2025	4.00

Additional information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.
- New machinery purchased on 1-12-2024 and computer have been installed in the office.
- During the year ended 31-3-2024, a new machinery had been purchased on 31-10-2023, for ₹ 10 lakhs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.
- The assessee has no brought forward business loss or unabsorbed depreciation as on 1.4.2024.

Compute the depreciation available to the assessee as per the provisions of the Income-tax Act, 1961 and the WDV of different blocks of assets as on 31- 3-2025 if -

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

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

Answer 1

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Computation of written down value of block of assets of Venus Ltd. as on 31.3.2025

Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
Written down value (as on 31.3.2024)	**30.00**	**Nil**
Less: Depreciation including additional depreciation for P.Y. 2023-24	4.75	-
Opening balance as on 1.4.2024	25.25	
Add: Actual cost of new assets acquired during the year		
New machinery purchased on 1.9.2024	10.00	-
New machinery purchased on 1.12.2024	8.00	-
Computer purchased on 3.1.2025	-	4.00
	43.25	4.00
Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Written Down Value (as on 31.03.2025)	**43.25**	**4.00**

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

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

Computation of depreciation for A.Y. 2024-25

	Particular	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
i.	**Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation**		
	Normal depreciation		
	- WDV of plant and machinery (₹ 25.25 lakhs x 15%)	3.79	-
	- New Machinery purchased on 1.9.2024 (₹ 10 lakhs x 15%)	1.50	-
	(A)	5.29	-
	Additional Depreciation		
	New Machinery purchased on 1.9.2024 (₹ 10 lakhs x 20%)	2.00	
	Balance additional depreciation in respect of new machinery purchased on 31.10.2023 and put to use for less than 180 days in the P.Y. 2023-24 (₹ 10 lakhs x 20% x 50%)	1.00	
	(B)	3.00	

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ii.	**Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation, if any**		
	Normal Depreciation		
	New machinery purchased on 1.12.2024 [₹ 8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2024 [₹ 4 lacs x 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80
	Total Depreciation (A+B+C)	**8.89**	**0.80**

Notes:

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

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

(i) any office appliances or road transport vehicles;

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

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

(i) Machinery purchased on 1.12.2024, installed in office and

(ii) Computer purchased on 3.1.2025, installed in office.

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

Hence, in this case, the balance additional depreciation@10% (i.e., ₹ 1 lakhs, being 10% of ₹ 10 lakhs) in respect of new machinery which had been purchased during the previous year 2023-24 and put to use for less than 180 days in that year can be claimed in P.Y. 2024-25 being immediately succeeding previous year.

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

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

Computation of depreciation for A.Y. 2025-26

	Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
I.	**Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation**		
	Normal Depreciation		
	- WDV of plant and machinery (₹ 25.25 lacs x 15%)	3.79	-

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	- New Machinery purchased on 1.9.20234 (₹ 10 lacs x 15%)	1.50	-
	(A)	5.29	-
II.	**Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation** **Normal Depreciation**		
	New machinery purchased on 1.12.2024 [₹ 8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2024 [₹ 4 lakhs x 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80
	Total Depreciation (A+B+C)	**5.89**	**0.80**

Question 2

Mr. Abhimanyu is engaged in the business of generation and distribution of electric power. He opts to claim depreciation on written down value for income-tax purposes. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 1961 for the A.Y. 2025-26, assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

	Particulars	(₹ in lacs)
(i)	WDV of block as on 31.3.2024 (15% rate)	50.00
(ii)	Depreciation for P.Y. 2023-24	7.50
(iii)	New machinery purchased on 12-10-2024	10.00
(iv)	Machinery imported from Colombo on 12-4-2024. This machine had been used only in Colombo earlier and the assessee is the first user in India.	9.00
(v)	New computer installed in generation wing unit on 15-7-2024	2.00

All assets were purchased by A/c payee cheque.

Answer 2

Computation of depreciation under section 32 for A.Y.2025-26

Particulars	₹	₹
Normal Depreciation Depreciation@15% on ₹ 51,50,000, being machinery put to use for more than 180 days [WDV as on 31.3.2024 of ₹ 50,00,000 – Depreciation for P.Y. 2023-24 of ₹ 7,50,000+ Purchase cost of imported machinery of ₹ 9,00,000]	7,72,500	
Depreciation@7.5% on ₹ 10,00,000, being new machinery put to use for less than 180 days	75,000	
	8,47,500	9,27,500

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Depreciation@40% on computers purchased ₹ 2,00,000	80,000	
Additional Depreciation (Refer Note below) Additional Depreciation@10% of ₹ 10,00,000 [being actual cost of new machinery purchased on 12-10-2024]	1,00,000	
Additional Depreciation@20% on new computer installed in generation wing of the unit [20% of ₹ 2,00,000]	40,000	1,40,000
Depreciation on Plant and Machinery		**10,67,500**

Note: -

Mr. Abhimanyu is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The benefit of additional depreciation is available to new plant and machinery acquired and installed in power sector undertakings. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, inter alia, in the business of generation, transmission or distribution of power, at the rate of 20% of the actual cost of such machinery or plant.

Therefore, new computer installed in generation wing units eligible for additional depreciation@20%. Since the new machinery was purchased only on 12.10.2024, it was put to use for less than 180 days during the previous year, and hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the A.Y.2025-26. The balance additional depreciation would be allowed in the next year.

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

Question 3

Examine with reasons, the allowability of the following expenses incurred by Mr. Manav, a wholesale dealer of commodities, under the Income-tax Act, 1961 while computing profit and gains from business or profession for the A.Y. 2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) -

(i) Construction of school building in compliance with CSR activities amounting to ₹ 5,60,000.

(ii) Purchase of building for the purpose of specified business of setting up and operating a warehousing facility for storage of food grains amounting to ₹ 4,50,000.

(iii) Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted. The sales for the P.Y. 2023-24 was ₹ 202 lakhs. Mr. X has not paid the tax, if any, on such interest.

(iv) Commodities transaction tax paid ₹ 20,000 on sale of bullion.

Answer 3

Allowability of the expenses incurred by Mr. Manav, a wholesale dealer in commodities, while computing profits and gains from business or profession

(i) Construction of school building in compliance with CSR activities

Under section 37(1), only expenditure not being in the nature of capital expenditure or personal

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expense and not covered under sections 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income.

However, any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction under section 37.

Accordingly, the amount of ₹ 5,60,000 incurred by Mr. Manav, towards construction of school building in compliance with CSR activities shall **not** be allowed as deduction under section 37.

(ii) Purchase of building for setting up and operating a warehousing facility for storage of food grains

Mr. Manav, would be eligible for investment-linked tax deduction under section 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The deduction u/s 35AD would be 100% of ₹ 4,50,000, being the amount invested in purchase of building for setting up and operating a warehousing facility for storage of food grains which commences operation on or after 1st April, 2009 (P.Y.2024-25, in this case).

Therefore, the deduction under section 35AD while computing business income of such specified business would be ₹ 4,50,000, if Mr. Manav opts for section 35AD.

(iii) Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted

As per section 194A, Mr. Manav, being an individual is required to deduct tax at source on the amount of interest on loan paid to Mr. X, since his turnover during the previous year 2023-24 exceeds ₹ 100 lakhs.

Therefore, ₹ 15,000, being 30% of ₹ 50,000, would be disallowed under section 40(a)(ia) while computing the business income of Mr. Manav for non-deduction of tax at source under section 194A on interest of ₹ 50,000 paid by it to Mr. X.

The balance ₹ 35,000 would be allowed as deduction under section 36(1)(iii), assuming that the amount was borrowed for the purposes of business.

(iv) Commodities transaction tax of ₹ 20,000 paid on sale of bullion

Commodities transaction tax paid in respect of taxable commodities transactions entered into in the course of business during the previous year is allowable as deduction, provided the income arising from such taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession".

Taking that income from this commodities transaction is included while computing the business income of Mr. Manav, the commodity transaction tax of ₹ 20,000 paid is allowable as deduction under section 36(1)(xvi).

Question 4

Examine with reasons, for the following sub-divisions, whether the following statements are true or false having regard to the provisions of the Income-tax Act, 1961:

(i) For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.

(ii) Where a person follows mercantile system of accounting, an expenditure of ₹ 25,000 has been allowed on accrual basis and in alater year, in respect of the said expenditure, assessee makes the payment of ₹ 25,000 through a crossed cheque, ₹ 25,000 can be the profits and gains of business under section 40A(3A) in the year of payment.

(iii) It is mandatory to provide for depreciation under section 32 of the Income-tax Act, 1961, while computing income under the head "Profits and Gains from Business and Profession".

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(iv) The mediclaim premium paid to GIC by Mr. Lomesh for his employees,by an account payee cheque on 27.12.2024 is a deductible expenditure under section 36.

(v) Under section 35DDA, amortization of expenditure incurred under eligible Voluntary Retirement Scheme at the time of retirement alone,can be done.

(vi) An individual engaged in trading activities and exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) can claim additional depreciation under section 32(1)(iia) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%.

Answer 4

(i) **True:** Section 36(1)(xv) allows a deduction of the amount of securities transaction tax paid by the assessee in respect of taxable securities transactions entered into in the course of business during the previous year as deduction from the business income of a dealer in shares and securities.

(ii) **True:** As per section 40A(3A), in the case of an assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any previous year on due basis, and payment exceeding ₹ 10,000 has been made in the subsequent year otherwise than by an account payee cheque or an account payee bank draft or use of ECS through a bank account or through such other prescribed electronic modes such as credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, and BHIM Aadhar Pay, then, the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.

(iii) **True:** According to the Explanation 5 to section 32(1), allowance of depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating income from business/ profession whether or not the assessee has claimed the same while computing his total income.

(iv) **True:** Section 36(1)(ib) provides deduction in respect of premium paid by an employer to keep in force an insurance on the health of his employees under a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction under section 36(1)(ib).

(v) **False:** Expenditure incurred in making payment to the employee in connection with his voluntary retirement either in the year of retirement or in any subsequent year, will be entitled to deduction in 5 equal annual installments beginning from the year in which each payment is made to the employee.

(vi) **False:** Additional depreciation can be claimed only in respect of eligible plant and machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation or transmission or distribution of power.
In this case, the individual is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, he will not be entitled to claim additional depreciation under section 32(1)(iia), even though he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Question 5

Examine, with reasons, the allowability of the following expenses under the Income-tax Act, 1961 while computing income from business or profession for the A.Y. 2025-26:

(i) Provision made on the basis of actuarial valuation for payment of gratuity ₹ 5,00,000. However, no payment on account of gratuity was made before due date of filing return.

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(ii) Purchase of oil seeds of ₹ 50,000 in cash from a farmer on a banking day.
(iii) Tax on non-monetary perquisite provided to an employee ₹ 20,000.
(iv) Payment of ₹ 50,000 by using credit card for fire insurance.
(v) Salary payment of ₹ 10,00,000 to Mr. X outside India by a company without deduction of tax assuming Mr. X has not paid tax on such salary income.
(vi) Payment made in cash ₹ 30,000 to a transporter in a day for carriage of goods.

Answer 5

(i) Not allowable as deduction: As per section 40A(7), no deduction is allowed in computing business income in respect of any provision made by the assessee in his books of account for the payment of gratuity to his employees except in the following two cases:

(1) where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund; or
(2) where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the previous year.

Therefore, in the present case, the provision made on the basis of actuarial valuation for payment of gratuity has to be disallowed under section 40A(7), since, no payment has been actually made on account of gratuity.

Note: It is assumed that such provision is not for the purpose of contribution towards an approved gratuity fund.

(ii) Allowable as deduction: As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance under section 40A(3) is attracted even though the cash payment for the expense exceeds ₹ 10,000.

Therefore, in the given case, disallowance under section 40A(3) is not attracted since, cash payment for purchase of oil seeds is made directly to the farmer.

(iii) Not allowable as deduction: Income-tax of ₹ 20,000 paid by the employer in respect of non-monetary perquisites provided to its employees is exempt in the hands of the employee under section 10(10CC).

As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.

(iv) Allowable as deduction: Payment for fire insurance is allowable as deduction under section 36(1). Since payment is made by credit card, which is a prescribed electronic mode, disallowance under section 40A(3) is not attracted in this case.

(v) Not allowable as deduction: Disallowance under section 40(a)(iii) is attracted in respect of salary payment of ₹ 10,00,000 outside India by a company without deduction of tax at source.

(vi) Allowable as deduction: The limit for attracting disallowance under section 40A(3) for payment otherwise than by way of account payee cheque or account payee bank draft or use of ECS through a bank account or through such other prescribed electronic mode is ₹ 35,000 in case of payment made for plying, hiring or leasing goods carriage. Therefore, in the present case, disallowance under section 40A(3) is not attracted for payment of ₹ 30,000 made in cash to a transporter for carriage of goods.

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Question 6

Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

(a) Payment made in respect of a business expenditure incurred on 16th February, 2025 for ₹ 25,000 through a crossed cheque is hit by the provisions of section 40A(3).

(b)

(i) It is a condition precedent to write off in the books of account, the amount due from debtor to claim deduction for bad debt.

(ii) Failure to deduct tax at source in accordance with the provisions of Chapter XVII-B, inter alia, from the amounts payable to a non- resident as rent or royalty, will result in disallowance while computing the business income where the non-resident payee has not paid the tax due on such income.

Answer 6

(a) **True:** In order to escape the disallowance specified in section 40A(3), payment in respect of the business expenditure ought to have beenmade through an account payee cheque. Payment through a crossed cheque will attract disallowance under section 40A(3).

(b)

(i) **True:** It is mandatory to write off the amount due from a debtoras not receivable in the books of account, in order to claim the same as bad debt under section 36(1)(vii). However, where the debt has been taken into account in computing the income ofthe assessee on the basis of ICDSs notified under section 145(2), without recording the same in the accounts, then, such debt shall be allowed in the previous year in which such debt becomes irrecoverable and it shall be deemed that such debt or part thereof has been written off as irrecoverable in the accounts for the said purpose.

(ii) **True:** Section 40(a)(i) provides that failure to deduct tax at source from, inter alia, rent or royalty payable to a non-resident, in accordance with the provisions of Chapter XVII-B, will result in disallowance of such expenditure, where the non-resident payee has not paid the tax due on such income.

Question 7

Mr. Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 2025:

Trading and Profit and Loss Account for the year ended 31.03.2025

Particulars	₹	Particulars	₹
To Opening stock	90,000	By Sales	1,12,11,500
To Purchases	1,10,04,000	By Closing stock	1,86,100
To Gross Profit	3,03,600		-
	1,13,97,600		1,13,97,600
To Salary	60,000	By Gross profit b/d	3,03,600
To Rent and rates	36,000	By Income from UTI	2,400
To Interest on loan	15,000		
To Depreciation	1,05,000		
To Printing & stationery	23,200		

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To Postage & telegram	1,640		
To Loss on sale of shares (Short-term)	8,100		
To Other general	7,060		
expenses			
To Net Profit	50,000		
	3,06,000		3,06,000

Additional Information:

(i) It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:

Opening stock ₹ 9,000
Closing stock ₹ 18,000

(ii) Salary includes ₹ 10,000 paid to his brother, which is unreasonable to the extent of ₹ 2,000.

(iii) The whole amount of printing and stationery was paid in cash by way of one-time payment to Mr. Ramesh.

(iv) The depreciation provided in the Profit and Loss Account ₹ 1,05,000 was based on the following information:
The opening balance of plant and machinery (i.e., the written down value as on 31.3.2024 minus depreciation for P.Y. 2023-24) is ₹ 4,20,000. A new plant falling under the same block of depreciation was bought on 01.7.2024 for ₹ 70,000. Two old plants were sold on 1.10.2024 for ₹ 50,000.

(v) Rent and rates includes GST liability of ₹ 3,400 paid on 7.4.2025.

(vi) Other general expenses include ₹ 2,000 paid as donation to a Public Charitable Trust.

You are required to compute the profits and gains of Mr. Sivam under presumptive taxation u/s 44AD and profits and gains as per the regular provisions of the Act assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that the whole of the amount of turnover received by account payee cheque or use of electronic clearing system through bank account during the previous year.

Answer 7

Computation of business income of Mr. Sivam for the A.Y. 2025-26

Particulars	₹	₹
Net Profit as per profit and loss account		50,000
Add: Inadmissible expenses/ losses		
Under valuation of closing stock	18,000	
Salary paid to brother – unreasonable [Section 40A(2)]	2,000	
Printing and stationery - whole amount of printing & stationery paid in cash would be disallowed, since such amount exceeds ₹ 10,000 [Section 40A(3)]	23,200	
Depreciation **(considered separately)**	1,05,000	
Short term capital loss on shares	8,100	
Donation to public charitable trust	2,000	1,58,300
		2,08,300

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Less:	Items to be deducted:		
	Under valuation of opening stock	9,000	
	Income from UTI **[Chargeable under the head "Income from Other Sources]**	2,400	11,400
	Business income before depreciation		1,96,900
Less:	Depreciation **(See Note 1)**		66,000
			1,30,900

Computation of business income as per section 44AD:

As per section 44AD, where the amount of turnover is received, inter alia, by way of account payee cheque or use of electronic clearing system through bank account or through such other prescribed electronic modes, the presumptive business income would be 6% of turnover, i.e., ₹ 1,12,11,500 x 6 /100 = ₹ 6,72,690

Notes:

1. Calculation of depreciation

Particulars	₹
Opening balance of plant & machinery as on 1.4.2024 (i.e. WDV as on 31.3.2024 (-) depreciation for P.Y. 2023-24)	4,20,000
Add: Cost of new plant & machinery	70,000
	4,90,000
Less: Sale proceeds of assets sold	50,000
WDV of the block of plant & machinery as on 31.3.2024	4,40,000
Depreciation@15%	66,000
No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article.	

2. Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible.

Question 8

Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2024, he owns 10 trucks (out of which 6 are heavy goods vehicles, the gross vehicle weight of such goods vehicle is 15,000 kg each). On 2nd May, 2024, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6th May, 2023. This new vehicle could, however, be put to use only on 15th June, 2024. Compute the total income of Mr. Sukhvinder for the A.Y. 2025-26, taking note of the following data:

Particulars	₹	₹
Freight charges collected		12,70,000
Less: Operational expenses	6,25,000	
Depreciation as per section 32	1,85,000	
Other office expenses	15,000	8,25,000
Net Profit		4,45,000

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Other business and non-business income		70,000

Answer 8

Section 44AE would apply in the case of Mr. Sukhvinder since he is engaged in the business of plying goods carriages and owns not more than ten goods carriages at any time during the previous year.

Section 44AE provides for computation of business income of such assesses on a presumptive basis. The income shall be deemed to be ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by the assessee in the previous year or such higher sum as declared by the assessee in his return of income.

Mr. Sukhvinder's business income calculated applying the provisions of section 44AE is ₹ 13,72,500 **(See Notes 1 & 2 below)** and his total income would be ₹ 14,42,500.

However, as per section 44AE(7), Mr. Sukhvinder may claim lower profits and gains if he keeps and maintains proper books of account as per section 44AA and gets the same audited and furnishes a report of such audit as required under section 44AB. If he does so, then his income for tax purposes from goods carriages would be ₹ 4,45,000 instead of ₹ 13,72,500 and his total income would be ₹ 5,15,000.

Notes:

1. Computation of total income of Mr. Sukhvinder for A.Y. 2025-26

Particulars	Presumptive income ₹	Where books are maintained ₹
Income from business of plying goods carriages **[See Note 2 Below]**	13,72,500	4,45,000
Other business and non-business income	70,000	70,000
Total Income	14,42,500	5,15,000

2. Calculation of presumptive income as per section 44AE

Type of carriage	No. of months	Rate per ton per month/ per month	Ton	Amount ₹
(1)	**(2)**		**(3)**	**(4)**
Heavy goods vehicle				
1 goods carriage up-to 1st May	2	1,000	15 (15,000/1,000)	30,000
5 goods carriage held throughout the year	12	1,000	15 (15,000/1,000)	9,00,000
Goods vehicle other than heavy goods vehicle				
1 goods carriage from 6th May	11	7,500	-	82,500
4 goods carriage held throughout the year	12	7,500	-	3,60,000

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Total	13,72,500

Question 9

Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2025:

Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2025

Particulars	₹	Particulars	₹
To Opening Stock	71,000	By Sales	2,32,00,000
To Purchase of Raw Materials	2,16,99,000	By Closing stock	2,00,000
To Manufacturing Wages & Expenses	5,70,000		
To Gross Profit	10,60,000		
	2,34,00,000		2,34,00,000
To Administrative charges	3,26,000	By Gross Profit	10,60,000
To SGST penalty	5,000	By Dividend from domestic companies	15,000
To GST paid	1,10,000	By Income from agriculture (net)	1,80,000
To General Expenses	54,000		
To Interest to Bank (On machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	5,00,000		
	12,55,000		**12,55,000**

Following are the further information relating to the financial year 2024-25:

(i) Administrative charges include ₹ 46,000 paid as commission to brother of the assessee. The commission amount at the market rate is ₹ 36,000.

(ii) The assessee paid ₹ 33,000 in cash to a transport carrier on 29.12.2024. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment)

(iii) A sum of ₹ 4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in the books of account.

(iv) Bank term loan interest actually paid upto 31.03.2025 was ₹ 20,000 and the balance was paid in November 2025.

(v) Housing loan principal repaid during the year was ₹ 50,000 and it relates to residential property acquired by him in P.Y. 2023-24 for self-occupation. Interest on housing loan was ₹ 23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.

(vi) Depreciation allowable under the Act is to be computed on the basis of following information:

Plant & Machinery (Depreciation rate@15%)	₹

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WDV as on 31.03.2024 minus Depreciation for P.Y. 2023-24	11,90,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000

Compute the total income of Mr. Raju for the A.Y. 2025-26 assuming he pays tax under default tax regime.

Note: Ignore application of section 14A for disallowance of expenditures in respect of any exempt income.

Answer 9

Compute of total Income of Mr. Raju for the A.Y.2025-26

Particulars		₹	₹
Profits and gains of business or profession			
Net profit as per profit and loss account			5,00,000
Add:	Excess commission paid to brother disallowed under section 40A(2)	10,000	
	Disallowance under section 40A(3) is not attracted since the limit for one time cash payment is ₹ 35,000 in respect of payment to transport operators. Therefore, amount of ₹ 33,000 paid in cash to a transport carrier is allowable as deduction.	Nil	
	Bank term loan interest paid after the due date of filing of return under section 139(1) – disallowed as per section 43B	40,000	
	State GST penalty paid disallowed **[See Note 2 below]**	5,000	
	Depreciation debited to profit and loss account	2,00,000	2,55,000
			7,55,000
Less:	Dividend from domestic companies **[Chargeable to tax under the head "Income from Other Sources"]**	15,000	
	Income from agriculture **[Exempt under section 10(1)]**	1,80,000	
	Salary paid to staff not recorded in the books (Assuming that the expenditure is in the nature of unexplained expenditure and hence,is deemed to be income as per section 69C and would be taxable @ 60% under section 115BBE – no deduction allowable in respect of such expenditure) **[See Note 1 below]**	48,000	
	Depreciation under the Income-tax Act, 1961 **(As per working note)**	2,23,500	4,66,500
			2,88,500
Income from house property			
Annual value of self-occupied property		Nil	
Less:	Deduction u/s 24(b) – interest on housing loan [Not allowable, since Mr. Raju is paying tax as per default tax regime]	Nil	Nil
Income from Other Sources			
Dividend from domestic companies			15,000

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Gross Total Income		**3,03,500**
Less: Deduction u/s 80C [Not allowable, since Mr. Raju is paying tax as per default tax regime]		Nil
Total Income		**3,03,500**

Working Note:

Computation of depreciation under the Income-tax Act, 1961

Particulars	₹
Depreciation@15% on ₹ 13.90 lakhs (WDV as on 31.3.2024 *less* depreciation for P.Y. 2023-24 i.e., ₹ 11.90 lakh *plus* assets purchased during the year and used for more than 180 days ₹ 2 lakh)	2,08,500
Depreciation @7.5% on ₹2 lakh (Assets used for < 180 days)	15,000
	2,23,500

Since Mr. Raju is paying tax as per default tax regime, additional depreciation u/s 32(1)(iia) would not be available to him.

Notes (Alternate views):

1. It is also possible to take a view that the salary paid to staff not recorded in the books is in the nature of unexplained expenditure and hence, would be deemed to be income as per section 69C and would be taxable @ 60% under section 115BBE. In such a case, no deduction allowable in respect of such expenditure.
2. Where the imposition of penalty is not for delay in payment of sales tax or VAT or GST but for contravention of provisions of the Sales Tax Act or VAT Act or GST Law, the levy is not compensatory and therefore, not deductible. However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed.
   Since the question only mentions "GST penalty paid" and the reason for levy of penalty is not given, it has been assumed that the levy is not compensatory and therefore, not deductible. It is, however, possible to assume that such levy is compensatory in nature and hence, allowable as deduction. In such a case, the total income would be ₹ 3,94,500.

Question 10

Mr. Tenzingh is engaged in composite business of growing and curing (further processing) coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.3.2025 are given below:

Particulars	₹
Opening balance of car (only asset in the block) as on 1.4.2024 (i.e. WDV as on 31.3.2024 (-) depreciation for P.Y. 2023-24)	3,00,000
Opening balance of machinery as on 1.4.2023 (i.e., WDV as on 31.3.2024 (-) depreciation for P.Y. 2023-24)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

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Besides being used for agricultural operations, the car is also used for personal use; disallowance for personal use may be taken at 20%. The expenses incurred for car running and maintenance are ₹50,000. The machines were used in coffee curing business operations.

Compute the income arising from the above activities for the A.Y. 2025-26.

Answer 10

Where an assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income, as per Rule 7B of the Income-tax Rules, 1962.

As per the above Rule, income derived from sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax. The balance 75% will be treated as agricultural income.

Particulars		₹	₹
Sale value of cured coffee			22,00,000
Less: Expenses for growing coffee		3,10,000	
Car expenses (80% of ₹ 50,000)		40,000	
Depreciation on car (80% of 15% of ₹3,00,000) **[See Computation below]**		36,000	
Total cost of agricultural operations		3,86,000	
Expenditure on coffee curingoperations	3,00,000		
Add: Depreciation on machinery (15% of ₹15,00,000) **[See Computation below]**	2,25,000		
Total cost of the curing operations		5,25,000	
Total cost of composite operations			9,11,000
Total profits from composite activities			**12,89,000**
Business income (25% of above)			3,22,250
Agricultural income (75% of above)			9,66,750

Computation of depreciation for P.Y. 2024-25

Particulars	₹	₹
Car		
Opening balance as on 1.4.2024 (i.e., WDV as on 31.3.2024 (-) depreciation for P.Y.2023-24)		3,00,000
Depreciation thereon at 15%	45,000	
Less: Disallowance @20% for personal use	9,000	
Depreciation actually allowed		36,000
Machinery		
Opening balance as on 1.4.2024 (i.e., WDV as on 31.3.2024 (-) depreciation for P.Y.2023-24)		15,00,000
Depreciation @ 15% for P.Y. 2024-25		2,25,000

Explanation 7 to section 43(6) provides that in cases of 'composite income', for the purpose of

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computing written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire composite income of the assessee (and not just 25%) is chargeable under the head "Profits and gains of business or profession". The depreciation so computed shall be deemed to have been "actually allowed" to the assessee.

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LLUSTRATION

Question 1 (Illustration)

How will you calculate the period of holding in case of the following assets?

(1) Shares held in a company in liquidation

(2) Bonus shares

(3) Flat in a co-operative society

Answer 1

(1) Shares held in a company in liquidation - The period after the date onwhich the company goes into liquidation shall be excluded while calculatingthe period of holding. Therefore, the period of holding shall commence from the date of acquisition and end with the date on which the company goes into liquidation.

(2) Bonus shares - The period of holding shall be reckoned from the date of allotment of bonus shares and will end with the date of transfer.

(3) Flat in a co-operative society - The period of holding shall be reckoned from the date of allotment of shares in the society and will end with the date of transfer.

Note – Any transaction whether by way of becoming a member of, or acquiring shares in, a co-operative society or by way of any agreement or any arrangement or in any other manner whatsoever which has the effect of transferring, or enabling enjoyment of, any immovable property is a transferas per section 2(47)(vi).

Hence, it is possible to take a view that any date from which such right isobtained may be taken as the date of acquisition.

Question 2 (Illustration)

A is the owner of a car. On 1-4-2024, he starts a business of purchase and sale of motor cars. He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31-3-2025 and gets a profit of Rs. 1 lakh. Discuss the tax implication in his hands under the head "Capital gains".

Answer 2

Since car is a personal asset, conversion or treatment of the same as the stock-in- trade of his business will not be trapped by the provisions of section 45(2). Hence,A is not liable to capital gains tax.

Question 3 (Illustration)

X converts his capital asset (acquired on June 10, 2006 for Rs. 60,000) into stock-in- trade on March 10, 2024. The fair market value on the date of the above conversion was Rs. 5,50,000. He subsequently sells the stock-in-trade so converted for Rs. 6,00,000 on June 10, 2024. Discuss the year chargeability of capital gain and business income.

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Answer 3

Since the capital asset is converted into stock-in-trade during the previous year 2023-24 relevant to the A.Y. 2024-25, it will be a transfer under section 2(47) during the P.Y. 2023-24. However, the profits or gains arising from the above conversion will be chargeable to tax during the A.Y. 2025-26, since the stock-in- trade has been sold only on June 10, 2024. For this purpose, the fair market value on the date of such conversion (i.e. 10th March, 2024) will be the full value of consideration for computation of capital gains. The capital gains would be computed by reducing the indexed cost of acquisition therefrom, since the transfer (i.e., conversion of capital asset into stock in trade) took place during the P.Y. 2023-24. The business income of Rs. 50,000 (i.e., Rs. 6,00,000 (-) Rs. 5,50,000, being the fair market value on the date of conversion) would also be taxable in the A.Y.2025-26. Thus, both capital gains and business income would be chargeable to tax in the A.Y.2025-26.

Question 4 (Illustration)

M held 2000 shares in a company ABC Ltd., an Indian company. This company amalgamated with another Indian company XYZ Ltd. during the previous year ending 31-3-2025. Under the scheme of amalgamation, M was allotted 1000 shares in the new company. The market value of shares allotted is higher by Rs. 50,000 than the value of holding in ABC Ltd. The Assessing Officer proposes to treat the transaction as an exchange and to tax Rs. 50,000 as capital gain. Is he justified?

Answer 4

In the above example, the transaction is squarely covered by the exemption explained above and the proposal of the Assessing Officer to treat the transaction as a transfer is not justified.

Question 5 (Illustration)

In which of the following situations capital gains tax liability does not arise?

(i) Mr. A purchased gold in 1970 for Rs. 25,000. In the P.Y. 2024-25, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on theday the gift was made was Rs. 1,00,000.

(ii) A house property is purchased by a Hindu undivided family in 1945 for Rs. 20,000. It is given to one of the family members in the P.Y. 2024-25 at thetime of partition of the family. FMV on the date of partition was Rs. 12,00,000.

(iii) **Mr. B purchased 50 convertible debentures for Rs. 40,000 in 1995 which are converted into 500 shares worth Rs. 85,000 in November 2024 by the company.**

Answer 5

We know that capital gains arises only when we transfer a capital asset. The liability of capital gains tax in the situations given above is discussed as follows:

(i) As per the provisions of section 47(iii), transfer of a capital asset under a giftis **not** regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

(ii) As per the provisions of section 47(i), transfer of a capital asset (being in kind) on the total or partial partition of Hindu undivided family is **not** regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

(iii) As per the provisions of section 47(x), transfer by way of conversion of bonds or debentures, debenture stock or deposit certificates in any form ofa company into shares or debentures of that company is **not** regarded as transfer for the purpose of capital gains. Therefore, capital gains

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tax liability does not arise in the given situation.

Question 6 (Illustration)

Mr. Abhishek a senior citizen, mortgaged his residential house with a bank, under a notified reverse mortgage scheme. He was getting loan from bank in monthly installments. Mr. Abhishek did not repay the loan on maturity and hence gave possession of the house to the bank, to discharge his loan. How will the treatment of long-term capital gain be on such reverse mortgage transaction?

Answer 6

Section 47(xvi) provides that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Governmentshall not be considered as a transfer for the purpose of capital gain.

Accordingly, the mortgaging of residential house with bank by Mr. Abhishek will not be regarded as a transfer. Therefore, no capital gain will be charged on such transaction.

Further, section 10(43) provides that the amount received by the senior citizen asa loan, either in lump sum or in installment, in a transaction of reverse mortgage would be exempt from income-tax. Therefore, the monthly installment amountsreceived by Mr. Abhishek would not be taxable.

Question 7 (Illustration)

Examine, with reasons, whether the following statements are True or False.

(i) Alienation of a residential house in a transaction of reverse mortgage under a scheme made and notified by the Central Government is treated as "transfer"for the purpose of capital gains.

(ii) Zero coupon bonds of eligible corporation, held for 14 months, will be long- term capital assets.

(iii) Zero Coupon Bond means a bond on which no payment and benefits are received or receivable before maturity or redemption.

Answer 7

(i) **False:** As per section 47(xvi), such alienation in a transaction of reverse mortgage under a scheme made and notified by the Central Government isnot regarded as "transfer" for the purpose of capital gains.

(ii) **True:** Section 2(42A) defines the term 'short-term capital asset'. Under the proviso to section 2(42A), zero coupon bond held for not more than 12 months will be treated as a short-term capital asset. Consequently, such bond held for more than 12 months will be a long-term capital asset.

(iii) **True:** As per section 2(48), 'Zero Coupon Bond' means a bond issued by any infrastructure capital company or infrastructure capital fund or infrastructure debt fund or a public sector company, or Scheduled Bank onor after 1st June 2005, in respect of which no payment and benefit is received or receivable before maturity or redemption from such issuing entity and which the Central Government may notify in this behalf.

Question 8 (Illustration)

Mr. A converts his capital asset acquired for an amount of Rs. 50,000 in June, 2004 into stock-in-trade in the month of November, 2023. The fair market value of the asset on the date of conversion

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is Rs. 4,50,000. The stock-in-trade was sold for an amount of Rs. 6,50,000 in the month of September, 2024. What will be the tax treatment?

Financial year	Cost Inflation Index
2004-05	113
2023-24	348
2024-25	363

Answer 8

The capital gains on the sale of the capital asset converted to stock-in-trade is taxable in the given case. It arises in the year of conversion (i.e. P.Y. 2023-24) but will be taxable only in the year in which the stock-in-trade is sold (i.e. P.Y. 2024- 25). Profits from business will also be taxable in the year of sale of the stock-in-trade (P.Y. 2024-25).

The LTCG and business income for the A.Y.2025-26 are calculated as under:

Particulars	Rs.	Rs.
Profits and Gains from Business or Profession		
Sale proceeds of the stock-in-trade	6,50,000	
Less: Cost of the stock-in-trade (FMV on the date ofconversion)	4,50,000	2,00,000
Long Term Capital Gains		
Full value of the consideration (FMV on the date of the conversion)	4,50,000	
Less: Indexed cost of acquisition (₹50,000 x 348/113)	1,53,982	2,96,018

Note: For the purpose of indexation, the cost inflation index of the year in which the asset is converted into stock-in-trade should be considered.

Since the transfer (conversion into stock-in-trade) took place in the P.Y. 2023-24, the benefit of indexation would be available. The date of sale of stock-in trade is not relevant for determining whether benefit of indexation would be available.

Question 9 (Illustration)

Singhania & Co., a sole proprietorship owns six machines, put in use for business in March, 2023. The depreciation on these machines is charged@15%. The openingbalance of these machines after providing depreciation for P.Y. 2023-24 was Rs. 8,50,000. Three of the old machines were sold on 10th June, 2024 for Rs. 11,00,000. A second hand plant was bought for Rs. 8,50,000 on 30th November, 2024.

You are required to:

(i) determine the claim of depreciation for Assessment Year 2025-26.

(ii) compute the capital gains liable to tax for Assessment Year 2025-26.

(iii) If Singhania & Co. had sold the three machines in June, 2024 for Rs. 21,00,000, will there be any difference in your above workings? Explain.

Answer 9

(i) Computation of depreciation for A.Y.2025-26

Particulars	Rs.
Opening balance of the block as on 1.4.2024 [i.e., W.D.V. ason 31.3.2024 after providing depreciation for P.Y. 2023-24]	8,50,000

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Add: Purchase of second hand plant during the year	8,50,000
	17,00,000
Less: Sale consideration of old machinery during the year	11,00,000
W.D.V of the block as on 31.03.2025	6,00,000

Since the value of the block as on 31.3.2025 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is Rs. 45,000, being 7½% of Rs.6,00,000.

(ii) The provisions under section 50 for computation of capital gains in the caseof depreciable assets can be invoked only under the following circumstances:

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

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

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

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

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

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

(iii) If the three machines are sold in June, 2024 for Rs. 21,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

Particulars	Rs.	Rs.
Sale consideration		21,00,000
Less: Opening balance of the block as on 1.4.2024 [i.e., W.D.V. as on 31.3.2024 after providing depreciation for P.Y. 2023-24]	8,50,000	
Purchase of second plant during the year	8,50,000	17,00,000
Short term capital gains		**4,00,000**

Question 10 (Illustration)

Mr. A is a proprietor of Akash Enterprises, having 2 units. He transferred on 1.4.2024 his Unit 1 by way of slump sale for a total consideration of ₹ 25 lakhs. The fair market value of capital assets of unit 1 on 1.4.2024 is ₹ 30 lakhs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were ₹ 28,000. His Balance Sheet as on 31.3.2024 is as under:

Liabilities	Total (₹)	Assets	Unit 1 (₹)	Unit 2 (₹)	Total(₹)
Own Capital	**15,00,000**	**Land**	**12,00,000**	**2,00,000**	**14,00,000**
Revaluation reserve (for building of unit 1)	**3,00,000**	**Machinery**	**3,00,000**	**1,00,000**	**4,00,000**
Bank loan (70% forunit 1)	**2,00,000**	**Debtors**	**1,00,000**	**40,000**	**1,40,000**

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Trade creditors (25% for unit 1)	**1,50,000**	**Other assets**	**1,50,000**	**60,000**	**2,10,000**
Total	**21,50,000**	**Total**	**17,50,000**	**4,00,000**	**21,50,000**

Other information:

(i) Revaluation reserve is created by revising upward the value of the building of Unit 1.

(ii) No individual value of any asset is considered in the transfer deed.

(iii) Other assets of Unit 1 include patents acquired on 1.7.2022 for Rs. 50,000 on which no depreciation has been charged.

(iv) The value of machinery represents the written down value as per the Income-tax Act, 1961.

Compute the capital gain for the assessment year 2025-26.

Answer 10

Computation of capital gains on slump sale of Unit 1

Particulars	**Rs.**
Full value of consideration [Higher of FMV of capital assets of Unit 1 on 1.4.2024 or FMV of monetary consideration received]	30,00,000
Less: Expenses for transfer	28,000
	29,72,000
Less: Net worth **(See Note 1 below)**	12,50,625
Long-term capital gain	**17,21,375**

Notes:

1. Computation of net worth of Unit 1 of Akash Enterprises

Particulars	**Rs.**	**Rs.**
Building (excluding Rs. 3 lakhs on account ofrevaluation)		9,00,000
Machinery		3,00,000
Debtors		1,00,000
Patents **(See Note2 below)**		28,125
Other assets (₹1,50,000 –₹50,000)		1,00,000
Total assets		14,28,125
Less: Creditors (25% of ₹1,50,000)	37,500	
Bank Loan (70% of ₹ 2,00,000)	1,40,000	1,77,500
Net worth		**12,50,625**

2. Written down value of patents as on 1.4.2024

Value of patents:	**Rs.**
Cost as on 1.7.2022	50,000
Less: Depreciation @ 25% for Financial Year 2022-23	12,500
Balance as on 1.4.2023	37,500
Less: Depreciation for Financial Year 2023-24	9,375
Balance as on 1.4.2024	28,125

3. Since the Unit is held for more than 36 months, capital gain arising would be long term

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capital gain. However, indexation benefit is not available incase of slump sale.

Question 11 (Illustration)

Mr. Cee purchased a residential house on July 20, 2022 for ₹ 10,00,000 and made some additions to the house incurring ₹ 2,00,000 in August 2022. He sold the house property in April 2024 for ₹ 20,00,000. Out of the sale proceeds, he spent ₹ 5,00,000 to purchase another house property in September 2024.

What is the amount of capital gains taxable in the hands of Mr. Cee for the A.Y.2025-26?

Answer 11

The house is sold before 24 months from the date of purchase. Hence, the houseis a short-term capital asset and no benefit of indexation would be available.

Particulars	**Rs.**
Sale consideration	20,00,000
Less: Cost of acquisition	10,00,000
Cost of improvement	2,00,000
Short-term capital gains	**8,00,000**

Note: The exemption of capital gains under section 54 is available only in case of long-term capital asset. As the house is short-term capital asset, Mr. Cee cannot claim exemption under section 54. Thus, the amount of taxable short-term capital gains is Rs. 8,00,000.

Question 12 (Illustration)

Long term capital gain of Rs. 75 lakh arising from transfer of building on 1.5.2024 will be exempt from tax if such capital gain is invested in the bonds redeemable after five years, issued by NHAI under section 54EC. Examine with reasons whether the given statement is true or false having regard to the provisions of the Income-tax Act, 1961.

Answer 12

False: The exemption under section 54EC has been restricted, by limiting the maximum investment in long term specified assets (i.e. bonds of NHAIor RECL or any other bond notified by Central Government in this behalf, redeemable after 5 years) to Rs. 50 lakh, whether such investment is made during the relevant previous year or the subsequent previous year, or both. Therefore, in this case, the exemption under section 54EC can be availedonly to the extent of Rs. 50 lakh, provided the investment is made before1.11.2024 (i.e., within six months from the date of transfer).

Question 13 (Illustration)

Calculate the income-tax liability for the assessment year 2025-26 in the following cases:

	Mr. A (age 45)	**Mrs. B (age 62)**	**Mr. C (age 81)**	**Mr. D (age 82)**
Status	**Non-Resident**	**Non-resident**	**Resident**	**Non-resident**
Total income other than long-term capital gain	**2,40,000**	**3,10,000**	**5,90,000**	**4,80,000**

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Long-term capital gain [Assume transfer took place before 23.7.2024]	**85,000 from sale of vacant site**	**10,000 from sale of listed equity shares (STT paid on sale and purchaseof shares)**	**60,000 from sale of agricultural land in rural area**	**Nil**

(i) If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.

(ii) If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provision of the act.

Answer 13

(i) If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.

Computation of income-tax liability for the A.Y.2025-26

Particulars	**Mr. A (age 45)**	**Mrs. B (age 62)**	**Mr. C (age 81)**	**Mr. D (age 82)**
Residential Status	Non-Resident	Non-resident	Resident	Non-resident
Applicable basic exemption limit	Rs. 3,00,000	Rs. 3,00,000	Rs. 3,00,000	Rs. 3,00,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and paid on both sale and purchase of shares)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	Rs. 85,000 [Taxable @20% u/s 112]	Rs. 10,000 [exempt u/s 112A since it is less than Rs. 1,25,000]	Rs. 60,000 (Exempt – not a capital asset)	-
Other income	Rs.2,40,000	Rs. 3,10,000	Rs. 5,90,000	Rs. 4,80,000
Tax liability				
On LTCG	Rs. 17,000	-	-	-
On Other income	Nil	Rs.500	Rs. 14,500	Rs.9,000
	Rs. 17,000	Rs.500	Rs. 14,500	Rs.9,000
Less: Rebate u/s 87A	-	-	Rs. 14,500	-
	Rs. 17,000	Rs.500	NIL	Rs. 9000
Add: Health & education cess (HEC) @4%	Rs. 680	Rs.20	NIL	Rs. 360
Total tax liability	**Rs. 17,680**	**Rs. 520**	**NIL**	**Rs. 9,360**

Note: Since Mr. C is a resident whose total income does not exceed ₹ 7 lakhs, he is eligible for rebate of ₹ 25,000 or the actual tax payable, whichever is lower, under section 87A.

(ii) If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay

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tax under the optional tax regime as per the normal provisions of the Act

Computation of income-tax liability for the A.Y.2025-26

Particulars	**Mr. A (age 45)**	**Mrs. B (age 62)**	**Mr. C (age 81)**	**Mr. D (age 82)**
Residential Status	Non-Resident	Non-Resident	Resident	Non- resident
Applicable basic exemption limit	₹ 2,50,000	₹ 2,50,000	₹ 5,00,000	₹ 2,50,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	₹ 85,000 [Taxable @20% u/s 112]	₹ 10,000 [exempt u/s 112A since it is less than ₹ 1,25,000]	₹ 60,000 (Exempt – not a capital asset)	-
Other income	₹ 2,40,000	₹ 3,10,000	₹ 5,90,000	₹ 4,80,000
Tax liability				
On LTCG	₹ 17,000	-	-	-
On Other income	Nil	₹ 3,000	₹ 18,000	₹ 11,500
	₹ 17,000	₹ 3,000	₹ 18,000	₹ 11,500
Less: Rebate u/s 87A	-	-	-	-
	₹17,000	₹ 3,000	₹ 18,000	₹ 11,500
Add: Health & education cess (HEC) @4%	₹ 680	₹ 120	₹ 720	₹ 460
Total tax liability	**₹17,680**	**₹ 3,120**	**₹ 18,720**	**₹ 11,960**

Notes:

Since Mrs. B and Mr. D are non-residents, they cannot avail the higher basic exemption limit of ₹ 3,00,000 and ₹ 5,00,000 for persons over the age of 60 years and 80 years, respectively. Also, they along with Mr. A, being non-residents are not eligible for rebate under section 87A even though their total income does not exceed ₹ 5 lakh.

TEST YOUR KNOWLEDGE

Question 1

Mr. Mithun purchased 100 equity shares of M/s Good money Co. Ltd. on 01- 04-2007 at rate of ₹ 1,000 per share in public issue of the company by paying securities transaction tax.

Company allotted bonus shares in the ratio of 1:1 on 01.12.2023. He has also received dividend of ₹ 10 per share on 01.05.2024.

He has sold all the shares on 01.10.2024 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02%.

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Compute his total income and tax liability for A.Y. 2025-26 if Mr. Mithunpays tax under default tax regime, assuming that he is having other income of ₹ 8,00,000. Fair market value of shares of M/s Goodmoney Co. Ltd. on 31.1.2018 is ₹ 2,000.

Answer 1

Computation of total income & tax liability of Mr. Mithun for A.Y. 2025-26

Particulars		₹
Long term capital gains on sale of original shares		
Gross sale consideration (100 x ₹ 4,000)		4,00,000
Less: Brokerage@1%		4,000
Net sale consideration		3,96,000
Less: Cost of acquisition (100 x ₹ 2,000) **(Refer Note 2)**		2,00,000
Long term capital gains		**1,96,000**
Short term capital gains on sale of bonus shares		
Gross sale consideration (100 x ₹ 4,000)		4,00,000
Less: Brokerage@1%		4,000
Net sale consideration		3,96,000
Less: Cost of acquisition of bonus shares [Nil as such shares are allotted after 1.04.2001]		NIL
Short term capital gains [Since bonus shares are held for less than 12 months before sale]		**3,96,000**
Income from other sources		
Dividend received from M/s Goodmoney Co. Ltd. is taxable inthe hands of shareholders [200 shares x 10 per share]		2,000
Other Income		8,00,000
Total Income		**13,94,000**
Tax Liability		
Tax on STCG u/s 11A		79,200
20% of ₹ 3,96,000		
Tax on LTCG u/s 112A		
12.5% of (₹ 1,96,000 - ₹ 1,25,000) since it is transferred on or after 23.7.2024		8,875
Tax on other income of ₹ 8,02,000		
₹ 3,00,000 to ₹ 7,00,000@5%	₹20,000	
₹ 7,00,000 to ₹ 8,02,000 @10%	₹10,200	30,200
		1,18,275
Add: Health and education cess @4%		4,731

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Tax liability	1,23,006
Tax liability (rounded off)	1,23,010

(1) Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of
- Cost of acquisition i.e., ₹ 1,000 per share and
- lower of
  Fair market value of such asset i.e., ₹ 2,000 per share and
  Full value of consideration i.e., ₹ 4,000 per share.

Therefore, the cost of acquisition of original share is ₹ 2,000 per share.

(2) Securities transaction tax is not allowable as deduction.

Question 2

Aarav converts his plot of land purchased in July, 2004 for ₹ 80,000 intostock-in-trade on 31st March, 2024. The fair market value as on 31.3.2024 was ₹ 3,00,000. The stock-in-trade was sold for ₹ 3,25,000 in the month ofJanuary 2025.
Find out the taxable income, if any, and if so under which head of income and for which Assessment Year? Cost Inflation Index: F.Y. 2004-05:113; F.Y. 2023-24: 348; F.Y. 2024-25: 363.

Answer 2

Conversion of a capital asset into stock-in-trade is a transfer within the meaning of section 2(47) in the previous year in which the asset is so converted. However, the capital gains will be charged to tax only in the yearin which the stock-in-trade is sold.
The cost inflation index of the financial year in which the conversion took place should be considered for computing indexed cost of acquisition. Further, the fair market value on the date of conversion would be deemedto be the full value of consideration for transfer of the asset as per section
45(2). The sale price less the fair market value on the date of conversion would be treated as the business income of the year in which the stock-in- trade is sold.

Therefore, in this problem, both capital gains and business income would be charged to tax in the A.Y. 2025-26.

Particulars	₹	
Profits & Gains of Business or Profession		
Sale price of stock-in-trade	3,25,000	
Less: Fair market value on the date of conversion	3,00,000	
Capital Gains		**25,000**
Full value of consideration (Fair market value on the date of conversion)	3,00,000	
Less: Indexed cost of acquisition (₹ 80,000 × 348/113)	2,46,372	
Long-term capital gain		**53,628**
Taxable Income		**78,628**

Question 3

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Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the F.Y. 2004-05 and held the same as her capital asset till 20th March, 2024.
She started her real estate business on 21st March, 2024 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 210 lakhs.
She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 10 lakhs. Construction was completed in February,2025. She sold 10 flats at ₹ 30 lakhs per flat in March, 2025. The remaining 5flats were held in stock as on 31st March, 2025.
She invested ₹ 50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2025 and another ₹ 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2025.
Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harshita arising from the above transactions for A.Y. 2025-26 indicating clearly the reasons for treatment for each item.
[Cost Inflation Index: F.Y. 2004-05: 113; F.Y. 2023-24: 348; F.Y. 2024-25: 363].

Answer 3

Computation of capital gains and business income of Harshita for A.Y. 2025-26

Particulars	₹
Business Income	
Sale price of flats [10 × ₹ 30 lakhs]	3,00,00,000
Less: Cost of flats	
Fair market value of land on the date of conversion [₹ 210 lacs × 2/3]	1,40,00,000
Cost of construction of flats [10 × ₹ 10 lakhs]	1,00,00,000
Business income chargeable to tax for A.Y.2025-26	**60,00,000**
Capital Gains	
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	2,10,00,000
Less: Indexed cost of acquisition [₹ 35,00,000 × 348/113]	1,07,78,761
	1,02,21,239
Proportionate capital gains arising during A.Y. 2025-26 [₹ 1,02,21,239 x 2/3]	68,14,159
Less: Exemption under section 54EC	50,00,000
Capital gains chargeable to tax for A.Y.2025-26	**18,14,159**

Notes:

(1) The conversion of a capital asset into stock-in-trade is treated as atransfer under section 2(47). It would be treated as a transfer in theyear in which the capital asset is converted into stock-in-trade (i.e., P.Y.2023-24, in this case).

(2) As per section 45(2), the capital gains arising from the transfer by wayof conversion of capital assets into stock-in-trade will be chargeableto tax only in the year in which the stock-in-trade is sold.

(3) The indexation benefit for computing indexed cost of acquisition would, however, be available only up to the year of conversion of capital asset into stock-in-trade (i.e., P.Y.2023-24) and not up to the year of sale of stock-in-trade (i.e., P.Y.2024-25).

(4) For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of thecapital asset.

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In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15flats) is sold in the P.Y.2024-25, only proportionate capital gains (i.e., 2/3rd) would be chargeable to tax in the A.Y.2025-26.

(5) On sale of such stock-in-trade, business income would arise. The business income chargeable to tax would be the difference between the price at which the stock-in-trade is sold and the fair market value on the date of conversion of the capital asset into stock-in-trade.

(6) In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months is to be reckoned from the date of sale of stock-in-trade for the purpose of exemption under section 54EC [CBDT Circular No.791 dated 2.6.2000]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption under section 54EC. With respect to long-term capital gains arising on land or building or both in any financial year, the maximum deduction under section 54EC would be ₹ 50 lakhs, whether the investment in bonds of NHAI or RECL are made in the same financial year or next financial yearor partly in the same financial year and partly in the next financial year.

Therefore, even though investment of ₹ 50 lakhs has been made in bonds of NHAI during the P.Y. 2024-25 and investment of ₹ 50 lakhs has been made in bonds of RECL during the P.Y. 2025-26, both within the stipulated six month period, the maximum deduction allowable for A.Y. 2025-26, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the P.Y. 2024-25, is only ₹ 50 lakhs.

Question 4

Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident which occurred in December 2024.

The value of stock lost (total damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening balance of the block as on1.4.2024 (i.e., WDV as on 31.3.2024 after providing depreciation for P.Y. 2023-24) was ₹ 10,80,000.

During the process of safeguarding machinery and in the fire fighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2005 for ₹ 1,20,000. The market value of these two items as on the date of fire accident was ₹ 1,80,000.

Mr. A received the following amounts from the insurance company:

(i)	**Towards loss of stock**	**₹ 4,80,000**
(ii)	**Towards damage of machinery**	**₹ 6,00,000**
(iii)	**Towards gold chain and diamond ring**	**₹ 1,80,000**

You are requested to briefly comment on the tax treatment of the above threeitems under the provisions of the Income-tax Act, 1961.

Answer 4

(i) Compensation towards loss of stock: Any compensation received from the insurance company towards loss/damage to stock in trade isto be construed as a trading receipt. Hence, ₹ 4,80,000 received as insurance claim for loss of stock has to be assessed under the head "Profit and gains of business or profession".

Note - The assessee can claim the value of stock destroyed by fire as revenue loss, eligible for deduction while computing income under the head "Profits and gains of business or profession".

(ii) Compensation towards damage to machinery: The question does not mention whether the

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salvaged machinery is taken over by the Insurance company or whether there was any replacement of machinery during the year. Assuming that the salvaged machinery is taken over by the Insurance company, and there was no fresh additionof machinery during the year, the block of machinery will cease to exist. Therefore, ₹ 4,80,000 being the excess of written down value (i.e. ₹ 10,80,000) over the insurance compensation (i.e. ₹ 6,00,000) will be assessable as a short-term capital loss.

Note – If new machinery is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year.

(iii) Compensation towards loss of gold chain and diamond ring: Gold chain and diamond ring are capital assets as envisaged by section 2(14). They are not "personal effects", which alone are to be excluded. If any profit or gain arises in a previous year owing to receipt of insurance claim, the same shall be chargeable to tax as capital gains.The capital gains has to be computed by reducing the indexed cost of acquisition of jewellery from the insurance compensation of ₹ 1,80,000.

Question 5

Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2024 for ₹ 1,50,00,000.

The sale proceeds were to be paid in the following manner:

(i) 20% through account payee bank draft on the date of agreement.
(ii) 60% on the date of the possession of the property.
(iii) Balance after the completion of the registration of the title to theproperty.

Mr. Jaikumar was handed over the possession of the property on 15.12.2024 and the registration process was completed on 14.01.2025. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority-

(a) on 16.08.2024 was ₹ 1,70,00,000;
(b) on 15.12.2024 was ₹ 1,71,00,000; and
(c) on 14.01.2025 was ₹ 1,71,50,000.

Mr. Sarthak had acquired the residential house at Kanpur on 01.04.2001 for₹ 30,00,000. After recovering the sale proceeds from Jaikumar, he purchased two residential house properties, one in Kanpur for ₹ 20,00,000 on 24.3.2025 and another in Delhi for ₹ 35,00,000 on 28.5.2025. Compute the income chargeable under the head "Capital Gains" of Mr. Sarthak for the Assessment Year 2025-26.

Cost Inflation Index for Financial Year(s): 2001-02 - 100; 2024-25 – 363

Answer 5

Computation of income chargeable under the head "Capital Gains" of Mr. Sarthak for A.Y. 2025-26

Particulars		₹
Capital Gains on sale of residential house		
Actual sale consideration	₹ 1,50,00,000	
Value adopted by Stamp Valuation Authority on the date of agreement	₹ 1,70,00,000	
[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp ValuationAuthority for the purpose of		

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charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration. In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or partof the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank accountor through such other electronic mode as may be prescribed, on or before the date of agreement. In this case, since 20% of ₹ 150 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration] **Full value of sale consideration** [Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration]	1,70,00,000
Less: Indexed cost of acquisition of residential house	30,00,000
Long-term capital gains [Since the residential house property was held by Mr. Sarthak for more than 24 months immediately preceding the date of its transfer]	**1,40,00,000**
Less: Exemption u/s 54	55,00,000
Since, long-term capital gains does not exceed ₹ 2 crore, he would be eligible for exemption in respect of both the residential house properties purchased in India. The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of these residential house properties in India within one year before or two years after the date of transfer of original asset. Thus, he would be eligible for exemption of ₹ 55,00,000 being ₹ 20,00,000 and ₹ 35,00,000 invested on acquisition of residential house property in Kanpur and Delhi, respectively.	
Long term capital gains chargeable to tax	**85,00,000**

Note: It may be noted that since Sarthak has transferred residential house property on or after 23.7.2024 which was acquired before the said date, he can opt to pay tax @20% on LTCG (computed with indexation) or 12.5% on LTCG (computed without indexation) whichever is beneficial to him.

Question 6

Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2005. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2007-08.

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

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Mrs. Yuvika, again entered into an agreement on 01.05.2024 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was ₹ 890 lakhs. The sale deed was executed and registered on 14-07-2024 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following acquisition/investments:

(i) Acquired two residential houses at Delhi and Chandigarh for ₹ 130 lakhs and ₹ 50 lakhs, respectively, on 31.1.2025 and 15.5.2025

(ii) Acquired a residential house at UK for ₹ 180 lakhs on 23.3.2025.

(iii) Subscribed to NHAI capital gains bond (approved under section 54EC) for ₹ 50 lakhs on 30-11-2024 and for ₹ 40 lakhs on 9-1-2025.

Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for A.Y.2025-26. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: F.Y. 2005-06 – 117; F.Y. 2007-08 – 129; F.Y. 2024-25 - 363.

Answer 6

Computation of income chargeable under the head "Capital Gains" of Mrs. Yuvika for A.Y.2025-26

Particulars	Rs. (in lakhs)	Rs (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration Rs.810 lakhs		
Value adopted by Stamp Valuation Authority Rs.890 lakhs		
[Where the actual sale consideration is less than thevalue adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.		
However, where the date of agreement is different fromthe date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through prescribed electronic modes on orbefore the date of agreement.		
In this case, since advance of Rs. 80 lakh is received by RTGS, i.e., one of the prescribed modes, stamp duty value on the date of agreement can be adopted as thefull value of consideration. However, in the present case since stamp duty value on the date of agreement doesnot exceed 110% of the actual consideration, actual sale consideration would be taken as the full value of consideration)		
Gross Sale consideration (actual consideration, since stamp duty value on the date of agreement does notexceed 110% of the actual consideration)		810.00
Less: Brokerage 1% of sale consideration (1% of Rs.810 lakhs)		8.10
Net Sale consideration		801.90

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Less: Indexed cost of acquisition		
- Cost of vacant land, ₹ 80 lakhs, plus registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 363/117]	273.03	
- Construction cost of residential building (₹ 100 lakhs x 363/129)	281.40	554.43
Long-term capital gains		**247.47**
Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain]		
Less: **Exemption under section 54**		130.00
Where long-term capital gains exceed Rs. 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property inIndia, one year before or two years after the dateof transfer of original asset. Therefore, in the present case, the exemptionwould be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK. It would be more beneficial for her to claim the cost ofacquisition of residential house at Delhi, i.e., Rs. 130 lakhs as exemption.		
Less: **Exemption under section 54EC**		50.00
Amount invested in capital gains bonds of NHAIwithin six months after the date of transfer (i.e., onor before 13.7.2025), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of Rs. 50 lakhs, whether such investment is made in the current financial year or subsequent financial year. Therefore, in the present case, exemption can beavailed only to the extent of Rs. 50 lakh out of Rs. 90 lakhs, even if the both the investments aremade on or before 13.7.2025 (i.e., within six months after the date of transfer).		
Long term capital gains chargeable to tax		**67.47**

Note: Advance of ₹ 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head "Income from other sources", in the A.Y. 2016-17, as per section 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be
deducted while computing indexed cost of acquisition.

Question 7

Mr. Shiva purchased a house property on February 15, 1979 for ₹ 3,24,000. In addition, he has also paid stamp duty value @10% on the stamp duty valueof ₹ 3,50,000.
In April, 2008, Mr. Shiva entered into an agreement with Mr. Mohan for saleof such property for ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shiva forfeited the advance. In May 2015, he again entered into an agreement forsale of said house for ₹ 20,25,000 to Ms. Deepshikha and received ₹ 1,51,000

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as advance. However, as Ms. Deepshikha did not pay the balance amount, Mr. Shiva forfeited the advance. In August, 2015, Mr. Shiva constructed the firstfloor by incurring a cost of ₹ 3,90,000. On November 15, 2024, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transferred the house to Mr. Manish on February 20, 2025. Mr. Shiva has paid the brokerage @1% of sale consideration to the broker.

On April 1, 2001, fair market value of the house property was ₹ 11,85,000 and Stamp duty value was ₹ 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15th November, 2024 was ₹ 39,00,000 and on 20thFebruary, 2025 was ₹ 41,00,000.

Compute the capital gains in the hands of Mr. Shiva for A.Y.2025-26. Also, compute the tax liability under section 112, assuming that the basic exemption limit has been fully exhausted against other income.

CII for F.Y. 2001-02: 100; F.Y. 2008-09: 137; F.Y. 2015-16: 254; F.Y. 2024-25: 363

Answer 7

Computation of Capital gains in the hands of Mr. Shiva for A.Y. 2025-26

Particulars	Amount (₹)	Amount (₹)
Actual sale consideration	30,50,000	
Valuation as per Stamp duty Authority on the date of agreement	39,00,000	
(Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110%of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered, provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or such other electronic mode as may be prescribed on or before the date of agreement. In the present case, since part of the payment is made by account payee cheque on the date of agreement, the stamp duty value on the date of agreement would be considered as full value of consideration)		
Deemed Full value of consideration [Since stamp duty value on the date of agreement exceeds 110% of the actual consideration, stamp duty value would be deemed as Full Value of Consideration]		**39,00,000**

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Less: Expenses on transfer (Brokerage @1% of Rs. 30,50,000)		30,500
Net sale consideration		**38,69,500**
Less: Indexed cost of acquisition **(Note 1)**	9,59,000	
Less: Cost of improvement	3,90,000	13,49,000
Long term capital gain		**(25,20,500)**

Computation of tax liability u/s 112

Particulars		**Amount (₹)**
On LTCG of ₹ 25,20,500 x 12.5%		3,15,063
Add: Health and Education cess @4%		12,603
		3,27,666
On LTCG with indexation benefit		
Net Sale consideration	38,69,500	
Less: Indexed cost of acquisition (₹ 9,59,000 x 363/100)	34,81,170	
Less: Indexed cost of Improvement [₹ 3,90,000 x 363/254]	5,57,362	
Long-term capital loss	(1,69,032)	
Since the computation results in a long term capital loss, if indexation benefit is given, the tax u/s 112 would be Nil. However, this computation is only for determining tax liability, the said loss can neither be set-off nor carried forward.		

Notes:

(1) *Computation of indexed cost of acquisition*

Particulars	**Amount (₹)**	**Amount (₹)**
Cost of acquisition,		10,70,000
Being the higher of		
(i) lower of Fair market value i.e., ₹ 11,85,000 and Stamp duty value i.e., ₹ 10,70,000, on April 1, 2001	10,70,000	
(ii) Actual cost of acquisition (₹ 3,24,000 + ₹ 35,000, being stamp duty @10% of ₹ 3,50,000)	3,59,000	
Less: Advance money taken from Mr. Mohan and forfeited		1,11,000
Cost of acquisition		**9,59,000**

(2) Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Accordingly, cost of acquisition after reducing the advance money forfeited would be ₹9,59,000 [i.e. ₹ 10,70,000 – ₹ 1,11,000 (being the advance money forfeited during the P.Y. 2008-09)]. However, where the advance money is forfeited during the previous year 2014-15 or thereafter, the amount forfeited would be

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taxable under the head "Income from Other Sources" and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains. Hence,₹1,51,000, being the advance received from Ms. Deepshikha and retained by him, would have been taxable under the head "Income from other sources" in the hands of Mr. Shiva in A.Y.2016-17.

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ILLUSTRATION

Question 1 (Illustration)

Rahul, a resident Indian, holding 28% of equity shares in a company, took a loan of Rs. 5,00,000 from the same company. On the date of granting the loan,the company had accumulated profit of Rs. 4,00,000. The company is engagedin some manufacturing activity.

(i) Is the amount of loan taxable as deemed dividend, if the company is a company in which the public are substantially interested?

(ii) What would be your Answer, if the lending company is a private limited company (i.e. which is not a company in which the public aresubstantially interested)?

Answer 1

Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan to an equity shareholder, being a person who is the beneficial owner of shares holdingnot less than 10% of the voting power, is deemed as dividend under section 2(22) (e), to the extent the company possesses accumulated profits.

(i) The provisions of section 2(22)(e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.

(ii) However, if the loan is taken from a private company (i.e., a company in which the public are not substantially interested), which is a not a company where lending of money is a substantial part of the business of the company, the provisions of section 2(22)(e) would be attracted. In this case, since the company is a manufacturing company and not a lending company and Rahul holds more than 10% of the equity shares in the company, the provisions of section 2(22)(e) would be attracted.
The amount chargeable as deemed dividend cannot, however, exceed the accumulated profits held by the company on the date of giving the loan. Therefore, the amount taxable as deemed dividend would be limited to the accumulated profit i.e., ₹ 4,00,000 and not the amount of loan which is ₹ 5,00,000.

Question 2 (Illustration)

Mr. A, a dealer in shares, received the following without consideration during the P.Y. 2024-25 from his friend Mr. B, -

(1) Cash gift of Rs. 75,000 on his anniversary, 15th April, 2024.

(2) Bullion, the fair market value of which was Rs.60,000, on his birthday, 19th June, 2024.

(3) A plot of land at Faridabad on 1st July, 2024, the stamp value of which is Rs. 5 lakh on that

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date. Mr. B had purchased the land in April, 2009.

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹ 400 each on 19th June, 2023, the fair market value of which was ₹ 600 each onthat date. Mr. A sold these shares in the course of his business on 23rd June, 2024.

Further, on 1st November, 2024, Mr. A took possession of property (office building) booked by him two years back at ₹20 lakh. The stamp duty value of the property as on1st November, 2024 was ₹ 32 lakh and on the date of booking was ₹ 23 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

On 1st March, 2025, he sold the plot of land at Faridabad for ₹7 lakh.

Compute the income of Mr. A chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2025-26.

Answer 2

Computation of "Income from other sources" of Mr. A for the A.Y. 2025-26

	Particulars	**Rs.**
(1)	Cash gift is taxable under section 56(2)(x), since it exceeds Rs.50,000	75,000
(2)	Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds Rs. 50,000	60,000
(3)	Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 56(2)(x)	5,00,000
(4)	Difference of ₹ 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. A.	-
(5)	Difference between the stamp duty value of ₹ 23 lakh on the date of booking and the actual consideration of ₹ 20 lakh paid is taxable under section 56(2)(x) since the difference exceeds ₹ 2,00,000, being the higher of ₹ 50,000 and 10% of consideration	3,00,000
	Income from Other Sources	**9,35,000**

Computation of "Capital Gains" of Mr. A for the A.Y.2025-26

Particulars	**Rs.**
Sale Consideration	7,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x) as per section 49(4)]	5,00,000
Short-term capital gains	**2,00,000**

Note – The resultant capital gains will be short-term capital gains since for calculating the period of holding, the period of holding of previous owner is not to be considered.

Question 3 (Illustration)

Discuss the taxability or otherwise of the following in the hands of the recipientunder section 56(2)(x) the Income-tax Act, 1961 -

(i) Akhil HUF received Rs. 75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister).

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Akhil is the Karta of the HUF.

(ii) Nitisha, a member of her father's HUF, transferred a house property to theHUF without consideration. The stamp duty value of the house property is Rs. 9,00,000.

(iii) Mr. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was ₹ 100 per share. He also received jewellery worth ₹ 45,000 (FMV) from hisnephew on the same day.

(iv) Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ₹ 5,25,000.

Answer 3

	Taxable/ Non-taxable	Amount liable to tax(₹)	Reason
(I)	Taxable	75,000	Sum of money exceeding Rs.50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Non-taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2).
(iii)	Taxable	55,000	As per provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds Rs. 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (₹ 10,000) and jewellery (₹ 45,000) exceeds ₹50,000. Hence, the entire amount of ₹ 55,000 shall be taxable.
(iv)	Non-taxable	Nil	Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable.

Question 4 (Illustration)

Mr. Hari, a property dealer, sold a building in the course of his business to his friend Rajesh, who is a dealer in automobile spare parts, for ₹90 lakh on 1.1.2025, whenthe stamp duty value was ₹ 150 lakh. The agreement was, however, entered into on 1.9.2024 when the stamp duty value was ₹ 140 lakh. Mr. Hari had received a down payment of ₹ 15 lakh by a crossed cheque from Rajesh on the date of agreement. Discuss the tax implications in the hands of Hari and Rajesh, assuming that Mr. Hari has purchased the building for ₹ 75 lakh on 12th July, 2023.
Would your Answer be different if Hari was a share broker instead of a property dealer?

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Answer 4

Case 1: Tax implications if Mr. Hari is a property dealer

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
In the hands of Hari, the provisions ofsection 43CA would be attracted, sincethe building represents his stock-in- trade and he has transferred the samefor a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. Under section 43CA, the option to adopt the stamp duty value on the dateof agreement can be exercised only if whole or part of the consideration hasbeen received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or throughcredit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (RealTime Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM(Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised. Therefore, **Rs. 75 lakh**, being the difference between the stamp duty value on the date of transfer i.e., ₹ 150 lakh, and the purchase price i.e., ₹ 75 lakh, would be chargeable as **business income** in the hands of Mr. Hari, since stamp duty value exceeds **110% of the consideration**	Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration. Therefore, ₹ **60 lakh,** being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh)would be taxable under section 56(2)(x) in the hands of **Mr. Rajesh**, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

Case 2: Tax implications if Mr. Hari is a share broker

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
In case Mr. Hari is a share broker and nota property dealer, the building would represent his capital asset and not stock- in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari, since building is transferred for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% ofconsideration. Thus, **Rs. 75 lakh, being the difference between the stamp duty value on the date of registration (i.e., ₹ 150 lakh) and the purchase price (i.e., ₹ 75 lakh)**	There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker, Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value

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would be chargeable as short-term capital gains. It may be noted that under section 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakhs has been received on the date of agreement by crossed cheque and not account payee cheque,the option cannot be exercised.	exceeds Rs. 9,00,000, being the higher of Rs. 50,000 and 10% of consideration. Therefore, **Rs. 60 lakhs,** being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

Question 5 (Illustration)

Compensation on account of disaster received from a local authority by an individual or his/her legal heir is taxable. Examine the correctness of the statement with reference to the provisions of the Income-tax Act, 1961.

Answer 5

The statement is **not** correct. As per section 10(10BC), any amount receivedor receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax. However, the exemption is not available to the extent such individual or legal heir has already been alloweda deduction under this Act on account of such loss or damage caused by such disaster.

Question 6(Illustration)

Interest on enhanced compensation received by Mr. G during the previous year 2024-25 is ₹ 5,00,000. Out of this interest, ₹ 1,50,000 relates to the previous year 2020-21, ₹ 1,65,000 relates to previous year 2021-22 and ₹ 1,85,000 relates to previous year 2022-23. Discuss the tax implication, if any, of such interest income for A.Y.2025-26.

Answer 6

The entire interest of ₹ 5,00,000 would be taxable in the year of receipt, namely, P.Y. 2024-25.

Particulars	**Rs.**
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) @50%	2,50,000
Interest chargeable under the head "Income from other sources"	**2,50,000**

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TEST YOUR KNOWLEDGE

Question 1

Examine under which heads the following incomes are taxable:

(i) Rental income in case property held as stock-in-trade for 3 years
(ii) Salary received by a partner from his partnership firm
(iii) Rental income of machinery
(iv) Winnings from lotteries by a person having the same as business activity
(v) Salaries received by a Member of Parliament
(vi) Receipts without consideration
(vii) In case of retirement, interest on employee's contribution if provident fund is unrecognized.
(viii) Rental income in case of a person engaged in the business of letting out of commercial properties.

Answer 1

Head under which following incomes are taxable:

	Particulars	Head of Income
(I)	Rental income in case property held as stock-in trade for 3 years	Income from house property
(ii)	Salary by partner from his partnership firm	Profits and gains of business or profession
(iii)	Rental income of machinery **(See Note below)**	Profits and gains of business or profession/Income from other sources
(iv)	Winnings from lotteries by a person having the same as business activity	Income from other sources
(v)	Salaries payable to a Member of Parliament	Income from other sources
(vi)	Receipts without consideration	Income from other sources
(vii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources
(viii)	Rental income in case of a person engaged in the business of letting out of commercial properties	Profits and gains from business or profession

Note - As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head "Income from Other Sources", if the same is not chargeable to income-tax under the head "Profits and gains of business or profession".

Question 2

Examine whether the following are chargeable to tax and the amount liable to tax :

(i) A sum of ₹ 1,20,000 was received as gift from non-relatives by Raj on theoccasion of the marriage of his son Pravin.
(ii) Interest on enhanced compensation of ₹ 96,000 received on 12-3-2025 foracquisition of urban land, of which 40% relates to P.Y.2023-24.

Answer 2

Taxability of Receipts

Sr.	Taxable/	Answer Amount	Reason

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No.	Not Taxable	liable to tax(₹)	
(I)	Taxable	1,20,000	The exemption from applicability of section 56(2)(x) would be available if,inter alia, gift is received from a relativeor gift is received on the occasion of marriage of the individual himself. In this case, since gift is received by Mr. Raj from a non-relative on the occasion of marriage of his son, it would be taxablein his hands under section 56(2)(x).
(ii)	Taxable	48,000	As per section 145B (1), interest received by the assesse on enhanced compensation shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the assesse. Interest of Rs. 96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. P.Y. 2024-25 under section 56(2)(viii) after providing deduction of 50% under section 57(iv). Therefore, ₹ 48,000 is chargeable to tax under the head "Income from other sources".

Question 3

On 10.10.2024, Mr. Govind (a bank employee) received ₹ 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2016-17.

Out of this interest, ₹ 1,50,000 relates to the financial year 2017-18; ₹ 1,65,000 to the financial year 2018-19; and ₹ 1,85,000 to the financial year 2019-20. He incurred ₹ 50,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax in the A.Y.2025-26?

Answer 3

Section 145B provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates.

Section 56(2)(viii) states that such income shall be taxable as 'Income from other sources'.

50% of such income shall be allowed as deduction by virtue of section 57(iv) andno other deduction shall be permissible from such Income.

Therefore, legal expenses incurred to receive the interest on enhanced compensation would not be allowed as deduction from such income.

Computation of interest on enhanced compensation taxable as "Incomefrom other sources" for the A.Y 2025-26:

Particulars	Rs.
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) (50% x Rs. 5,00,000)	2,50,000
Taxable interest on enhanced compensation	**2,50,000**

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Question 4

The following details have been furnished by Mrs. Hemali pertaining to the yearended 31.3.2025:

(i) Cash gift of Rs. 51,000 received from her friend on the occasion of her "Shastiaptha Poorthi", a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.

(ii) On the above occasion, a diamond necklace worth ₹ 2 lacs were presented by her sister living in Dubai.

(iii) When she celebrated her daughter's wedding on 21.2.2025, her friend assigned in Mrs. Hemali's favor, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was Rs. 52,000.

Compute the income, if any, assessable as 'income from other sources' for A.Y.2025-26.

Answer 4

(i) Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age.

The gift of ₹ 51,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Hemali, since the same exceeds ₹50,000.

(ii) The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister, being a relative, is not taxable under section 56(2)(x), even though jeweler falls within the definition of "property".

(iii) To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case.

Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds ₹ 50,000 in a year. "Sum of money" has, however, not been defined under section 56(2)(x).

Therefore, there are two possible views in respect of the value of fixeddeposit assigned in favor of Mrs. Hemali –

(1) The first view is that fixed deposit does not fall within the meaning of "sum of money" and therefore, the provisions of section 56(2)(x) are not attracted. It may be noted that fixed deposit is also not included in the definition of "property".

(2) However, another possible view is that fixed deposit assigned in favor of Mrs. Hemali falls within the meaning of "sum of money" received.

Income assessable as "Income from other sources "

If the first view is taken, the total amount chargeable to tax as "Income from other sources" would be ₹ 51,000, being cash gift received from a friend on her Shastiaptha Poorthi.

As per the second view, the provisions of section 56(2)(x) would also be attracted in respect of the fixed deposit assigned and the "Income from other sources" of Mrs. Hemali would be Rs.1,03,000 (₹51,000 + Rs. 52,000).

Question 5

Examine the following transactions in the context of Income-tax Act, 1961:

(i) Mr. B transferred 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2024 for ₹

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3,00,000 when the fair market value was ₹ 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at ₹4,45,000. The transfer wasnot subjected to securities transaction tax. Determine the income chargeable to tax in the hands of Mr. B and M/s. B Co.(P) Ltd. because of the above said transaction.

(ii) Mr. Chezian is employed in a company with taxable salary income of ₹5,00,000. He received a sum of ₹1,00,000 from Atma Charitable Trust (registered under section 12AB) by account payee cheque in December 2024 for meeting his medical expenses.
Is the sum of money so received from the trust chargeable to tax in the hands of Mr. Chezian.

Answer 5

(i) Any movable property received for inadequate consideration by any personis chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds Rs.50,000.
Thus, share received by M/s B. Co. (P) Ltd. from Mr. B for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of Rs.2,00,000
As per section 50CA, since, the consideration is less than the fair marketvalue of unquoted shares of R (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of R (P) Ltd are unquoted shares.
The full value of consideration (₹5,00,000) less the indexed cost of acquisition(₹ 4,45,000) would result in a long term capital gains of Rs. 55,000 in the hands of Mr. B.

(ii) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AB. Therefore, the cash gift of ₹ 1 lakh received from Atma CharitableTrust, being a trust registered under section 12AB, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the handsof Mr. Chezian.

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ILLUSTRATION

Question 1 (Illustration)

Mr. Vatsan has transferred, through a duly registered document, the income arising from a godown to his son, without transferring the godown. In whose hands will the rental income from godown be charged?

Answer 1

Section 60 expressly states that where there is transfer of income from an asset without transfer of the asset itself, such income shall be included in the total income of the transferor. Hence, the rental income derived from the godown shall be clubbed in the hands of Mr. Vatsan.

Question 2 (Illustration)

Mr. A holds shares carrying 25% voting power in X (P) Ltd. Mrs. A is working as a computer software programmer in X (P) Ltd. at a salary of ₹30,000 p.m. She is, however, not qualified for the job. The other income of Mr. A & Mrs. A are ₹ 7,00,000 &₹ 4,00,000, respectively. Compute the gross total income of Mr. A and Mrs. A for the A.Y.2025-26 if they are paying tax under default tax regime

Answer 2

Mr. A holds shares carrying 25% voting power in X (P) Ltd i.e., a substantial interest in the company. His wife is working in the same company without any professional qualifications for the same. Thus, by virtue of the clubbing provisions of the Act, the salary received by Mrs. A from X (P) Ltd. will be clubbed in the hands of Mr.A

A. Computation of Gross total income of Mr. A

Particulars	₹	₹
Salary received by Mrs. A (₹ 30,000 × 12)	3,60,000	
Less: Standard deduction under section 16(ia)	75,000	2,85,000
Other Income		7,00,000
Gross total income		**9,85,000**

The gross total income of Mrs. A is ₹ 4,00,000.

Question 3 (Illustration)

Will your answer be different if Mrs. A was qualified for the job?

Answer 3

If Mrs. A possesses professional qualifications for the job, then the clubbing provisions shall not be applicable.

Gross total income of Mr. A = ₹ 7,00,000 [Other income].

Gross total income of Mrs. A = Salary received by Mrs. A [₹ 30,000×12] less ₹ 75,000, being the standard deduction under section 16(ia) plus other income [₹ 4,00,000] = ₹ 6,85,000

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Question 4 (Illustration)

Mr. B holds shares carrying 30% voting power in Y (P) Ltd. Mrs. B is working as accountant in Y (P) Ltd. getting income under the head salary (computed) of ₹ 3,44,000 without any qualification in accountancy. Mr. B also receives ₹ 30,000 as interest on securities. Mrs. B owns a house property which she has let out. Rent received from tenants is ₹ 6,000 p.m. Compute the gross total income of Mr. B and Mrs. B for the A.Y.2025-26.

Answer 4

Since Mrs. B is not professionally qualified for the job, the clubbing provisions shall be applicable.

Computation of Gross total income of Mr. B

Particulars	₹
Income under the head "Salary" of Mrs. B (Computed)	3,44,000
Income from other sources	
- Interest on securities	30,000
Gross total income	**3,74,000**

Computation of Gross total income of Mrs. B

Particulars	₹	₹
Income from Salary		Nil
[Clubbed in the hands of Mr. B]		
Income from house property		
Gross Annual Value [₹ 6,000 × 12]	72,000	
Less: Municipal taxes paid	-	
Net Annual Value (NAV)	**72,000**	
Less: Deductions under section 24		
- 30% of NAV i.e., 30% of ₹ 72,000	21,600	
- Interest on loan	-	50,400
Gross total income		**50,400**

Question 5 (Illustration)

Mr. Vaibhav started a proprietary business on 01.04.2023 with a capital of ₹ 5,00,000. He incurred a loss of ₹ 2,00,000 during the year 2023-24. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of ₹ 5,00,000 on 01.04.2024, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of ₹ 4,00,000 during the year 2024-25. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2025-26. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed?

Answer 5

Section 64(1)(iv) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets (other than house property) transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart.

In this case, Mr. Vaibhav received a gift of ₹ 5,00,000 on 1.4.2024 from his wife Mrs. Vaishaly, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2025-26 is computed as under:

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Particulars	Mr. Vaibhav's capital contribution (₹)	Capital contribution out of gift from Mrs. Vaishaly (₹)	Total (₹)
Capital as on 1.4.2024	3,00,000 (5,00,000 – 2,00,000)	5,00,000	8,00,000
Profit for P.Y.2024-25 to be apportioned on the basis of capital employed on the first day of the previous year i.e., as on 1.4.2024 (3:5)	1,50,000 $\left(4{,}00{,}000 \times \frac{3}{8}\right)$	2,50,000 $\left(4{,}00{,}000 \times \frac{5}{8}\right)$	4,00,000

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2025-26 is ₹ 2,50,000.

In case Mrs. Vaishaly gave the said amount of ₹ 5,00,000 as a bona fide loan, then, clubbing provisions would not be attracted.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mr. Vaibhav, since he has received a sum of money exceeding₹ 50,000 without consideration from a relative i.e., his wife.

Question 6 (Illustration)

Mrs. Kasturi transferred her immovable property to ABC Co. Ltd. subject to a condition that out of the rental income, a sum of ₹ 36,000 per annum shall be utilized for the benefit of her son's wife. Mrs. Kasturi claims that the amount of ₹ 36,000 (utilized by her son's wife) should not be included in her total income as she no longer owned the property.

Examine with reasons whether the contention of Mrs. Kasturi is valid in law.

Answer 6

The clubbing provisions under section 64(1)(viii) are attracted in case of transfer of any asset, directly or indirectly, otherwise than for adequate consideration, to any person to the extent to which the income from such asset is for the immediate or deferred benefit of son's wife. Such income shall be included in computing the total income of the transferor-individual.

Therefore, income of ₹ 36,000 meant for the benefit of daughter-in-law is chargeable to tax in the hands of transferor i.e., Mrs. Kasturi in this case.

The contention of Mrs. Kasturi is, hence, not valid in law.

In order to attract the clubbing provisions under section 64(1)(viii), the transfer should be otherwise than for adequate consideration. In this case, it is presumed that the transfer is otherwise than for adequate consideration and therefore, the clubbing provisions are attracted. Moreover, the provisions of section 56(2)(x) would also get attracted in the hands of ABC Co Ltd., if the conditions specified thereunder are satisfied.

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Note – If the transfer was for adequate consideration, the provisions of section 64(1)(viii) would not be attracted.

Question 7 (Illustration)

Mr. A has three minor children – two twin daughters, aged 12 years, and one son, aged 16 years. Income of the twin daughters is ₹ 2,000 p.a. each and that of the son is ₹ 1,200 p.a. Mrs. A has transferred her flat to her minor son on 1.4.2024 out of natural love and affection. The flat was let out on the same date and the rental income from the flat is ₹ 10,000 p.m. Compute the income, in respect of minor children, to be included in the hands of Mr. A and Mrs. A u/s 64(1A) (assuming that Mr. A's total income is higher than Mrs. A's total income, before including the income of minor children and both Mr. A and Mrs. A exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 7

Taxable income, in respect of minor children, in the hands of Mr. A is :

Particulars	₹	₹
Twin minor daughters [₹ 2,000 × 2]	4,000	
Less: Exempt under section 10(32) [₹ 1,500 × 2]	3,000	1,000
Minor son	1,200	
Less: Exempt under section 10(32)	1,200	Nil
Income to be clubbed in the hands of Mr. A		**1,000**

Note –

As per section 27(i), Mrs. A is the deemed owner of house property transferred to her minor son. Natural love and affection do not constitute adequate consideration for this purpose. Accordingly, the income from house property of ₹ 84,000 [i.e., ₹ 1,20,000 (-) ₹ 36,000, being 30% of ₹ 1,20,000) would be taxable directly in her hands as the deemed owner of the said property. Consequently, clubbing provisions under section 64(1A) would not be attracted in respect of income from house property, owing to which exemption u/s 10(32) cannot be availed by her.

Question 8 (Illustration)

Compute the gross total income of Mr. A & Mrs. A from the following information assuming both exercise the option of shifting out of the default tax regime provided under section 115BAC(1A):

	Particulars	₹
(a)	**Salary income (computed) of Mrs. A**	**2,30,000**
(b)	**Income from profession of Mr. A**	**3,90,000**
(c)	**Income of minor son B from company deposit**	**15,000**
(d)	**Income of minor daughter C from special talent**	**32,000**
(e)	**Interest from bank received by C on deposit made out of herspecial talent**	**3,000**
(f)	**Gift received by C on 30.09.2024 from friend of Mrs. A**	**2,500**

Brief working is sufficient. Detailed computation under various heads of income is not required.

Answer 8

As per the provisions of section 64(1A) of the Income-tax Act, 1961, all the income of a minor child

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has to be clubbed in the hands of that parent whose total income (excluding the income of the minor) is greater. The income of Mr. A is ₹ 3,90,000 and income of Mrs. A is ₹ 2,30,000. Since the income of Mr. A is greater than that of Mrs. A, the income of the minor children have to be clubbed in the hands of Mr. A. It is assumed that this is the first year when clubbing provisions are attracted. Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be clubbed. Hence, the income of minor child C from exercise of special talent will not be clubbed.

However, interest from bank deposit has to be clubbed even when deposit is made out of income arising from application of special talent.

The Gross Total Income of Mrs. A is ₹ 2,30,000. The total income of Mr. A giving effect to the provisions of section 64(1A) is as follows:

Computation of gross total income of Mr. A for the A.Y. 2025-26

Particulars	₹	₹
Income from profession		3,90,000
Income of minor son B from company deposit	15,000	
Less: Exemption under section 10(32)	1,500	13,500
Income of minor daughter C		
From special talent – not to be clubbed	-	
Interest from bank	3,000	
Gift of ₹ 2,500 received from a non-relative is not taxable under section 56(2)(x) being less than the aggregate limit of ₹ 50,000	Nil	
	3,000	
Less: Exemption under section 10(32)	1,500	1,500
Gross Total Income		**4,05,000**

Question 9 (Illustration)

Mr. Vasudevan gifted a sum of ₹ 6 lakhs to his brother's wife on 14-6-2024. On 12-7-2024, his brother gifted a sum of ₹ 5 lakhs to Mr. Vasudevan's wife. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and wife of Mr. Vasudevan's brother on 01-8-2024 at 9% interest. Examine the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Vasudevan and his brother.

Answer 9

In the given case, Mr. Vasudevan gifted a sum of ₹ 6 lakhs to his brother's wife on 14.06.2024 and simultaneously, his brother gifted a sum of ₹ 5 lakhs to Mr. Vasudevan's wife on 12.07.2024. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and his brother's wife. These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. It was so held by the Apex Court in CIT vs. Keshavji Morarji (1967) 66 ITR 142.

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Accordingly, the interest income arising to Mrs. Vasudevan in the form of interest on fixed deposits would be included in the total income of Mr. Vasudevan and interest income arising in the hands of his brother's wife would be taxable in the hands of Mr. Vasudevan's brother as per section 64(1), to the extent of amount of cross transfers i.e., ₹ 5 lakhs.

This is because both Mr. Vasudevan and his brother are the indirect transferors of the income to their respective spouses with an intention to reduce their burden of taxation.

However, the interest income earned by his spouse on fixed deposit of ₹ 5 lakhs alone would be included in the hands of Mr. Vasudevan's brother and not the interest income on the entire fixed deposit of ₹ 6 lakhs, since the cross transfer is only to the extent of ₹ 5 lakhs.

TEST YOUR KNOWLEDGE

Question 1

Mr. Sharma has four minor children - 2 daughters and 2 sons. The annual income of 2 daughters were ₹ 9,000 and ₹ 4,500 and of sons were ₹ 6,200 and ₹ 4,300, respectively. The daughter who has income of ₹ 4,500 was suffering from a disability specified under section 80U.

Compute the amount of income earned by minor children to be clubbed in hands of Mr. Sharma assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 1

As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, the income of daughter suffering from disability specified under section 80U should not be clubbed with the income of Mr. Sharma.

Under section 10(32), income of each minor child includible in the hands of the parent under section 64(1A) would be exempt to the extent of the actual income or ₹ 1,500, whichever is lower. Mr. Sharma would be eligible for exemption u/s 10(32) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The remaining income would be included in the hands of the parent.

Computation of income earned by minor children to be clubbed with the income of Mr. Sharma

	Particulars	**₹**
(i)	Income of one daughter	9,000
	Less: Income exempt under section 10(32)	1,500
	Total (A)	7,500
(ii)	Income of two sons (₹ 6,200 + ₹ 4,300)	10,500
	Less: Income exempt under section 10(32)	
	(₹ 1,500 + ₹ 1,500)	3,000
	Total (B)	7,500
	Total Income to be clubbed as per section 64(1A) (A+B)	**15,000**

Note: It has been assumed that:

(1) The income does not accrue or arise to the minor children on account of any manual work done by them or activity involving application of their skill, talent or specialized knowledge

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and experience;

(2) The income of Mr. Sharma, before including the minor children's income, is greater than the income of Mrs. Sharma, due to which the income of the minor children would be included in his hands; and

(3) This is the first year in which clubbing provisions are attracted.

Question 2

During the previous year 2024-25, the following transactions occurred in respect of Mr. A.

(a) Mr. A had a fixed deposit of ₹ 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% p.a. from 1-4-2024 to 31-3-2025 to the savings bank account of Mr. B, son of his brother, to help him in his education.

(b) Mr. A holds 75% profit share in a partnership firm. Mrs. A received a commission of ₹ 25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.

(c) Mr. A gifted a flat to Mrs. A on April 1, 2024. During the previous year 2024-25, Mrs. A's "Income from house property" (computed) was ₹ 52,000 from such flat.

(d) Mr. A gifted ₹ 2,00,000 to his minor son who invested the same in a business and he derived income of ₹ 20,000 from the investment.

(e) Mr. A's minor son derived an income of ₹ 20,000 through a business activity involving application of his skill and talent.

During the year, Mr. A got a monthly pension of ₹ 10,000. He had no other income. Mrs. A received salary of ₹ 20,000 per month from a part time job.

Examine the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child assuming that they exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 2

Computation of total income of Mr. A, Mrs. A and their minor son for the A.Y. 2025-26

Particulars	Mr. A (₹)		Mrs. A (₹)	Minor Son (₹)
Income under the head "Salaries"				
Salary income (of Mrs. A)		-	2,40,000	-
Pension income (of Mr. A)				
(₹ 10,000×12)		1,20,000	-	
Less: Standard deduction under section 16(ia)		50,000	50,000	
		70,000	1,90,000	
Income from House Property [See Note (3) below]		52,000	-	-
Income from other sources				
Interest on Mr. A's fixed deposit with Bank of India (₹ 5,00,000×9%)**[See Note (1) below]**	45,000		-	-
Commission received by Mrs. A from a partnership firm, in which Mr. A has Substantial interest **[See Note (2) below]**			-	-
	25,000	70,000		

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Income before including income of minor son under section 64(1A)		**1,92,000**	**1,90,000**	-
Income of the minor son from the investment made in the business out of the amount gifted by Mr. A **[See Note (4) below]**		18,500	-	-
Income of the minor son through a business activity involving application of his skill and talent **[See Note (5) below]**		-	**-**	**20,000**
Total Income		**2,10,500**	**1,90,000**	**20,000**

Notes:

(1) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.

(2) As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.
In this case, the commission income of ₹ 25,000 received by Mrs. A from the partnership firm has to be included in the total income of Mr. A, as Mrs. A does not possess any technical or professional qualification for earning such commission and Mr. A has substantial interest in the partnership firm as he holds 75% profit share in the firm.

(3) According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. A shall be deemed to be the owner of the flat gifted to Mrs. A and hence, the income arising from the same shall be computed in the hands of Mr. A.
Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mrs. A, since she has received immovable property without consideration from a relative i.e., her husband.

(4) As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child.
Therefore, the income of ₹ 20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of ₹ 1,500 under section 10(32), be included in the income of Mr. A, since Mr. A's income of ₹ 1,92,000 (before including the income of the minor child) is greater than Mrs. A's income of ₹ 1,90,000. Therefore, ₹ 18,500 (i.e., ₹ 20,000 – ₹ 1,500) shall be included in Mr. A's income. It is assumed that this is the first year in which clubbing provisions are attracted.
Note: The provisions of section 56(2)(x) would not be attracted in the hands of the minor son, since he has received a sum of money exceeding ₹ 50,000 without consideration from a relative

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i.e., his father.

(5) In case the income earned by the minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.
Therefore, the income of ₹ 20,000 derived by Mr. A's minor son through a business activity involving application of his skill and talent shall not be clubbed in the hands of the parent. Such income shall be taxable in the hands of the minor son.

Question 3

Mr. A has gifted a house property valued at ₹ 50 lakhs to his wife, Mrs. B, who in turn has gifted the same to Mrs. C, their daughter-in-law. The house was let out at ₹ 25,000 per month throughout the year. Compute the total income of Mr. A and Mrs. C.
Will your answer be different if the said property was gifted to his son, husband of Mrs. C?

Answer 3

As per section 27(i), an individual who transfers otherwise than for adequate consideration any house property to his spouse, not being a transfer in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred.
Therefore, in this case, Mr. A would be the deemed owner of the house property transferred to his wife Mrs. B without consideration.
As per section 64(1)(vi), income arising to the son's wife from assets transferred, directly or indirectly, to her by an individual otherwise than for adequate consideration would be included in the total income of such individual.
Income from let-out property is ₹ 2,10,000 [i.e., ₹ 3,00,000, being the actual rent calculated at ₹ 25,000 per month less ₹ 90,000, being deduction under section 24@30% of ₹ 3,00,000]
In this case, income of ₹ 2,10,000 from let-out property arising to Mrs. C, being Mr. A's son's wife, would be included in the income of Mr. A, applying the provisions of section 27(i) and section 64(1)(vi). Such income would, therefore, not be taxable in the hands of Mrs. C.
In case the property was gifted to Mr. A's son, the clubbing provisions under section 64 would not apply, since the son is not a minor child. Therefore, the income of ₹ 2,10,000 from letting out of property gifted to the son would be taxable in the hands of the son.
It may be noted that the provisions of section 56(2)(x) would not be attracted in the hands of the recipient of house property, since the receipt of property in each case was from a "relative" of such individual. Therefore, the stamp duty value of house property would not be chargeable to tax in the hands of the recipient of immovable property, even though the house property was received by her or him without consideration.
Note - The first part of the question can also be answered by applying the provisions of section 64(1)(vi) directly to include the income of ₹ 2,10,000 arising to Mrs. C in the hands of Mr. A. [without first applying the provisions of section 27(i) to deem Mr. A as the owner of the house property transferred to his wife Mrs. B without consideration], since section 64(1)(vi) speaks of clubbing of income arising to son's wife from indirect transfer of assets to her by her husband's parent, without consideration. Gift of house property by Mr. A to Mrs. C, via Mrs. B, can be viewed as an indirect transfer by Mr. A to Mrs. C.

Question 4

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A proprietary business was started by Smt. Rani in the year 2022. As on 1.4.2023 her capital in business was ₹ 3,00,000.
Her husband gifted ₹ 2,00,000 on 10.4.2023 to her and such sum is invested by Smt. Rani in her business on the same date. Smt. Rani earned profits from her proprietary business for the Financial year 2023-24, ₹ 1,50,000 and Financial year 2024-25 ₹ 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the Assessment year 2025-26 with reasons.

Answer 4

Section 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration. In this case Smt. Rani received a gift of ₹ 2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Smt. Rani's husband for A.Y.2025-26 is computed as under:

Particulars	Smt. Rani's Capital Contribution	Capital Contribution Out of gift from husband	Total
	₹	₹	₹
Capital as at 1.4.2023	3,00,000	-	3,00,000
Investment on 10.04.2023 out of gift received from her husband		2,00,000	2,00,000
	3,00,000	2,00,000	5,00,000
Profit for F.Y. 2023-24 to be apportioned on the basis of capital employed on the first day of the previous year i.e., on 1.4.2023	1,50,000		1,50,000
Capital employed as at 1.4.2024	**4,50,000**	**2,00,000**	**6,50,000**
Profit for F.Y.2024-25 to be apportioned on the basis of capital employed as at 1.4.2024 (i.e., 45 : 20)	2,70,000	1,20,000	3,90,000

Therefore, the income to be clubbed in the hands of Smt. Rani's husband for A.Y.2025-26 is ₹ 1,20,000.

Question 5

Mr. B is the Karta of a HUF, whose members derive income as given below:

	Particulars	₹
(i)	**Income from B' s profession**	**45,000**
(ii)	**Mrs. B' s salary as fashion designer**	**76,000**
(iii)	**Minor son D (interest on fixed deposits with a bank which were gifted to him by his uncle)**	**10,000**
(iv)	**Minor daughter P's earnings from sports**	**95,000**
(v)	**D's winnings from lottery (gross)**	**1,95,000**

Examine the tax implications in the hands of Mr. and Mrs. B.

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Answer 5

Clubbing of income and other tax implications

As per the provisions of section 64(1A), in case the marriage of the parents subsist, the income of a minor child shall be clubbed in the hands of the parent whose total income, excluding the income of the minor child to be clubbed, is greater. In this problem, it has been assumed that the marriage of Mr. B and Mrs. B subsists.

Further, in case the income arises to the minor child on account of any manual work done by the child or as a result of any activity involving application of skill, talent, specialized knowledge or experience of the child, then, the same shall not be clubbed in the hands of the parent.

Tax implications

(i) Income of ₹ 45,000 from Mr. B's profession shall be taxable in the hands of Mr. B under the head "Profits and gains of business or profession".

(ii) Salary of ₹ 1,000 (₹ 76,000 *less* standard deduction under section 16(ia) of ₹ 75,000) shall be taxable as "Salaries" in the hands of Mrs. B.
However, if Mrs. B exercises the option of shifting out of default tax regime, salary of ₹ 26,000 (₹ 76,000 *less* standard deduction under section 16(ia) of ₹ 50,000) shall be taxable as "Salaries".

(iii) Income from fixed deposit of ₹ 10,000 arising to the minor son D, shall be clubbed in the hands of the father, Mr. B as "Income from other sources", since Mr. B's income is greater than income of Mrs. B before including the income of the minor child.
As per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child if such parent exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). The balance income would be clubbed in the hands of the parent as "Income from other sources".

(iv) Income of ₹ 95,000 arising to the minor daughter P from sports shall not be included in the hands of the parent, since such income has arisen to the minor daughter on account of an activity involving application of her skill.

(v) Income of ₹ 1,95,000 arising to minor son D from lottery shall be included in the hands of Mr. B as "Income from other sources", since Mr. B's income is greater than the income of Mrs. B before including the income of minor child.
Note – Mr. B can reduce the tax deducted at source from such lottery income while computing his net tax liability.

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Chapter 5
Aggregation of Income, Set-Off Ans Carry Forward of Losses

ILLUSTRATION

Question 1 (Illustration)

Mr. A (aged 35 years) submits the following particulars pertaining to the A.Y.2025-26:

Particulars	₹
Income from salary (computed)	4,00,000
Loss from let-out property	(-)2,20,000
Business loss	(-)1,00,000
Bank interest (FD) received	80,000

Compute the total income of Mr. A for the A.Y.2025-26, assuming that

(i) He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(ii) He pays tax under the default tax regime.

Answer 1

(i) Computation of total income of Mr. A for the A.Y.2025-26 under normal provisions of the Act

Particulars	Amount (₹)	Amount(₹)
Income from salary	4,00,000	
Less: Loss from house property of ₹ 2,20,000 to be restricted to ₹ 2 lakhs by virtue of section 71(3A)	(-) 2,00,000	2,00,000
Balance loss of ₹ 20,000 from house property to be carried forward to next assessment year		
Income from other sources (intereston fixed deposit with bank)	80,000	
Less : Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	-
Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next assessment year		
Gross total income [See Note below]		**2,00,000**
Less: Deduction under Chapter VI-A		Nil
Total income		**2,00,000**

Notes:

(i) Gross Total Income includes salary income of ₹ 2,00,000 after adjusting loss of ₹ 2,00,000 from house property. The balance loss of ₹ 20,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.

(ii) Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

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(ii) Computation of total income of Mr. A for the A.Y.2025-26 under default tax regime

Particulars	Amount (₹)	Amount (₹)
Income from salary		4,00,000
Income from other sources (interest on fixed deposit with bank)	80,000	
Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	-
Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next assessment year		
Gross total income/ Total Income		**4,00,000**

Notes:

(i) Under the default tax regime , loss from house property of ₹ 2,20,000 cannot be set off against income under any other head and cannot be carried forward to next assessment year.

(ii) Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

Question 2 (Illustration)

Mr. B, a resident individual, furnishes the following particulars for the P.Y.2024-25:

Particulars	₹
Income from salary (computed)	**45,000**
Income from house property	**(24,000)**
Income from non-speculative business	**(22,000)**
Income from speculative business	**(4,000)**
Short-term capital losses	**(25,000)**
Long-term capital gains taxable u/s 112	**19,000**

What is the total income chargeable to tax for the A.Y.2025-26, assuming that he pays tax under section 115BAC?

Answer 2

Total income of Mr. B for the A.Y. 2025-26

Particulars	Amount(₹)	Amount (₹)
Income from salaries		45,000
Income from house property		
Loss from house property can neither be set-off nor can be carried forward, since Mr. B is paying tax under the default tax regime u/s 115BAC	Nil	
Profits and gains of business and profession		
Business loss to be carried forward **[Note (i)]**	(22,000)	
Speculative loss to be carried forward **[Note (ii)]**	(4,000)	
Capital Gains		
Long term capital gain taxable u/s 112	19,000	
Short term capital loss ₹ 25,000 set off against long- term capital gains to the extent of ₹ 19,000 **[Note (iii)]**	(19,000)	
	Nil	
Balance short term capital loss of ₹ 6,000 to be carried forward		

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[Note (iii)]		
Taxable income		**45,000**

Notes:

(i) Business loss cannot be set-off against salary income. Therefore, loss of ₹ 22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss has to be carried forward to the next year for set-off against business profits, if any.

(ii) Loss of ₹ 4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be carried forward.

(iii) Short term capital loss can be set off against both short term capital gain and long-term capital gain. Therefore, short term capital loss of ₹ 25,000 can be set-off against long-term capital gains to the extent of ₹ 19,000. The balance short term capital loss of ₹ 6,000 cannot be set-off against any other income and has to be carried forward to the next year for set-off against capital gains, if any.

Question 3 (Illustration)

During the P.Y. 2024-25, Mr. C has the following income and the brought forward losses:

Particulars	**₹**
Short term capital gains on sale of shares	**1,50,000**
Long term capital loss of A.Y.2023-24	**(96,000)**
Short term capital loss of A.Y.20234-25	**(37,000)**
Long term capital gain u/s 112	**75,000**

What is the capital gain taxable in the hands of Mr. C for the A.Y.2025-26?

Answer 3

Taxable capital gains of Mr. C for the A.Y. 2025-26

Particulars	**₹**	**₹**
Short term capital gains on sale of shares	1,50,000	
Less: Brought forward short-term capital loss of theA.Y.2024-25	(37,000)	1,13,000
Long term capital gain	75,000	
Less: Brought forward long-term capital loss of A.Y.2023-24 ₹ 96,000 set off to the extent of ₹ 75,000 **[See Note below]**	(75,000)	Nil
Taxable short-term capital gains		**1,13,000**

Note: Long-term capital loss cannot be set off against short-term capital gain. Hence, the unadjusted long-term capital loss of A.Y.2023-24 of ₹ 21,000 (i.e.₹ 96,000 – ₹ 75,000) can be carried forward to the next year to be set-off againstlong-term capital gains of that year.

Question 4 (Illustration)

Mr. D has the following income for the P.Y.2024-25:

Particulars	**₹**
Income from the activity of owning and maintaining the race horses	**75,000**
Income from textile business	**85,000**
Brought forward textile business loss (relating to A.Y. 2024-25)	**50,000**

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Brought forward loss from the activity of owning and maintaining therace horses (relating to A.Y.2022-23)	**96,000**

What is the total income in the hands of Mr. D for the A.Y. 2025-26?

Answer 4

Total income of Mr. D for the A.Y. 2025-26

Particulars	**₹**	**₹**
Income from the activity of owning and maintainingrace horses	75,000	
Less: Brought forward loss of ₹ 96,000 from the activity of owning and maintaining race horses set-off to the extent of ₹ 75,000	75,000	
	Nil	
Balance loss of ₹ 21,000 (₹ 96,000 – ₹ 75,000) from the activity of owning and maintaining race horses to becarried forward to A.Y.2026-27		
Income from textile business	85,000	
Less: Brought forward business loss fromtextilebusiness.	50,000	35,000
Total income		**35,000**

Note: Loss from the activity of owning and maintaining race horses cannot beset-off against any other source/head of income.

Question 5 (Illustration)

Mr. E has furnished his details for the A.Y.2025-26 as under:

Particulars	**₹**
Income from salaries (computed)	**1,50,000**
Income from speculation business	**60,000**
Loss from non-speculation business	**(40,000)**
Short term capital gain	**80,000**
Long term capital loss of A.Y.2023-24	**(30,000)**
Winning from lotteries (Gross)	**20,000**

Compute the total income of Mr. E for the A.Y.2025-26.

Answer 5

Computation of total income of Mr. E for the A.Y.2025-26

Particulars	**₹**	**₹**
Income from salaries		1,50,000
Income from speculation business	60,000	
Less : Loss from non-speculation business	(40,000)	20,000
Short-term capital gain		80,000
Winnings from lotteries		20,000
Taxable income		**2,70,000**

Note: Long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of ₹ 30,000 has to be carried forward to the next assessment year.

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TEST YOUR KNOWLEDGE

Question 1

Compute the gross total income of Mr. F for the A.Y. 2025-26 from the informationgiven below –

Particulars	₹
Income from house property (computed)	1,25,000
Income from business (before providing for depreciation)	1,35,000
Short term capital gains on sale of unlisted shares	56,000
Long term capital loss from sale of property (brought forward fromA.Y. 2024-25)	(90,000)
Income from tea business	1,20,000
Dividends from Indian companies carrying on agricultural operations(Gross)	80,000
Current year depreciation	26,000
Brought forward business loss (loss incurred six years ago)	(45,000)

Answer 1

Gross Total Income of Mr. F for the A.Y. 2025-26

Particulars	₹	₹
Income from house property (Computed)		1,25,000
Income from business		
Profits before depreciation	1,35,000	
Less: Current year depreciation	26,000	
Less: Brought forward business loss	45,000	
	64,000	
Income from tea business (40% is business income)	48,000	1,12,000
Capital gains Short term capital gains		56,000
Income from Other Sources Dividend income (**taxable in the hands of shareholders)**		80,000
Gross Total Income		**3,73,000**

Note:

(1) Dividend from Indian companies is taxable at normal rates of tax in the hands of resident shareholders.

(2) 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax;

(3) Long-term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss of ₹ 90,000 brought forward from A.Y.2024-25 cannot be set-off in the A.Y.2025-26, since there is no long-term capital gains in that year. It has to be carried forward for set-off against long-term capital gains, if any, during A.Y.2026-27.

Question 2

Mr. Soohan submits the following details of his income for the assessment year 2025-26:

Particulars	₹
Income from salary (computed)	**3,00,000**
Loss from let out house property	**(-) 40,000**

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Income from sugar business	**50,000**
Loss from iron ore business for P.Y.2019-20 (discontinued in P.Y. 2020-21)	**(-) 1,20,000**
Short term capital loss	**(-) 60,000**
Long term capital gain	**40,000**
Dividend	**5,000**
Income received from lottery winning (Gross)	**50,000**
Winnings from card games (Gross)	**6,000**
Agricultural income	**20,000**
Short-term capital loss under section 111A	**(-) 10,000**
Bank interest on Fixed deposit	**5,000**

Calculate gross total income and losses to be carried forward, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 2

Computation of Gross Total Income of Mr. Soohan for the A.Y.2025-26

Particulars	**₹**	**₹**
Salaries		
Income from salary	3,00,000	
Less: Loss from house property set-off against salaryincome as per section 71	(40,000)	2,60,000
Profits and gains of business or profession		
Income from sugar business	50,000	
Less: Brought forward loss of ₹ 1,20,000 from iron-ore business set-off as per section 72(1) to the extent of ₹ 50,000	(50,000)	Nil
Balance business loss of ₹ 70,000 of P.Y.2019-20 to be carried forward to A.Y.2026-27		
Capital gains		
Long term capital gain	40,000	
Less: Short term capital loss of ₹ 60,000 set-off to theextent of ₹ 40,000	(40,000)	Nil
Balance short-term capital loss of ₹ 20,000 to becarried forward		
Short-term capital loss of ₹ 10,000 u/s 111A also to becarried forward		
Income from other sources		
Dividend (fully taxable in the hands of shareholders)	5,000	
Winnings from lottery	50,000	
Winnings from card games	6,000	
Bank FD interest	5,000	66,000
Gross Total Income		**3,26,000**
Losses to be carried forward to A.Y.2026-27		
Loss of iron-ore business (₹ 1,20,000 – ₹ 50,000)	70,000	
Short term capital loss (₹ 20,000 + ₹ 10,000)	30,000	

Notes: Agricultural income is exempt under section 10(1)

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Question 3

Mr. Batra furnishes the following details for year ended 31.03.2025:

Particulars	₹
Short term capital gain	1,40,000
Loss from speculative business	60,000
Long term capital gain on sale of land	30,000
Long term capital loss on sale of unlisted shares	1,00,000
Income from business of textile (after allowing current yeardepreciation)	50,000
Income from activity of owning and maintaining race horses	15,000
Income from salary (computed)	1,00,000
Loss from house property	40,000

Following are the brought forward losses:

(i) Losses from activity of owning and maintaining race horses-pertaining to A.Y.2022-23 ₹ 25,000.

(ii) Brought forward loss from business of textile ₹ 60,000 - Loss pertains to A.Y. 2017-18.

Compute gross total income of Mr. Batra for the Assessment Year 2025-26, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Also determine the losses eligible for carry forward to the A.Y. 2026-27.

Answer 3

Computation of Gross Total Income of Mr. Batra for the A.Y. 2025-26

Particulars	₹	₹
Salaries	1,00,000	
Less: Current year loss from house property	(40,000)	60,000
Profit and gains of business or profession		
Income from textile business	50,000	
Less: Loss of ₹ 60,000 from textile business b/f from A.Y. 2017-18 set-off to the extent of ₹ 50,000 **[See Note 1]**	50,000	NIL
Income from the activity of owning and maintaining race horses	15,000	
Less: Loss of ₹ 25,000 from activity of owning and maintaining race horses b/f from A.Y. 2022-23 set-off to the extent of ₹ 15,000	15,000	NIL
Balance loss of ₹ 10,000 to be carried forward to A.Y. 2026-27 **[See Note 2]**		
Capital Gain		
Short term capital gain		1,40,000
Long term capital gain on sale of land	30,000	
Less: Long term capital loss of ₹ 1,00,000 on sale of unlisted shares set-off to the extent of ₹ 30,000	30,000	NIL
Balance loss of ₹ 70,000 to be carried forward to A.Y. 2026-27 **[See Note 3]**		
Gross Total Income		**2,00,000**

Losses to be carried forward to A.Y. 2026-27

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Particulars	₹
Current year loss from speculative business **[See Note-4]**	60,000
Current year long term capital loss on sale of unlisted shares	70,000
Loss from activity of owning and maintaining of race horsepertaining to A.Y.2022-23	10,000

Notes: -

(1) As per section 72(3), business loss can be carried forward for a maximum of eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since the eight year period for carry forward of business loss of A.Y. 2017-18 expired in the A.Y. 2025-26, the balance unabsorbed business loss of ₹ 10,000 cannot be carried forward to A.Y. 2026-27.

(2) As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.

(3) Long-term capital loss on sale of unlisted shares can be set-off against long-term capital gain on sale of land. The balance loss of ₹ 70,000 cannotbe set-off against short term capital gain or against any other head of income. The same has to be carried forward for set-off against long-term capital gain of the subsequent assessment year. Such long-term capital loss can be carried forward for a maximum of eight assessment years.

(4) Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward for a maximum of four years as per section 73(4) to be set-off against income from speculation business.

Question 4

Mr. A furnishes you the following information for the year ended 31.03.2025:

		(₹)
(i)	**Income from plying of vehicles (computed as per books) (He owned 5 light goods vehicle throughout the year)**	**3,20,000**
(ii)	**Income from retail trade of garments (Computed as per books)** **(Sales turnover ₹ 1,35,70,000)** **Mr. A had declared income on presumptive basis under section 44AD for the first time in A.Y. 2025-26. Assume 10% of the turnover during the previous year 2024-25 was received in cash and balance through A/c payee cheque and all the payments in respect of expenditure were also made through A/c payee cheque or debit card.**	**7,50,000**
(iii)	**He has brought forward depreciation relating to A.Y. 2023-24**	**1,00,000**

Compute taxable income of Mr. A and his tax liability for the A.Y. 2025-26 with reasons for your computation, assuming that he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 4

Computation of total income and tax liability of Mr. A for the A.Y. 2025-26

Particulars	₹
Income from retail trade – as per books **(See Note 1 below)**	7,50,000

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Income from plying of vehicles – as per books **(See Note 2below)**	3,20,000
	10,70,000
Less: Set off of b/f depreciation relating to A.Y. 2023-24	1,00,000
Total income	**9,70,000**
Tax liability	1,06,500
Add: Health and Education cess @4%	4,260
Total tax liability	**1,10,760**

Note:

1. **Income from retail trade:** Presumptive business income under section 44AD is ₹ 8,41,340 i.e., 8% of ₹ 13,57,000, being 10% of the turnover received in cash and 6% of ₹ 1,22,13,000, being the amount of sales turnover received through A/c payee cheque. However, the income computed as per books is ₹ 7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of ₹ 1,00,000. Since the income computed as per books is lower than the income deemed under section 44AD, the assessee can adopt the income as per books.
   However, if he does not declare profits as per presumptive taxation under section 44AD, he has to get his books of accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore (the enhanced limit of ₹ 10 crore would not be available, since more than 5% of the turnover is received in cash). Also, his case would be falling under section 44AD(4) and hence, tax audit is mandatory. It may further be noted that he cannot declare income under presumptive provisions under section 44AD for next five assessment years, if he does not declared profits as per presumptive provisions under section 44AD this year.
2. **Income from plying of light goods vehicles:** Income calculated under section 44AE (1) would be ₹ 7,500 × 12 × 5 which is equal to ₹ 4,50,000.However, the income from plying of vehicles as per books is ₹ 3,20,000, which is lower than the presumptive income of ₹ 4,50,000 calculated as per section 44AE(1). Hence, the assessee can adopt the income as per books i.e.₹ 3,20,000, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required under section 44AB.
   It is to be further noted that in both the above cases, if income is declared under presumptive provisions, all deductions under sections 30 to 38, including depreciation would have been deemed to have been given full effect to and no further deduction under those sections would be allowable.
   If income is declared as per presumptive provisions, his total income would be as under :

Particulars	**₹**
Income from retail trade under section 44AD [₹ 13,57,000 @8% plus ₹ 1,22,13,000 @6%]	8,41,340
Income from plying of light goods vehicles under section 44AE [₹ 7,500 ×12 × 5]	4,50,000
	12,91,340
Less: Set off of brought forward depreciation – not possible asit is deemed that it has been allowed and set off	Nil
Total income	**12,91,340**
Tax thereon	1,99,902
Add : Health and Education cess @4%	7,996

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Total tax liability	**2,07,898**
Total tax liability (rounded off)	**2,07,900**

Question 5

Mr. Aditya furnishes the following details for the year ended 31-03-2025:

Particulars	Amount (₹)
Loss from speculative business A	**25,000**
Income from speculative business B	**5,000**
Loss from specified business covered under section 35AD	**20,000**
Income from salary (computed)	**3,00,000**
Loss from let out house property	**2,50,000**
Income from trading business	**45,000**
Long-term capital gain from sale of urban land	**2,00,000**
Long-term capital loss on sale of shares (STT not paid)	**75,000**
Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	**1,02,000**

Following are the brought forward losses:

(1) Losses from owning and maintaining of race horses pertaining to A.Y. 2023-24 ₹ 2,000.

(2) Brought forward loss from trading business ₹ 5,000 relating to A.Y.2020-21.

Compute the total income of Mr. Aditya and show the items eligible for carry forward, assuming that he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 5

Computation of total income of Mr. Aditya for the A.Y.2025-26

Particulars	₹	₹
Salaries		
Income from Salary	3,00,000	
Less: Loss from house property set-off against salaryincome as per section 71(3A)	2,00,000	1,00,000
Loss from house property to the extent not set off i.e. ₹ 50,000 (₹ 2,50,000 – ₹ 2,00,000) to be carriedforward to A.Y. 2026-27		
Profits and gains of business or profession		
Income from trading business	45,000	
Less: Brought forward loss from trading business of A.Y. 2020-21 can be set off against current year income from trading business as per section 72(1), since the eight year time limit as specified under section 72(3), within which set-off is permitted, has not expired.	5,000	40,000
Income from speculative business B	5,000	
Less: Loss of ₹ 25,000 from speculative business Aset-off as per section 73(1) to the extent of ₹ 5,000	5,000	Nil

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Balance loss of ₹ 20,000 from speculative business Ato be carried forward to A.Y.2026-27 as per section 73(2)		
Loss of ₹ 20,000 from specified business covered under section 35AD to be carried forward for set-off against income from specified business as per section 73A.		
Capital Gains		
Long term capital gain on sale of urban land	2,00,000	
Less: Long term capital loss on sale of shares (STT notpaid) set-off as per section 74(1)]	75,000	
Less: Long-term capital loss on sale of listed shares on which STT is paid can also be set-off as per section74(1), since long-term capital arising on sale of such shares is taxable under section 112A	1,02,000	23,000
Total Income		**1,63,000**

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

Particulars	**₹**
Loss from House property As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 since Mr. Aditya is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A). As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y.2033-34, in this case.	50,000
Loss from speculative business A Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2029-30, in this case, as specified under section 73(4).	20,000
Loss from specified business Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business. Mr. Aditya is entitled to deduction u/s 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). He can, accordingly, carry forward loss from such business indefinitely for set off against profits of any other specified business.	20,000

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Loss from the activity of owning and maintaining race horses Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., upto A.Y.2027-28, in this case, as specified under section 74A(3).	2,000

Question 6

Mr. Garg, a resident individual, furnishes the following particulars of his income andother details for the previous year 2024-25.

	Particulars	₹
(1)	**Income from Salary (computed)**	**15,000**
(2)	**Income from business**	**66,000**
(3)	**Long term capital gain on sale of land**	**10,800**
(4)	**Loss on maintenance of race horses**	**15,000**
(5)	**Loss from gambling**	**9,100**

The other details of unabsorbed depreciation and brought forward losses pertainingto Assessment Year 2024-25 are as follows:

	Particulars	₹
(1)	**Unabsorbed depreciation**	**11,000**
(2)	**Loss from Speculative business**	**22,000**
(3)	**Short term capital loss**	**9,800**

Compute the Gross total income of Mr. Garg for the Assessment Year 2025-26 and the amount of loss, if any that can be carried forward or not.

Answer 6

Computation of Gross Total Income of Mr. Garg for the A.Y. 2025-26

Particulars	**₹**	**₹**
(i) Income from salary		15,000
(ii) Profits and gains of business or profession	66,000	
Less: Unabsorbed depreciation brought forward fromA.Y.2024-25 (Unabsorbed depreciation can be set-off against anyhead of income other than "salary")	11,000	55,000
(iii) Capital gains		
Long-term capital gain on sale of land	10,800	
Less: Brought forward short-term capital loss [Short-term capital loss can be set-off against both short-term capital gains and long-term capital gainsas per section 74(1)]	9,800	1,000
Gross Total Income		**71,000**

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Amount of loss to be carried forward to A.Y.2026-27

	Particulars	₹
(1)	**Loss from speculative business [to be carried forwardas per section 73]** [Loss from a speculative business can be set off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of ₹ 22,000 brought forward from A.Y.2024-25 has to be carried forward to A.Y. 2026-27 for set-off against speculative business income of that year. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4), i.e., upto A.Y.2028-29]	22,000
(2)	**Loss on maintenance of race horses [to be carried forward as per section 74A]** [As per section 74A(3), the loss incurred in the activity of owning and maintaining race horses in any assessment year cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2029-30]	15,000
(3)	**Loss from gambling can neither be set-off nor becarried forward.**	

Question 7

The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57,relating to the year ended 31.3.2025:

Particulars	₹
Income from salaries (computed)	2,20,000
Loss from house property	1,90,000
Loss from cloth business	2,40,000
Income from speculation business	30,000
Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000
Loss from card games	32,000
Income from betting (Gross)	45,000
Life Insurance Premium paid (10% of the capital sum assured)	45,000

Compute the total income and show the items eligible for carry forward, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 7

Computation of total income of Mr. Srivatsan for the A.Y.2025-26

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	

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Less: Loss from house property since Mr. Srivatsan has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)	1,90,000	30,000
Profits and gains of business or profession		
Income from speculation business	30,000	
Less: Loss from cloth business of ₹ 2,40,000 set off tothe extent of ₹ 30,000	30,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Set-off of balance loss of ₹ 2,10,000 from clothbusiness	2,10,000	40,000
Income from other sources		
Income from betting		45,000
Gross Total Income		1,15,000
Less: Deduction under section 80C (life insurancepremium paid) [See Note (iv) below]		30,000
Total income		**85,000**

Losses to be carried forward:

Particulars	**₹**
(1) Loss from cloth business (₹ 2,40,000 – ₹ 30,000 – ₹ 2,10,000)	Nil
(2) Loss from specified business covered by section 35AD	20,000

Notes:

(i) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year. Mr. Srivatsan is entitled to deduction u/s 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Therefore, he can carry forward loss of ₹ 20,000 from specified business referred u/s 35AD indefinitely for set off against profits of any specified business.

(ii) Business loss cannot be set off against salary income. However, the balance business loss of ₹ 2,10,000 (₹ 2,40,000 – ₹ 30,000 set-off against income from speculation business) can be set-off against long-term capital gains of ₹ 2,50,000 from sale of urban land. Consequently, the taxable long-term capital gains would be ₹ 40,000.

(iii) Loss from card games can neither be set off against any other income, nor can be carried forward.

(iv) For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of life insurance premium of ₹ 45,000 paid has to be restricted to ₹ 30,000 [i.e., Gross Total Income of ₹ 1,15,000 – ₹ 40,000 (LTCG) – ₹ 45,000 (Casual income)]. Mr. Srivatsan is entitled to deduction u/s 80C, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(v) Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

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Question 8

Mr. Rajat submits the following information for the financial year ending 31st March, 2025. He decides to pay tax under the default tax regime u/s115BAC. He desires that you should:

(a) Compute the total income and

(b) Ascertain the number of losses that can be carried forward.

Particulars			₹
(i)	He has two let out houses property:		
	(a)	House No. I – Income after all statutory deductions	72,000
	(b)	House No. II – Current year loss	(30,000)
(ii)	He has three proprietary businesses:		
	(a)	Textile Business:	
		(i) Discontinued from 31st October, 2024 – Current year loss	40,000
		(ii) Brought forward business loss of A.Y.2020-21	95,000
	(b)	Chemical Business:	
		(i) Discontinued from 1st March, 2022 – hence no profit/loss	Nil
		(ii) Bad debts allowed in earlier years recovered during this year	35,000
		(iii) Brought forward business loss of A.Y. 2021-22	50,000
	(c)	Leather Business: Profit for the current year	1,00,000
	(d)	Share of profit in a firm in which he is partner since 2009	16,550
(iii)	(a)	Short-term capital gain	60,000
	(b)	Long-term capital loss	35,000
(iv)	Contribution to LIC towards premium		10,000

Answer 8

Computation of total income of Mr. Rajat for the A.Y. 2025-26

Particulars	₹	₹
1. Income from house property		
House No.1	72,000	
House No.2	(-) 30,000	42,000
2. Profits and gains of business or profession		
Profit from leather business	1,00,000	
Bad 41(4) debts recovered taxable undersection	35,000	
	1,35,000	
Less: Current year loss of textile business	(-) 40,000	
	95,000	
Less: Brought forward business loss of textile business for A.Y.2020-21 set off against the business income of current year	95,000	Nil
3. Capital Gains		
Short-term capital gain		60,000
Gross Total Income		**1,02,000**
Less: Deduction under Chapter VI-A		
Under section 80C – LIC premium paid(not available since he is paying tax under the default tax regime)		-

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Total Income		**1,02,000**

Statement of losses to be carried forward to A.Y. 2026-27

Particulars	**₹**
Brought forward chemical business loss of A.Y. 2021-22 to becarried forward u/s 72	50,000
Long term capital loss of A.Y. 2025-26 to be carried forward u/s 74	35,000

Notes:

(1) Share of profit from firm of ₹ 16,550 is exempt under section 10(2A).

(2) Long-term capital loss cannot be set-off against short-term capital gains. Therefore, it has to be carried forward to the next year to be set-off against long-term capital gains of that year.

Question 9

Ms. Geeta, a resident individual, provides the following details of her income / losses for the year ended 31.3.2025:

(i) Salary received as a partner from a partnership firm ₹ 7,50,000. The same was allowed to the firm.

(ii) Loss on sale of shares listed in BSE ₹ 3,00,000. Shares were held for 15 months and STT paid on sale and acquisition.

(iii) Long-term capital gain on sale of land ₹ 5,00,000.

(iv) ₹ 51,000 received in cash from friends in party.

(v) ₹ 55,000, received towards dividend on listed equity shares of domestic companies.

(vi) Brought forward business loss of assessment year 2023-24 ₹ 12,50,000.

Compute gross total income of Ms. Geeta for the Assessment Year 2025-26 and ascertain the amount of loss that can be carried forward.

Answer 9

Computation of Gross Total Income of Ms. Geeta for theAssessment Year 2025-26

Particulars		**₹**
Profits and gains of business and profession		
Salary received as a partner from a partnership firm is taxableunder the head "Profits and gains of business and profession"		7,50,000
Less: B/f business loss of A.Y. 2023-24 ₹ 12,50,000 to be set-off tothe extent of ₹ 7,50,000		7,50,000
(Balance b/f business loss of ₹ 5,00,000 can be carried forward tothe next year)		Nil
Capital Gains		
Long term capital gain on sale of land	5,00,000	
Less: Long-term capital loss on shares on STT paid		
(See Note 2 below)	3,00,000	2,00,000
Income from other sources		
Cash gift received from friends - since the value ofcash gift exceeds ₹ 50,000, the entire sum is taxable	51,000	
Dividend received from a domestic company is fully taxable in the hands of shareholders	55,000	1,06,000
Gross Total Income		**3,06,000**

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Notes:

1. Balance brought forward business loss of assessment year 2023-24 of ₹ 5,00,000 has to be carried forward to the next year.
2. Long-term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set-off against long-term capital gain on sale of land since long-term capital gain on sale of shares (STT paid) is taxable under section 112A. Therefore, it can be set-off against long-term capitalgain on sale of land as per section 70(3).

Question 10

Mr. P, a resident individual, furnishes the following particulars of his income andother details for the previous year 2024-25:

Sl. No.	Particulars	₹
(i)	Income from salary (computed)	18,000
(ii)	Net annual value of house property	70,000
(iii)	Income from business	80,000
(iv)	Income from speculative business	12,000
(v)	Long term capital gain on sale of land	15,800
(vi)	Loss on maintenance of race horse	9,000
(vii)	Loss on gambling	8,000

Depreciation allowable under the Income-tax Act, 1961, comes to ₹ 8,000, for which no treatment is given above. The other details of desperation and brought forward loss (pertaining to A.Y. 2023-24) are:

Sl. No.	Particulars	₹
(i)	Unabsorbed depreciation	9,000
(ii)	Loss from speculative business	16,000
(iii)	Short term capital loss	7,800

Compute the gross total income of Mr. P for the Assessment year 2025-26, and theamount of loss that can or cannot be carried forward.

Answer 10

Computation of Gross Total Income of Mr. P for the A.Y. 2025-26

Particulars	₹	₹
(i) Income from salary		18,000
(ii) Income from House Property		
Net Annual Value	70,000	
Less: Deduction under section 24 (30% of ₹ 70,000)	21,000	49,000
(iii) Income from business and profession		
(a) Income from business	80,000	
Less : Current year depreciation	8,000	
	72,000	
Less : Unabsorbed depreciation	9,000	63,000
(b) Income from speculative business	12,000	

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Less: B/f loss of ₹ 16,000 from speculative business s/o to the extent of ₹ 12,000	12,000	Nil
(Balance loss of ₹ 4,000 (i.e. ₹ 16,000 – ₹ 12,000)can be carried forward to the next year)		
(iv) Income from capital gain		
Long-term capital gain on sale of land	15,800	
Less: Brought forward short-term capital loss	7,800	8,000
Gross total income		**1,38,000**

Amount of loss to be carried forward to the next year

Particulars	**₹**
Loss from speculative business (to be carried forward as per section 73)	4,000
Loss on maintenance of race horses (to beas per section 74A)	9,000

Notes:

(i) Loss on gambling can neither be set-off nor be carried forward.

(ii) As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.

(iii) Brought forward speculative business loss can be set off only against income from speculative business of the current year and the balance loss can be carried forward to A.Y. 2026-27. It may be noted that speculativebusiness loss can be carried forward for a maximum of four years as per section 73(4).

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Chapter 6
Deductions from gross total income

ILLUSTRATION

Question 1 (Illustration)

Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

(a) For grant of deduction under section 80JJAA, filing of audit report in prescribed form is must for a corporate assessee; filing of return within thedue date laid down in section 139(1) is not required.

(b) Filing of belated return under section 139(4) of the Income-tax Act, 1961 will debar an assessee from claiming deduction under section 80QQB if the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) (i.e., he pays tax under the optional tax regime).

Answer 1

(a) The statement is not correct. Section 80AC stipulates compulsory filing of return of income on or before the due date specified under section 139(1), as a pre-condition for availing the benefit of deduction, inter alia, under section 80JJAA.

(b) The statement is correct. As per section 80AC, the assessee has to furnishhis return of income on or before the due date specified under section 139(1), to be eligible to claim deduction under, inter alia, section 80QQB.

Question 2 (Illustration)

Compute the eligible deduction under section 80C for A.Y.2025-26 in respect of life insurance premium paid by Mr. Ganesh during the P.Y.2024-25, the details of which are given hereunder, if Mr. Ganesh has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)-

	Date ofissue ofpolicy	Person insured	Actual capital sumassured (₹)	Insurance premium paid during 2024- 25(₹)
(i)	30/3/2012	Self	9,00,000	48,000
(ii)	1/5/2018	Spouse	1,50,000	20,000
(iii)	1/6/2021	Handicapped son (section 80U disability)	4,00,000	80,000

Answer 2

	Date of issue of policy	Person insured	Actual capital sum assured	Insurance premium paid during 2024-25	Deduct- ion u/s 80C for A.Y.2025-26 (₹)	Remark (restrictedto % of sum assured)(₹)

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			(₹)	(₹)		
(i)	30/3/2012	Self	9,00,000	48,000	48,000	20%
(ii)	1/5/2018	Spouse	1,50,000	20,000	15,000	10%
(iii)	1/6/2021	Handicapped son (section 80U disability)	4,00,000	80,000	60,000	15%
	Total				**1,23,000**	

Question 3 (Illustration)

What would your answer if Mr. Ganesh pays tax under default tax regime under section 115BAC?

Answer 3

If Mr. Ganesh pays tax under default tax regime under section 115BAC, he would not be eligible for deduction under section 80C.

Question 4 (Illustration)

An individual assesse, resident in India, has made the following deposit/payment during the previous year 2024-25:

Particulars	**₹**
Contribution to the public provident fund	**1,50,000**
Insurance premium paid on the life of the spouse (policy taken on 1.4.2018) (Assured value ₹ 2,20,000)	**25,000**

What is the deduction allowable under section 80C for A.Y.2025-26 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

Answer 4

Computation of deduction under section 80C for A.Y.2025-26

Particulars	**₹**
Deposit in public provident fund	1,50,000
Insurance premium paid on the life of the spouse (Maximum 10% of the assured value ₹ 2,00,000, as the policy is taken after 31.3.2012)	22,000
Total	**1,72,000**
However, the maximum permissible deduction u/s 80C isrestricted to	1,50,000

Question 5 (Illustration)

The basic salary of Mr. A is ₹ 1,00,000 p.m. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. A and his employer, ABC Ltd., contribute 15% of basic salary to the pension scheme referred to in section 80CCD. Explain the tax treatment in respect of such contribution in the hands of Mr. A if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). What would be your answer if Mr. A pays tax under the default tax regime under section 115BAC?

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Answer 5

(i) Tax treatment in the hands of Mr. A in respect of employer's and own contribution to pension scheme referred to in section 80CCD, where Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) [i.e., where Mr. A pays tax under the normal provisions of the Act]

(a) Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary" under section 17(1)(viii). Therefore, ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000, will be included in Mr. A's salary.

(b) Mr. A's contribution to pension scheme is allowable as deduction under section 80CCD(1). However, the deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay.

Therefore, "salary" for the purpose of deduction under section 80CCD for Mr. A would be –

Particulars	₹
Basic salary = ₹ 1,00,000 × 12 =	12,00,000
Dearness allowance = 40% of ₹ 12,00,000 = ₹ 4,80,000	
50% of Dearness Allowance forms part of pay = 50% of ₹ 4,80,000	2,40,000
Salary for the purpose of deduction under section 80CCD	14,40,000
Deduction under section 80CCD (1) is restricted to 10% of ₹ 14,40,000 (as against actual contribution of ₹ 1,80,000,being 15% of basic salary of ₹ 12,00,000)	1,44,000
As per section 80CCD(1B), a further deduction of upto ₹ 50,000 is allowable. Therefore, deduction under section 80CCD(1B) is ₹ 36,000(₹ 1,80,000 - ₹ 1,44,000).	36,000

₹ 1,44,000 is allowable as deduction under section 80CCD(1). This would be taken into consideration and be subject to the overall limit of ₹ 1,50,000under section 80CCE. ₹ 36,000 allowable as deduction under section80CCD(1B) is outside the overall limit of ₹ 1,50,000 under section 80CCE.

In the alternative, ₹ 50,000 can be claimed as deduction under section 80CCD(1B). The balance ₹ 1,30,000 (₹ 1,80,000- ₹ 50,000) can be claimed as deduction under section 80CCD(1).

(c) Employer's contribution to pension scheme would be allowable as deduction under section 80CCD (2), subject to a maximum of 10% of salary. Therefore, deduction under section 80CCD(2), would also be restricted to ₹ 1,44,000, even though the entire employer's contribution of ₹ 1,80,000 is included in salary under section 17(1)(viii). However, this deduction of employer's contribution of ₹ 1,44,000 to pension scheme would be outside the overall limit of ₹ 1,50,000 under section 80CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of ₹ 1,50,000.

(ii) Where Mr. A pays tax under the default tax regime under section 115BAC

Mr. A would not be eligible for deduction under section 80CCD(1)/(1B) in respect of his contribution to pension scheme under the default tax regime under section 115BAC. However, he would be allowed deduction of upto ₹2,01,600, being 14% of salary [₹14,40,000, computed in (i) above] under section 80CCD(2) in respect of employer's contribution to pension scheme. Accordingly, entire employer's contribution of ₹ 1,80,000 would be allowed as deduction undersection 80CCD(2).

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Question 6 (Illustration)

The gross total income of Mr. X for the A.Y.2025-26 is ₹ 8,00,000. He has made thefollowing investments/payments during the F.Y.2024-25 –

Particulars		₹
(1)	Contribution to PPF	1,10,000
(2)	Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
(3)	Repayment of housing loan taken from Standard Chartered Bank	25,000
(4)	Contribution to approved pension fund of LIC	1,05,000

Compute the eligible deduction under Chapter VI-A for the A.Y.2025-26 if Mr. X exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 6

Computation of deduction under Chapter VI-A for the A.Y.2025-26

Particulars		₹
Deduction under section 80C		
-	Contribution to PPF	1,10,000
-	Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
-	Repayment of housing loan	25,000
		1,80,000
Restricted to ₹ 1,50,000, being the maximum permissible deductionu/s 80C		1,50,000
Deduction under section 80CCC		
-	Contribution to approved pension fund of LIC	1,05,000
		2,55,000
As per section 80CCE, the aggregate deduction under section 80C,80CCC and 80CCD(1) has to be restricted to ₹ 1,50,000		
Deduction allowable under Chapter VIA for the A.Y. 2025-26		**1,50,000**

Question 7 (Illustration)

Mr. A, aged 40 years, paid medical insurance premium of ₹ 20,000 during the P.Y. 2024-25 to insure his health as well as the health of his spouse. He also paid medical insurance premium of ₹ 47,000 during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed ₹ 3,600 to Central Government Health Scheme during the year. He has incurred ₹ 3,000 in cash on preventive health check-up of himself and his spouse and ₹ 4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 80D for the A.Y. 2025-26 if Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 7

Deduction allowable under section 80D for the A.Y.2025-26

	Particulars	Actual Payment ₹	Maximum deduction allowable ₹

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A.	**Premium paid and medical expenditure incurred for self and spouse**		
(i)	Medical insurance premium paid for self and spouse	20,000	20,000
(ii)	Contribution to CGHS	3,600	3,600
(iii)	Exp. on preventive health check-up of self & spouse	3,000	1,400
		26,600	**25,000**
B.	**Premium paid or medical expenditure incurred for father, who is a senior citizen**		
(i)	Mediclaim premium paid for father, who is over 60 years of age	47,000	47,000
(ii)	Expenditure on preventive health check-up of father	4,000	3,000
		51,000	**50,000**
	Total deduction under section 80D (₹ 25,000 + ₹ 50,000)		75,000

Notes:

(1) The total deduction under A. (i), (ii) and (iii) above should not exceed ₹ 25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to ₹ 1,400, being (₹ 25,000 – ₹ 20,000 – ₹ 3,600).

(2) The total deduction under B. (i) and (ii) above should not exceed ₹50,000. Therefore, the expenditure on preventive health check-up for father would be restricted to ₹ 3,000, being (₹ 50,000 – ₹ 47,000).

(3) In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is ₹ 4,400 (i.e., ₹ 1,400+ ₹ 3,000), which is within the maximum permissible limit of ₹ 5,000.

Question 8 (Illustration)

Mr. Y, aged 40 years, paid medical insurance premium of ₹ 22,000 during the P.Y. 2024-25 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of ₹ 33,000 during the year to insure the health of his mother, aged 67 years, who is not dependent on him. He incurred medical expenditure of ₹ 20,000 on his father, aged 71 years, who is not covered under mediclaim policy. His father is also not dependent upon him. He contributed ₹ 6,000 to Central Government Health Scheme during the year. Compute the deduction allowable under section 80D for the A.Y. 2025-26 if Mr. Y has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 8

Deduction allowable under section 80D for the A.Y.2025-26

	Particulars	**₹**	**₹**
(i)	Medical insurance premium paid for self, spouse and dependent children	22,000	
(ii)	Contribution to CGHS	6,000	
		28,000	
	restricted to		25,000
(iii)	Mediclaim premium paid for mother, who is over 60 years of age	33,000	
(iv)	Medical expenditure incurred for father, who is over 60 years of age and not covered by any insurance	20,000	
		53,000	

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	restricted to		50,000
			75,000

Question 9 (Illustration)

Mr. X is a resident individual. He deposits a sum of ₹50,000 with Life Insurance Corporation every year for the maintenance of his disabled grandfather who is wholly dependent upon him. The disability is one which comes under the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A copy of the certificate from the medical authority is submit ted. Compute the amount of deduction available under section 80DD for the A.Y. 2025-26, if Mr. X has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 9

Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction under section 80DD. The deduction is available if the individual assessee incurs any expense for a "dependant" disabled person.Grandfather does not come within the meaning of "dependant" as defined under section 80DD.

Question 10 (Illustration)

What will be the deduction if Mr. X had made this deposit for his dependant father?

Answer 10

Since the expense was incurred for a dependant disabled person, Mr. X will be entitled to claim a deduction of ₹ 75,000 under section 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be ₹ 1,25,000.

Question 11 (Illustration)

Mr. B has taken three education loans on April 1, 2024, the details of which are given below:

	Loan 1	**Loan 2**	**Loan 3**
For whose education loan was taken	**B**	**Son of B**	**Daughter of B**
Purpose of loan	**MBA**	**B. Sc.**	**B.A.**
Amount of loan (₹)	**5,00,000**	**2,00,000**	**4,00,000**
Annual repayment of loan (₹)	**1,00,000**	**40,000**	**80,000**
Annual repayment of interest (₹)	**20,000**	**10,000**	**18,000**

Compute the amount deductible under section 80E for the A.Y.2025-26 if Mr. B has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 11

Deduction under section 80E is available to an individual assessee exercising the option of shifting out of the default tax regime provided under section 115BAC(1A), in respect of any interest paid by him in the previous year in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination. Therefore, interest repayment in respect of all the above loans would be eligible for deduction.

Deduction under section 80E = ₹ 20,000 + ₹ 10,000 +₹18,000 =₹ 48,000.

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Question 12 (Illustration)

Mr. A purchased a residential house property for self-occupation at a cost of ₹ 45 lakh on 1.4.2017, in respect of which he took a housing loan of ₹ 35 lakh from Bankof India@11% p.a. on the same date. The loan was sanctioned on 28th March, 2017. Compute the eligible deduction in respect of interest on housing loan for A.Y.2025-26 if Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), assuming that the entire loan was outstanding as on 31.3.2025 and he does not own any other house property.

Answer 12

Particulars	₹
Interest deduction for A.Y.2025-26	
(i) Deduction allowable while computing income under thehead "Income from house property"	
Deduction under section 24(b) ₹ 3,85,000	
[₹ 35,00,000 × 11%]	2,00,000
Restricted to	
(ii) Deduction under Chapter VI-A from Gross Total Income	
Deduction under section 80EE ₹ 1,85,000	
(₹ 3,85,000 – ₹ 2,00,000)	
Restricted to	50,000

Question 13 (Illustration)

The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals, for A.Y. 2025-26 –

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amount of loantaken	₹ 43 lakhs	₹ 45 lakhs	₹ 20 lakhs	₹ 15 lakhs
Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank
Date of sanctionof loan	1.4.2021	1.4.2020	1.4.2020	30.3.2019
Date of disbursement ofloan	1.5.2021	1.5.2020	1.5.2020	1.5.2019
Purpose of loan	Acquisitionof residential houseproperty for self-occupation	Acquisition of residential house propertyfor self-occupation	Purchase of electric vehiclefor personal use	Purchase of electric vehicle for personal use
Stamp duty value of house property	₹ 45 lakhs	₹ 48 lakhs	-	-
Cost of electricvehicle	-	-	₹ 22 lakhs	₹ 18 lakhs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for A.Y.2025-26 in the hands of Mr. A, Mr. B, Mr. C and Mr. D if they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that there has been no principal repayment in respect of any of the above loans up-to 31.3.2025.

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Answer 13

Particulars		₹
Mr. A		
Interest deduction for A.Y.2025-26		
(i)	**Deduction allowable while computing income under the head "Income from house property"**	
	Deduction u/s 24(b) ₹ 3,87,000 [₹ 43,00,000 × 9%]	
	Restricted to	2,00,000
(ii)	**Deduction under Chapter VI-A from Gross Total Income**	
	Deduction u/s 80EEA ₹ 1,87,000 (₹ 3,87,000 – ₹ 2,00,000)	
	Restricted to	1,50,000
Mr. B		
Interest deduction for A.Y.2025-26		
(i)	**Deduction allowable while computing income under the head "Income from house property"**	
	Deduction u/s 24(b) ₹ 4,05,000[₹ 45,00,000 × 9%]	
	Restricted to	2,00,000
(ii)	**Deduction under Chapter VI-A from Gross Total Income**	
	Deduction u/s 80EEA is not permissible since:	Nil
	(i) loan is taken from NBFC	
	(ii) stamp duty value exceeds ₹ 45 lakh.	
	Deduction under section 80EEA would not be permissible due to either violation listed above.	
Mr. C		
Deduction under Chapter VI-A from Gross Total Income		
Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [₹ 20 lakhs x 10% = ₹ 2,00,000, restricted to ₹ 1,50,000, being the maximum permissible deduction]		1,50,000
Mr. D		
Deduction under Chapter VI-A from Gross Total Income		
Deduction u/s 80EEB is not permissible since loan was sanctioned before 1.4.2019.		Nil

Question 14 (Illustration)

Mr. Shiva aged 58 years, has gross total income of ₹ 7,75,000 comprising of income from salary and house property. He has made the following payments and investments:

(i) Premium paid to insure the life of her major daughter (policy taken on1.4.2018) (Assured value ₹ 1,80,000) – ₹ 20,000.

(ii) Medical Insurance premium for self – ₹ 12,000; Spouse – ₹ 14,000.

(iii) Donation to a public charitable institution ₹ 50,000 by way of cheque.

(iv) LIC Pension Fund – ₹ 60,000.

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(v) Donation to National Children's Fund - ₹ 25,000 by way of cheque
(vi) Donation to Jawaharlal Nehru Memorial Fund - ₹ 25,000 by way of cheque
(vii) Donation to approved institution for promotion of family planning - ₹ 40,000 by way of cheque
(viii) Deposit in PPF – ₹ 1,00,000

Compute the total income of Mr. Shiva for A.Y. 2025-26 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 14

Computation of Total Income of Mr. Shiva for A.Y. 2025-26

Particulars	**₹**	**₹**
Gross Total Income		7,75,000
Less: Deduction under section 80C		
Deposit in PPF	1,00,000	
Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value ₹1,80,000, as the policy is taken after 31.3.2012)	18,000	
	1,18,000	
Deduction under section 80CCC in respect of LIC pension fund	60,000	
	1,78,000	
As per section 80CCE, deduction under section 80C & 80CCC is restricted to		1,50,000
Deduction under section 80D		
Medical Insurance premium in respect of self and spouse	26,000	
Restricted to		25,000
Deduction under section 80G (See Working Note below)		87,500
Total income		**5,12,500**

Working Note: Computation of deduction under section 80G

	Particulars of donation	**Amount donated(₹)**	**% of deduction**	**Deduction u/s 80G (₹)**
(i)	National Children's Fund	25,000	100%	25,000
(ii)	Prime Minister's Drought Relief Fund	25,000	50%	12,500
(iii)	Approved institution for promotion of familyplanning	40,000	100%, subject to qualifying limit	40,000
(iv)	Public Charitable Trust	50,000	50% subject to qualifying limit (See Note below)	10,000
				87,500

Note - Adjusted total income = Gross Total Income – Amount of deductions under section 80C to 80U except section 80G i.e., ₹ 6,00,000, in this case.
₹ 60,000, being 10% of adjusted total income is the qualifying limit, in this case.
Firstly, donation of ₹ 40,000 to approved institution for family planning qualifying for 100%

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deduction subject to qualifying limit, has to be adjusted against this amount. Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted. Hence, the contribution of ₹ 50,000 to public charitabletrust is restricted to 20,000 (being, ₹ 60,000 - ₹ 40,000), 50% of which would be the deduction under section 80G. Therefore, the deduction under section 80G in respect of donation to public charitable trust would be ₹ 10,000, which is 50% of ₹ 20,000.

Question 15 (Illustration)

Mr. Ganesh, a businessman, whose total income (before allowing deduction under section 80GG) for A.Y.2025-26 is ₹ 4,60,000, paid house rent at ₹ 12,000 p.m. in respect of residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him under section 80GG for A.Y.2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 15

The deduction under section 80GG will be computed as follows:

(i) Actual rent paid less than 10% of total income

₹ 1,44,000 (-) $\frac{(10\times4,60,000)}{100}$ = ₹ 98,000

(ii) 25% of total income = $\frac{(25\times4,60,000)}{100}$ = ₹ 1,15,000

(iii) Amount calculated at ₹ 5,000 p.m.= ₹ 60,000

Deduction allowable u/s 80GG [least of (i), (ii) and (iii)] = ₹ 60,000

Question 16 (Illustration)

During the P.Y. 2024-25, ABC Ltd., an Indian company,

(1) contributed a sum of ₹ 2 lakh to an electoral trust; and

(2) incurred expenditure of ₹ 25,000 on advertisement in a brochure of a political party.

Is the company eligible for deduction in respect of such contribution/expenditure, assuming that the contribution was made by cheque? If so, what is the quantum of deduction? ABC Ltd. does not opt for section 115BAA/115BAB.

Answer 16

An Indian company is eligible for deduction under section 80GGB in respect of any sum contributed by it in the previous year to any political party or an electoral trust. Further, the word "contribute" in section 80GGB has the meaning assigned to it in section 293A of the Companies Act, 1956, and accordingly, it includes the amount of expenditure incurred on advertisement in a brochure of a political party. Therefore, ABC Ltd. is eligible for a deduction of ₹ 2,25,000 under section 80GGBin respect of sum of ₹ 2 lakh contributed to an electoral trust and ₹ 25,000 incurred by it on advertisement in a brochure of a political party.

It may be noted that there is a specific disallowance under section 37(2B) in respect of expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure of ₹ 25,000 would be disallowed while computing business income/gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income under section 80GGB.

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Question 17 (Illustration)

Mr. A has commenced the business of manufacture of computers on 1.4.2024. He employed 350 new employees during the P.Y. 2024-25, the details of whom are as follows –

	No. of employees	Date of employment	Regular/ Casual	Total monthly emoluments per employee (₹)
(i)	75	1.4.2024	Regular	24,000
(ii)	125	1.5.2024	Regular	26,000
(iii)	50	1.8.2024	Casual	24,500
(iv)	100	1.9.2024	Regular	24,000

The regular employees participate in recognized provident fund while the casual employees do not. Compute the deduction, if any, available to Mr. A for A.Y. 2025-26, if the profits and gains derived from manufacture of computers that year is ₹ 75 lakhs and his total turnover is ₹ 10.16 crores.

What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1.4.2024?

Answer 17

Mr. A is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y. 2025-26 and he has employed "additional employees" during the P.Y. 2024-25.

i. If Mr. A is engaged in the business of manufacture of computers

Additional employee cost = ₹ 24,000 × 12 × 75 **[See Working Note below]** = ₹ 2,16,00,000

Deduction under section 80JJAA = 30% of ₹ 2,16,00,000 = ₹ 64,80,000.

Working Note:

Number of additional employees

Particulars		No. of workmen	
Total number of employees employed during the year			350
Less:	Casual employees employed on 1.8.2024 who do not participate in recognized provident fund	50	
	Regular employees employed on 1.5.2024, since their total monthly emoluments exceed ₹ 25,000	125	
	Regular employees employed on 1.9.2021 since they have been employed for less than 240 daysin the P.Y.2024-25.	100	275
Number of "additional employees"			75

Notes –

(i) Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2024 also do not qualify as additional employees since their monthly emoluments exceed ₹ 25,000. Also, 100 regular employees employed on 1.9.2024 do not qualify as additional employees for the P.Y.2024-25, since they are employed for less than 240 days in that year.

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Therefore, only 75 employees employed on 1.4.2024 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2024-25 is deemed to be the additional employee cost.

(ii) As regards 100 regular employees employed on 1.9.2024, they would be treated as additional employees for previous year 2025-26, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Mr. for the A.Y. 2026-27.

ii. If Mr. A is engaged in the business of manufacture of footwear

If Mr. A is engaged in the business of manufacture of footwear, then, he would be entitled to deduction under section 80JJAA in respect of employee cost of regular employees employed on 1.9.2024, since they have been employed for more than 150 days in the previous year 2024-25.

Additional employee cost = ₹ 2,16,00,000 + ₹ 24,000 × 7 × 100 = ₹ 3,84,00,000

Deduction under section 80JJAA = 30% of ₹ 3,84,00,000 = ₹ 1,15,20,000.

Question 18 (Illustration)

Mr. Aakash earned royalty of ₹ 2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure incurred by him for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2025 is ₹ 2,30,000. The remaining amount was not remitted till 31st March, 2026. Compute the amount includible in the gross total income of Mr. Aakash and the amount of deduction which he will be eligible for under section 80QQB if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 18

The net royalty of ₹ 2,48,000 (i.e., royalty of ₹ 2,88,000 *less* ₹ 40,000, being expenditure to earn such income) is includible in gross total income. Deduction u/s 80QQB would be ₹ 1,90,000 as calculated hereunder –

Particulars	₹
Royalty ₹ 2,88,000 x 15/18 = ₹ 2,40,000	
Restricted to	
Amount brought into India in convertible foreign exchange withinthe prescribed time	2,30,000
Less: Expenses already allowed as deduction while computingroyalty income	40,000
Deduction u/s 80QQB	**1,90,000**

Question 19 (Illustration)

Mr. A, a resident individual aged 61 years, has earned business income (computed) of ₹ 1,35,000, lottery income of ₹ 1,20,000 (gross) during the P.Y. 2024-25. He also has interest on Fixed Deposit of ₹ 30,000 with banks. He invested an amount of ₹ 1,50,000 in Public Provident Fund account. What is the total income of Mr. A for the A.Y. 2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

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Answer 19

Computation of total income of Mr. A for A.Y.2025-26

Particulars	₹	₹
Profits and gains of business or profession		1,35,000
Income from other sources		
- Interest on Fixed Deposit with banks		30,000
- lottery income		1,20,000
Gross Total Income		**2,85,000**
Less: **Deductions under Chapter VIA [See Notebelow]**		
Under section 80C		
- Deposit in Public Provident Fund	1,50,000	
Under section 80TTB		
- Interest on fixed deposits with banks	30,000	
	1,80,000	
Restricted to		1,65,000
Total Income		**1,20,000**

Note: In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction up to ₹ 50,000 under section 80TTB.

Though the aggregate of deductions under Chapter VI-A is ₹ 1,80,000, however, the maximum permissible deduction cannot exceed the gross total income exclusive of long term capital gains taxable under section 112 and section 112A, short-term capital gains covered under section 111A and winnings from lotteries of the assessee.

Therefore, the maximum permissible deduction under Chapter VI A = ₹ 2,85,000 –₹ 1,20,000 = ₹ 1,65,000.

Question 20 (Illustration)

Mr. Gurnam, aged 42 years, has salary income (computed) of ₹ 5,50,000 for the previous year ended 31.03.2025. He has earned interest of ₹ 14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. Gurnam for the assessment year 2025-26 from the following particulars, assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC (1A):

(i) Life insurance premium paid to Birla Sunlife Insurance in cash amounting to ₹ 25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2021 and the sum assured on life of his dependent parents is ₹ 2,00,000.

(ii) Life insurance premium of ₹ 19,500 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is₹ 3,50,000 and the life insurance policy was taken on 30.3.2012.

(iii) Life insurance premium paid by cheque of ₹ 22,500 for insurance of his life.The insurance policy was taken on 08.09.2020 and the sum assured is₹ 2,00,000.

(iv) Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.

(v) ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid in cheque for preventive health check-up for his parents, who are senior citizens.

(vi) Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued byhis daughter.

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(vii) A sum of ₹ 5,000 donated in cash to an institution approved for purpose ofsection 80G for promoting family planning.

Answer 20

Computation of total income of Mr. Gurnam for theAssessment Year 2025-26

Particulars	₹	₹	₹
Income from salary			5,50,000
Interest on saving bank deposit			14,500
Gross Total Income			**5,64,500**
Less: **Deduction under Chapter VIA**			
Under section 80C (See Note 1)			
- major son	19,500		
- self ₹ 22,500 restricted to 10% of ₹ 2,00,000	20,000	39,500	
Under section 80D (See Note 2)			
Premium paid for ₹ 26,000 health insurance of self and wife by cheque, restricted to	25,000		
Payment made for health check-up for parents	4,500	29,500	
Under section 80E			
For payment of interest on loan taken from bank for MBA course of his daughter		6,500	
Under section 80TTA (See Note 4)			
Interest on savings bank account ₹ 14,500 restricted to		10,000	85,500
Total Income			**4,79,000**

Notes:

(1) As per section 80C, no deduction is allowed in respect of premium paid forlife insurance of parents, whether they are dependent or not. Therefore, no deduction is allowable in respect of ₹ 25,000 paid as premium for life insurance of dependent parents of Mr. Gurnam. In respect of insurance policy issued on or after 01.04.2012, deduction shall be allowed for life insurance premium paid only to the extent of 10% of sum assured.In case the insurance policy is issued before 01.04.2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of sum assured.

Therefore, in the present case, deduction of ₹ 19,500 is allowable in full in respectof life insurance of Mr. German's son since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of ₹ 3,50,000. However, inrespect of premium paid for life insurance policy of Mr. Gurnam himself, deduction is allowable only up to 10% of ₹ 2,00,000 since, the policy was issued on or after 01.04.2012 and the premium amount exceeds 10% of sum assured.

(2) As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person, deduction shall be allowed up to ₹ 25,000. Further, deduction up to ₹ 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-checkup can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash.

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Therefore, in the present case, in respect of premium of ₹ 26,000 paid for health insurance of self and wife, deduction would be restricted to ₹ 25,000. Since the limit of ₹ 25,000 has been exhausted against medical insurance premium, no deduction is allowable for preventive health check-up for self and wife. However, deduction of ₹ 4,500 is allowable in respect of health check-up of his parents, since it falls within the limit of ₹ 5,000.

(3) No deduction shall be allowed under section 80G in case the donation is made in cash of a sum exceeding ₹ 2,000. Therefore, deduction under section 80G is not allowable in respect of **cash donation** of ₹ 5,000 made to an institution approved for the purpose of section 80G for promotion of family planning.

(4) As per section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of ₹ 10,000. Therefore, deductionof ₹ 10,000 is allowable from the gross total income of Mr. Gurnam, though the interest from savings bank account is ₹ 14,500.

Question 21 (Illustration)

Mr. Y furnishes you the following information for the year ended 31.3.2025

Particulars	₹ (in lacs)
Total turnover of Unit A located in Special Economic Zone	100
Profit of the business of Unit A	30
Export turnover of Unit A received in India in convertible foreignexchange on or before 30.9.2025	50
Total turnover of Unit B located in Domestic Tariff Area (DTA)	200
Profit of the business of Unit B	20

Compute deduction under section 10AA for the A.Y. 2025-26, assuming that Mr. Y commenced operations in SEZ and DTA in the year 2019-20 and Mr. Y has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 21

50% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, since F.Y. 2024-25 is the sixth year commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA (7), the profit derived from export of articles or things or services shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of articles or things or services bearsto the total turnover of the business carried on by the undertaking.

Deduction under section 10AA

= Profit of the business of Unit A x $\frac{Export\ Turnover\ of\ Unit\ A}{Total\ Turnover\ Of\ Unit\ A} \times 50\%$

= ₹ 30 lakhs× $\frac{50}{100}$ ×50% = ₹ 7.5lakhs

Note – No deduction under section 10AA is allowable in respect of profits of business of Unit B located in DTA.

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TEST YOUR KNOWLEDGE

Question 1

Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

(i) During the financial year 2024-25, Mr. Amit paid interest on loan availed byhim for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction under section 80E.

(ii) Subscription to notified bonds of NABARD would qualify for deduction under section 80C.

(iii) In order to be eligible to claim deduction under section 80C, investment/contribution/subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.

(iv) Where an individual repays a sum of ₹ 30,000 towards principal and ₹ 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under section 80E is ₹ 44,000 irrespective of the tax regime.

(v) Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received ₹ 7 lakhs on 1.5.2024, being amount standing to the credit of Mr. Satish in his NPS Account, in respect of which deduction has been allowed under section 80CCD to Mr. Satish in the earlier previous years. Such amount received by her as a nominee on closure of the account is deemed to be her income for A.Y.2025-26.

(vi) Mr. Vishal, a Central Government employee, contributed ₹ 50,000 towards Tier II account of NPS. The same would be eligible for deduction under section 80CCD. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 1

(i) **The statement is correct.** The deduction under section 80E is available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). For this purpose, relative means, inter alia, spouse and children of the individual. Therefore, Mr. Amit will get the deduction under section 80E in respect of interest on loan availed by him for his son's higher education, if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction under section 80E.

(ii) **The statement is correct.** Under section 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction under section 80C, if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(iii) **The statement is not correct.** There is no stipulation under section 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.

(iv) **The statement is not correct.** An individual would not be eligible for deduction u/s 80E if he pays tax under default tax regime under section 115BAC. If he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), deduction under section 80E would be available in respect of interest paid on education loan. Hence,

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the deduction will be limited to interest of ₹14,000, if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(v) **The statement is not correct.** The proviso to section 80CCD(3) provides that the amount received by the nominee, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee. Hence, amount received by Mrs. Sheela would not be deemed to be her income for A.Y. 2025-26.

(vi) **The statement is not correct.** Contribution to Tier II account of NPS would qualify for deduction under section 80C and not section 80CCD.

Question 2

Examine the allowability of the following if the assessees have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

(i) **Rajan, a resident individual, has to pay to a hospital for treatment ₹ 62,000 and spent nothing for life insurance or for maintenance of dependent disabled.**

(ii) **Varun, a resident Indian, has spent nothing for treatment in the previous year and deposited ₹ 25,000 with LIC for maintenance of dependant disabled.**

(iii) **Hari, a resident individual, has incurred ₹ 20,000 for treatment and₹ 25,000 was deposited with LIC for maintenance of dependant disabled.**

Answer 2

(i) The deduction of ₹ 75,000 under section 80DD is allowable to Rajan, irrespective of the amount of expenditure incurred or paid by him. If the expenditure is incurred in respect of a dependant with severe disability, the deduction allowable is ₹ 1,25,000.

(ii) The assessee Varun has deposited ₹ 25,000 for maintenance of dependent disabled. He is, however, eligible to claim ₹ 75,000 since the deduction of ₹ 75,000 is allowed, irrespective of the amount deposited with LIC. In the case of dependant with severe disability, the deduction allowable is ₹ 1,25,000.

(iii) Section 80DD allows a deduction of ₹ 75,000 irrespective of the actual amount spent on maintenance of a dependent disabled and/or actual amount deposited with LIC. Therefore, the deduction will be ₹ 75,000 even though the total amount incurred/deposited is only ₹ 45,000. If the dependant is a person with severe disability the quantum of deduction is ₹ 1,25,000.

Question 3

For the A.Y. 2025-26, the Gross total income of Mr. Chaturvedi, a resident in India, was ₹ 8,18,240 which includes long-term capital gain of ₹ 2,45,000 taxable under section 112 and Short-term capital gain of ₹ 58,000. The Gross total income also includes interest income of ₹ 12,000 from savings bank deposits with banks and ₹ 40,000 interest on fixed deposits with banks. Mr. Chaturvedi has invested in PPF ₹ 1,20,000 and also paid a medical insurance premium ₹ 51,000. Mr. Chaturvedi also contributed ₹ 50,000 to Public Charitable Trust eligible for deduction under section 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Chaturvedi, who is 70 years old as on 31.3.2025, in a tax efficient manner.

Answer 3

Computation of total income and tax liability of Mr. Chaturvedi for the A.Y. 2025-26 under default tax regime

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Particulars	₹
Gross total income incl. long term capital gain	8,18,240
Less: **Deductions under Chapter VI-A**	-
No deduction would be available under default tax regime u/s 115BAC	
Total income	**8,18,240**
Tax on total income	
LTCG ₹ 2,45,000 × 20%	49,000
Balance total income ₹ 5,73,240	13,662
	62,662
Add: Health and Education cess @4%	2,506
Total tax liability	**65,168**
Total tax liability (Rounded off)	**65,170**

Computation of total income and tax liability of Mr. Chaturvedi for the A.Y. 2025-26 under the optional tax regime (i.e., the normal provisions of the Act)

Particulars	₹	₹
Gross total income incl. long term capital gain		8,18,240
Less: Long term capital gain		2,45,000
		5,73,240
Less: **Deductions under Chapter VI-A**		
Under section 80C in respect of PPF deposit	1,20,000	
Under section 80D (it is assumed that premium of ₹ 51,000 is paid by otherwise than by cash. The deduction would be restricted to ₹ 50,000, since Mr. Chaturvedi is a senior citizen)	50,000	
Under section 80G **(See Notes 1 & 2 below)**	17,662	
Under section 80TTB **(See Note 3 below)**	50,000	2,37,662
Total income (excluding long term capital gains)		**3,35,578**
Total income (including long term capital gains)		**5,80,578**
Total income (rounded off)		**5,80,580**
Tax on total income (including long-term capital gains of ₹2,45,000)		
LTCG ₹ 2,45,000 x 20%		49,000
Balance total income ₹ 3,35,580 **(See Note 4 below)**		1,779
		50,779
Add: Health and Education cess @4%		2,031
Total tax liability		**52,810**

Since the tax liability is lower under the optional tax regime (i.e., normal provisions of the Act) as compared to the default tax regime, Mr. Chaturvedi should exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

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1. **Computation of deduction under section 80G:**

Particulars	₹
Gross total income (excluding long term capital gains)	5,73,240
Less : Deduction under section 80C, 80D & 80TTB	2,20,000
	3,53,240
10% of the above	35,324
Contribution made	50,000
Lower of the two eligible for deduction under section	35,324
Deduction under section 80G – 50% of ₹ 35,324	**17,662**

2. Deduction under section 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding ₹ 2,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.
3. Deduction of upto ₹ 50,000 under section 80TTB is allowed to a senior citizen if gross total income includes interest income on bank deposits, both fixed deposits and savings account.
4. Mr. Chaturvedi, being a senior citizen is eligible for a higher basic exemption of ₹ 3,00,000.

Question 4

Mr. Rajmohan whose gross total income was ₹ 6,40,000 for the financial year 2024-25, furnishes you the following information:

(i) Repayment of loan taken from SBI for acquisition of residential house (self-occupied) - ₹ 50,000.

(ii) Five-year post-office time deposit - ₹ 20,000.

(iii) Donation to a recognized charitable trust ₹ 25,000 which is eligible for deduction under section 80G at the applicable rate.

(iv) Interest on loan taken for higher education of spouse paid during the year - ₹ 10,000.

Compute the total income of Mr. Rajmohan for the A.Y. 2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 4

Computation of total income of Mr. Raj Mohan for the A.Y.2025-26

Particulars	₹	₹
Gross Total Income		6,40,000
Less: **Deduction under Chapter VI-A**		
Under section 80C		
Repayment of loan taken for acquisition of residential house	50,000	
Five-year time deposit with Post Office	20,000	
	70,000	
Under section 80E		
Interest on loan taken for higher education of spouse, being a relative.	10,000	
Under section 80G (See Note below)		
Donation to recognized charitable trust(50% of ₹ 25,000)	12,500	92,500
Total Income		**5,47,500**

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Note: In case of deduction under section 80G in respect of donation to a charitable trust, the net qualifying amount has to be restricted to 10% of adjusted total income, i.e., gross total income less deductions under Chapter VI-A except 80G. The adjusted total income is, therefore, ₹ 5,60,000 (i.e. 6,40,000 – ₹ 80,000), 10% of which is ₹ 56,000, which is higher than the actual donation of ₹ 25,000. Therefore, the deduction under section 80G would be ₹ 12,500, being 50% of the actual donation of ₹ 25,000.

Question 5

Compute the eligible deduction under Chapter VI-A for the A.Y. 2025-26 of Ms. Roma, aged 40 years, who has a gross total income of ₹ 15,00,000 for the A.Y. 2025-26 and has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). She provides the following information about her investments/payments during the P.Y. 2024-25:

Sr. No.	Particulars	Amount (₹)
1.	**Life Insurance premium paid (Policy taken on 31-03-2012 and sum assured is ₹ 4,70,000)**	**35,000**
2.	**Public Provident Fund contribution**	**1,50,000**
3.	**Repayment of housing loan to Bhartiya Mahila Bank, Bangalore**	**20,000**
4.	**Payment to L.I.C. Pension Fund**	**1,40,000**
5.	**Mediclaim Policy taken for self, wife and dependent children, premium paid by cheque**	**30,000**
6.	**Medical Insurance premium paid by cheque for parents (Senior Citizens)**	**52,000**

Answer 5

Computation of eligible deduction under Chapter VI-A of Ms. Roma for A.Y. 2025-26

Particulars	₹	₹
Deduction under section 80C		
Life insurance premium paid ₹ 35,000 (allowed in full since the same is within the limit of 20 % of the sum assured, the policy being taken before 1.4.2012)	35,000	
Public Provident Fund	1,50,000	
Repayment of housing loan to Bhartiya Mahila Bank,Bangalore	20,000	
	2,05,000	
Restricted to a maximum of ₹ 1,50,000	**1,50,000**	
Deduction under section 80CCC for payment towards LIC pension fund	1,40,000	
	2,90,000	
As per section 80CCE, aggregate deduction under, inter alia, section 80C and 80CCC, is restricted to		1,50,000
Deduction under section 80D		
Payment of medical insurance premium of ₹ 30,000 towards medical policy taken for self, wife and dependent children restricted to	25,000	
Medical insurance premium paid ₹ 52,000 for parents, being	50,000	75,000

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senior citizens, restricted to		
Eligible deduction under Chapter VI-A		**2,25,000**

Question 6

Mr. Rudra has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). He provides the following details for the previous year 2024-25.

Particulars	Mr. Rudra (₹)	Unit in DTA (₹)
Total Sales	6,00,00,000	2,00,00,000
Export Sales	5,60,00,000	1,60,00,000
Net Profit	80,00,000	20,00,000

Proceeds from export sales in SEZ received in convertible foreign exchange by 30.9.2025 is ₹ 3,00,00,000. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment
Year 2025-26 if both the units were set up and start manufacturing from 22-05-2016.

Answer 6

Computation of deduction u/s 10AA of the Income-tax Act, 1961

As per section 10AA, in computing the total income of Mr. Rudra from his unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 01.04.2006 but before 01.04.2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years.

Since Mr. Rudra has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), he would be eligible for deduction u/s 10AA.

The deduction u/s 10AA would be available only if Mr. Rudra furnishes report of chartered accountant before the date specified in section 44AB and files return of income on or before due date u/s 139(1).

Since A.Y. 2025-26 is the 9th assessment year from A.Y. 2017-18, relevant to the previous year 2016-17, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$= \text{Profits of Unit in SEZ} \times \frac{Export\ turnover\ of\ unit\ in\ SEZ}{Total\ turnover\ of\ unit\ in\ SEZ} \times 50\ \%$$

$$= 60\ \text{Lakhs} \times \frac{300\ Lakhs}{400\ lakhs} \times 50\% = \text{Rs. } 22.50\ \text{lakhs}$$

Export turnover of Unit in SEZ is the export sales in SEZ received in convertible foreign exchange by 30.9.2025 which is ₹ 3,00,00,000.

The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction u/s 10AA in respect of its export profits, in both the situations.

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Working Note:

Computation of total sales, export sales and net profit of unit in SEZ

Particulars	Rudra Ltd. (₹)	Unit in DTA (₹)	Unit in SEZ (₹)
Total Sales	6,00,00,000	2,00,00,000	**4,00,00,000**
Export Sales	4,60,00,000	1,60,00,000	**3,00,00,000**
Net Profit	80,00,000	20,00,000	**60,00,000**

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Chapter 7
Advance Tax, Tax Deduction at Source and Introduction to Tax Collection at Source

ILLUSTRATION

Question 1 (illustration)

Mr. A, the employer, pays gross salary including allowances and monetary perquisites amounting to ₹ 7,30,000 to his General Manager. Besides, the employer provides non-monetary perquisites to him whose value is estimated at ₹ 1,20,000. The General Manager is exercising the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act. What is the tax implication in the hands of Mr. A, the employer and General Manager, the employee?

Answer 1

Gross salary, allowances and monetary perquisites	7,30,000
Non-Monetary perquisites	1,20,000
	8,50,000
Less: Standard deduction under section 16(ia)	50,000
	8,00,000
Tax Liability	75,400
Average rate of tax (₹ 75,400 / ₹ 8,00,000 × 100)	9.425%

Mr. A can deduct ₹ 75,400 at source from the salary of the General Manager at the time of payment. Alternatively, Mr. A can pay tax on non-monetary perquisites as under – Tax on non-monetary perquisites

= 9.425% of ₹ 1,20,000 = ₹ 11,310 Balance to be deducted from salary = ₹ 64,090

If Mr. A pays tax of ₹ 11,310 on non-monetary perquisites, the same is not a deductible expenditure as per section 40(a). The amount of tax paid towards non-monetary perquisite by the employer, however, is not chargeable to tax in the hands of the employee as per section 10(10CC).

Question 2 (illustration)

Examine the TDS implications under section 194A in the cases mentioned hereunder–

(i) On 1.10.2024, Mr. Harish made a six-month fixed deposit of ₹ 10 lakh@9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2025.

(ii) On 1.6.2024, Mr. Ganesh made three nine months fixed deposits of ₹ 3 lakh each, carrying interest@9% p.a. with Dwarka Branch, Janakpuri Branch and Rohini Branch of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2025.

(iii) On 1.10.2024, Mr. Rajesh started a six months recurring deposit of ₹ 2,00,000 per month@8% p.a. with PQR Bank. The recurring deposit matures on 31.3.2025.

Answer 2

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(i) ABC Co-operative Bank has to deduct tax at source@10% on the interest of ₹ 45,000 (9% × ₹ 10 lakh × ½) under section 194A. The tax deductible at source under section 194A from such interest is, therefore, ₹4,500.

(ii) XYZ Bank has to deduct tax at source@10% u/s 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 60,750 [3,00,000 × 3 × 9% × 9/12], which exceeds the threshold limit of ₹ 40,000. Since XYZ Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of ₹ 60,750 exceeds the threshold limit of ₹ 40,000, tax has to be deducted@10% u/s 194A.

(iii) No tax has to be deducted under section 194A by PQR Bank on the interestof ₹ 28,000 falling due on recurring deposit on 31.3.2025 to Mr. Rajesh, since such interest does not exceed the threshold limit of ₹40,000.

Question 3 (illustration)

ABC Ltd. makes the following payments to Mr. X, a contractor, for contractwork during the P.Y.2024-25–

₹ 20,000 on 1.5.2024

₹ 25,000 on 1.8.2024

₹ 28,000 on 1.12.2024

On 1.3.2025, a payment of ₹ 30,000 is due to Mr. X on account of a contract work. Discuss whether ABC Ltd. is liable to deduct tax at source under section 194C from payments made to Mr. X.

Answer 3

In this case, the individual contract payments made to Mr. X does not exceed₹ 30,000. However, since the aggregate amount paid to Mr. X during the P.Y. 2024-25 exceeds ₹ 1,00,000 (on account of the last payment of ₹ 30,000, due on 1.3.2025, taking the total from ₹ 73,000 to ₹ 1,03,000), the TDS provisions under section 194C would get attracted. Tax has to be deducted@1% on the entire amount of ₹ 1,03,000 from the last payment of ₹ 30,000 and the balanceof ₹28,970 (i.e., ₹30,000 – ₹ 1,030) has to be paid to Mr. X.

Question 4 (illustration)

Certain concessions are granted to transport operators in the context of cash payments u/s 40A(3) and deduction of tax at source u/s 194-C. Elucidate.

Answer 4

Section 40A(3) provides for disallowance of expenditure incurred in respect of which payment or aggregate of payments made to a person in a day exceeds₹ 10,000, and such payment or payments are made otherwise than by account payee cheque or account payee bank draft or use of electronic clearing system through bank account or through other prescribed electronic modes. However, in case of payment made to transport operators for plying, hiring or leasing goods carriages, the disallowance will be attracted only if the payment made to a person in a day exceeds ₹ 35,000. Therefore, payment or aggregate of payments up to ₹ 35,000 in a day can be made to a transport operator otherwise than by way of account payee cheque or account payee bank draft or use of electronic system through bank account or through other prescribed electronic modes, without attracting disallowance u/s 40A(3).

Under section 194C, tax had to be deducted in respect of payments made to contractors at the rate of 1%, in case the payment is made to individual or Hindu Undivided Family or at the rate of 2%, in

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any other case.

However, no deduction is required to be made from any sum credited or paid orlikely to be credited or paid during the previous year to the account of a contractor, during the course of the business of plying, hiring or leasing goods carriages, if the following conditions are fulfilled: -

(1) He owns ten or less goods carriages at any time during the previous year.
(2) He is engaged in the business of plying, hiring or leasing goods carriages;
(3) He has furnished a declaration to this effect along with his PAN.

Question 5 (illustration)

Moon TV, a television channel, made payment of ₹ 50 lakhs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source under section 194C? Discuss.

Also, examine whether the provisions of tax deduction at source under section 194C would be attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house.

Answer 5

In this case, since the programme is produced by the production house as per the specifications given by Moon TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definitionof the term 'work' under section 194C. Therefore, the payment of ₹50 lakhs madeby Moon TV to the production house would be subject to tax deduction at source under section 194C.

If, however, the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house, there is no contract for "carrying out any work", as required in section 194C(1). Therefore, such payment would not be liable for tax deduction at source under section 194C.

Question 6 (illustration)

XYZ Ltd. pays ₹ 50,000 per month as rent to the Mr. Kishore for a building in which one of its branches is situated. Discuss whether TDS provisions under section 194-I are attracted.

Answer 6

Section 194-I, which governs the deduction of tax at source on payment of rent, exceeding ₹ 2,40,000 p.a., is applicable to all taxable entities except individuals and HUFs, whose total sales, gross receipts or turnover from the business or profession carried on by him does not exceed ₹ 1 crore in case of business and ₹ 50 lakhs in case of profession during the financial year immediately preceding financial year in which such rent was credited or paid, is liable to deduct tax at source.

Since the rent paid by XYZ Ltd. to Mr. Kishore exceeds ₹ 2,40,000, the provisions of section 194-I for deduction of tax at source attracted.

The rate applicable for deduction at source under section 194-I on rent paid is 10%, assuming that Mr. Kishore had furnished his PAN to XYZ Ltd.

Therefore, the amount of tax to be deducted at source = ₹ 6,00,000 x 10% = ₹ 60,000

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Question 7 (illustration)

Mr. X, a salaried individual, pays rent of ₹ 55,000 per month to Mr. Y from June,2024. Is he required to deduct tax at source? If so, when is he required to deduct tax? Also, compute the amount of tax to be deducted at source.

Would your answer change if Mr. X vacated the premises on 31st December, 2024?

Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X?

Answer 7

Since Mr. X pays rent exceeding ₹ 50,000 per month in the F.Y. 2024-25, he is liable to deduct tax at source @5% till 30.09.2024 and thereafter @2%. The tax is to be deducted in the last month of the P.Y. 2024-25 i.e., March 2025 or in the last month of tenancy, if the property is vacated during the year,. Since property is not vacated during the year, ₹ 11,000 [(₹ 55,000 x 2% x 10)] has to be deducted from rent payable for March, 2025.

If Mr. X vacated the premises in December, 2024, then tax of ₹ 7,700 [(₹ 55,000 x 2% x 7)] has to be deducted from rent payable for December, 2024.

In case Mr. Y does not provide his PAN to Mr. X, tax would be deductible@20%, instead of 2%.

In case 1 above, this would amount to ₹ 1,10,000 [₹ 55,000 x 20% x 10], but the same has to be restricted to ₹ 55,000, being rent for March, 2025.

In case 2 above, this would amount to ₹ 77,000 [₹ 55,000 x 20% x 7], but the same has to be restricted to ₹ 55,000, being rent for December, 2024.

Question 8 (illustration)

XYZ Ltd. makes a payment of ₹ 28,000 to Mr. Ganesh on 2.8.2024 towards fees for professional services and another payment of ₹ 25,000 to him on the same date towards fees for technical services. Discuss whether TDS provisions under section 194J are attracted.

Answer 8

TDS provisions under section 194J would not get attracted, since the limit of ₹ 30,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. Ganesh towards fees for professional services and fees for technical services during the P.Y.2024-25.

Question 9 (illustration)

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS applicable in each case. Assume that all payments are made to residents.

	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y.2024-25
1	Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores in the P.Y.2023-24	Contract Payment for repair of residential house Payment of commission to Mr. Vallish for businesspurposes	₹ 5 lakhs ₹ 80,000 in November 2024
2.	Mr. Rajesh, a wholesale trader whose turnover was ₹ 95 lakhs in P.Y. 2023-24.	Contract Payment forreconstruction of residential house (made during the period January-March, 2025)	₹ 20 lakhs in January, 2025, ₹ 15 lakhs in Feb 2025 and ₹ 20 lakhs in March 2025.

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3.	**Mr. Satish, a salaried individual**	**Payment of brokerage for buying a residential house in March, 2025**	**₹ 51 lakhs**
4.	**Mr. Dheeraj, a pensioner**	**Contract payment made during October-November 2024 for reconstruction of residential house**	**₹ 48 lakhs**

Answer 9

	Particulars ofthe payer	**Nature of payment**	**Aggregate of payments in the F.Y.2024-25**	**Whether TDS provisions are attracted?**
1	Mr. Ganesh, an individual carrying on retail business with turnover of ₹2.5 crores in the P.Y.2023-24	Contract Payment for Repair of residential house	₹5 lakhs	No; TDS under section 194C is not attracted since The payment is for Personal purpose. TDS under section 194M is not attracted as aggregate of contract payment to the payee in the P.Y.2024-25 does not exceed ₹50 lakh.
		Payment of commission to Mr. Vallish for business purposes	₹ 80,000	Yes, u/s 194H, @ 2 % since the payment exceeds ₹ 15,000, and Mr. Ganesh's turnover exceeds ₹ 1 crore in the P.Y.2023-24.
2.	Mr. Rajesh, a wholesale trader whose turnover was ₹ 95 lakhs in P.Y. 2023-24	Contract Payment for reconstruction of residential house	₹ 55 lakhs	Yes, u/s 194M, @2%, since the Aggregate of payments (i.e., ₹55 lakhs) exceed ₹50 lakhs. Since, his turnover does not exceed 1 crore inthe P.Y.2023-24, TDS provisions under section 194C are not attracted in respect of payments made in the P.Y.2024-25.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house	₹ 51 lakhs	Yes, u/s 194M, @2%since the payment of ₹ 51 lakhs made in March 2025 exceeds the threshold of ₹ 50 lakhs. Since Mr. Satish is a salaried individual, the provisions of section 194H are not applicable in this case.
4.	Mr. Dheeraj, a pensioner	Contract payment for reconstruction of residential house	₹ 48 lakhs	TDS provisions under section 194C are not attracted since Mr. Dheeraj is a pensioner. TDS provisions under section 194M are also not applicable in this case, since the payment of ₹ 48 lakhs does not exceed the threshold of ₹ 50 lakhs.

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Question 10 (illustration)

Examine the applicability of the provisions for tax deduction at source under section 194DA in the following cases -

(i) Mr. X, a resident, is due to receive ₹ 4.50 lakhs on 30.6.2024, towards maturity proceeds of LIC policy taken on 1.7.2021, for which the sum assured is ₹ 4 lakhs and the annual premium is ₹ 1,25,000.

(ii) Mr. Y, a resident, is due to receive ₹ 3.95 lakhs on 31.12.2024 on LIC policy taken on 31.12.2011, for which the sum assured is ₹ 3.50 lakhs and the annual premium is ₹ 26,100.

(iii) Mr. Z, a resident, is due to receive ₹ 95,000 on 1.8.2024 towards maturity proceeds of LIC policy taken on 1.8.2017 for which the sum assured is₹ 90,000 and the annual premium was ₹ 10,000.

Answer 10

(i) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of ₹ 4.50 lakhs due on 31.3.2024 are not exempt under section 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted@5% under section 194DA on the amount of income comprised therein i.e., on ₹ 75,000 (₹ 4,50,000, being maturity proceeds - ₹ 3,75,000, being the aggregate amount of insurance premium paid).

(ii) Since the annual premium is less than 20% of sum assured in respect of a policy taken before 1.4.2012, the sum of ₹ 3.95 lakhs due to Mr. Y would be exempt under section 10(10D) in his hands. Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Y.

(iii) Even though the annual premium exceeds 10% of sum assured in respect of policy taken after 31.3.2012, and consequently, the maturity proceeds of ₹ 95,000 due on 1.8.2024 would not be exempt under section 10(10D) in the hands of Mr. Z, the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than ₹ 1 lakh.

Question 11 (illustration)

Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of ₹ 60 lakh and ₹ 15 lakh, respectively, to Mr. Y on 1.8.2024. He has purchased the house property and the land in the year 2023 for ₹ 40 lakh and₹ 10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2024, is ₹ 85 lakh and ₹ 20 lakh for the house property and rural agricultural land, respectively. Examine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X and Mr. Y are resident Indians.

Answer 11

(i)	Tax implications in the hands of Mr. X
	As per section 50C, the stamp duty value of house property (i.e. ₹ 85 lakh) would be deemed to be the full value of consideration arising on transfer of property, since the stamp duty value exceeds 110% of the consideration received. Therefore, ₹ 45 lakh (i.e., ₹ 85 lakh – ₹ 40 lakh, being the purchase price) would be taxable as short-term capital gains in the A.Y.2025-26. Since rural agricultural land is not a capital asset, the gains arising on sale of such land is not taxable in the hands of Mr. X.

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(ii)	**Tax implications in the hands of Mr. Y** In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable under section 56(2)(x), if such difference exceeds the higher of ₹ 50,000 and 10% of the consideration. Therefore, in this case ₹ 25 lakh (₹ 85 lakh – ₹ 60 lakh) would be taxable in the hands of Mr. Y under section 56(2)(x). Since agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted in respect of receipt of agricultural land for inadequate consideration, since the definition of "property" under section 56(2)(x) includes only capital assets specified thereunder.
(iii)	**TDS implications in the hands of Mr. Y** Since the sale consideration of house property exceeds ₹ 50 lakh, Mr. Y is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be ₹ 85,000, being 1% of ₹ 85 lakh (higher of ₹ 60 lakhs or ₹ 85 lakhs). TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.

Question 12 (illustration)

Mr. Sharma, a resident Indian aged 77 years, gets pension of ₹ 52,000 per month from the UP State Government. The same is credited to his savings account in SBI, Lucknow Branch. In addition, he gets interest@8% p.a. on fixed deposit of ₹ 20 lakh with the said bank. Out of the deposit of ₹ 20 lakh, ₹ 2 lakh represents five-year term deposit made by him on 1.4.2024. Interest on savings bank credited to his SBI savings account for the P.Y.2024-25 is ₹ 9,500.

(1) From the above facts, compute the total income and tax liability of Mr. Sharma for the A.Y. 2025-26, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(2) What would be the amount of tax deductible at source by SBI, assuming that the same is a specified bank? Is Mr. Sharma required to file his return of income for A.Y.2025-26, if tax deductible at source has been fully deducted? Examine.

(3) Is Mr. Sharma required to file his return of income for A.Y. 2025-26, if the fixed deposit of ₹ 20 lakh was with Canara Bank instead of SBI, other facts remaining the same?

Answer 12

(1) **Computation of total income of Mr. Sharma for A.Y.2025-26**

	Particulars	**₹**	**₹**
I	**Salaries**		
	Pension (52,000 x 12)	6,24,000	
	Less: Standard deduction u/s 16(ia)	50,000	
			5,74,000
II	**Income from Other Sources**		
	Interest on fixed deposit (₹20 lakh x 8%)	1,60,000	
	Interest on savings account	9,500	1,69,500
Gross total income			**7,43,500**
Less:	**Deductions under Chapter VI-A**		

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	Under Section 80C		
	Five year term deposit (₹2 lakh, restrictedto ₹ 1.5 lakh)	1,50,000	
	Under section 80TTB		
	Interest on fixed deposit and savings account, restricted to 50,000, since Mr. Sharma is a resident Indian of the age of 77 years.	50,000	2,00,000
Total Income			**5,43,500**

Computation of tax liability for A.Y.2025-26

Particulars	₹
Tax payable [₹43,500 x 20% + ₹10,000]	18,700
Add: Health and Education Cess@4%	748
Tax liability	**19,448**
Tax liability (rounded off)	**19,450**

(2) SBI, being a specified bank, is required to deduct tax at source u/s 194P and remit the same to the Central Government. In such a case, Mr. Sharma would not be required to file his return of income u/s 139.

(3) If the fixed deposit of ₹ 20 lakh is with a bank other than SBI, which is the bank where his pension is credited, then, Mr. Sharma would not qualify as a "specified senior citizen". In this case, Mr. Sharma would have to file his return of income u/s 139, since his total income (without giving effect to deduction under Chapter VI-A) exceeds the basic exemption limit.

Question 13 (illustration)

Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y.2023-24 was ₹ 12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y.2024-25 was ₹ 95 lakh (₹ 20 lakh on 1.6.2024, ₹ 25 lakh on 12.8.2024, ₹ 22 lakh on 23.11.2024 and ₹ 28 lakh on 25.3.2025). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date. Mr. Agarwal's turnover for F.Y.2023-24 was ₹ 15 crores.

(1) Based on the above facts, examine the TDS/TCS implications, if any, under theIncome-tax Act, 1961.

(2) Would your answer be different if Mr. Gupta's turnover for F.Y.2023-24 was ₹ 8crores, all other facts remaining the same?

(3) Would your answer to (1) and (2) change, if PAN has not been furnished by thebuyer or seller, as required?

Answer 13

(1) Since Mr. Gupta's turnover for F.Y.2023-24 exceeds 10 crores, and payments made by him to Mr. Agarwal, a resident seller exceed ₹ 50 lakhs in the P.Y.2024-25, he is liable to deduct tax@0.1% of ₹ 45 lakhs (being the sum exceeding ₹ 50 lakhs) in the following manner –

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No tax is to be deducted u/s 194Q on the payments made on 1.6.2024 and 12.8.2024, since the aggregate payments till that date i.e. 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs.
Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 22 lakh on 23.11.2024 [₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit].
Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 28 lakhs on 25.3.2025.
Note – In this case, since both section 194Q and 206C(1H) applies, tax has to be deducted u/s 194Q.

(2) If Mr. Gupta's turnover for the F.Y.2023-24 was only ₹ 8 crores, TDS provisions under section 194Q would not be attracted. However, TCS provisions under section 206C(1H) would be attracted in the hands of Mr. Agarwal, since his turnover exceeds ₹ 10 crores in the F.Y.2023-24 and his receipts from Mr. Gupta exceed ₹ 50 lakhs.
No tax is to be collected u/s 206C(1H) on 1.6.2024 and 12.8.2024, since the aggregate receipts till that date i.e. 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs.
Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be collected u/s 206C(1H) on 23.11.2024 (₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit).
Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be collected u/s 206C(1H) on 25.3.2025.

(3) In case (1), if PAN is not furnished by Mr. Agarwal to Mr. Gupta, then, Mr. Gupta has to deduct tax@5%, instead of 0.1%. Accordingly, tax of ₹ 85,000 (i.e., 5% of ₹ 17 lakhs) and ₹ 1,40,000 (5% of ₹ 28 lakhs) has to be deducted by Mr. Gupta u/s 194Q on 23.11.2024 and 25.3.2025, respectively.
In case (2), if PAN is not furnished by Mr. Gupta to Mr. Agarwal, then, Mr. Agarwal has to collect tax@1% instead of 0.1%. Accordingly, tax of ₹ 17,000 (i.e., 1% of ₹ 17 lakhs) and ₹ 28,000 (1% of ₹ 28 lakhs) has to be collected by Mr. Agarwal u/s 206C(1H) on 23.11.2024 and 25.3.2025, respectively.

TEST YOUR KNOWLEDGE

Question 1

Ashwin doing manufacture and wholesale trade furnishes you the followinginformation:
Total turnover for the financial year

Particulars	₹
2023-24	1,05,00,000
2024-25	95,00,000

Examine whether tax deduction at source provisions are attracted for the below saidexpenses incurred during the financial year 2024-25:

Particulars	₹
Interest paid to UCO Bank on 15.8.2024	41,000
Contract payment to Raj (2 contracts of ₹ 12,000 each) on 12.12.2024	24,000
Shop rent paid (one payee) on 21.1.2025	2,50,000
Commission paid to Balu on 15.3.2025	7,000

Answer 1

As the turnover of business carried on by Ashwin for F.Y. 2023-24, has exceeded₹ 1 crore, he has to comply with the tax deduction provisions during the financial year 2024-25, subject to, the exemptions provided for under the relevant sectionsfor applicability of TDS provisions.

Interest paid to UCO Bank

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TDS under section 194A is not attracted in respect of interest paid to a banking company.

Contract payment of ₹ 24,000 to Raj for 2 contracts of ₹ 12,000 each

TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194Care not attracted in this case.

Shop Rent paid to one payee – Tax has to be deducted@10% under section 194-I as the annual rental payment exceeds ₹2,40,000.

Commission paid to Balu – No, tax has to be deducted under section 194H in this case as the commission does not exceed ₹15,000.

Question 2

Compute the amount of tax deduction at source on the following payments madeby M/s. S Ltd. during the financial year 2024-25 as per the provisions of the Income-tax Act, 1961.

Sr. No.	Date	Nature of Payment
(i)	1-10-2024	Payment of ₹ 2,00,000 to Mr. R, a transporter who owns 8 goods carriages throughout the previous year and furnishes a declaration to this effect along with his PAN.
(ii)	1-11-2024	Payment of fee for technical services of ₹ 25,000 andRoyalty of ₹ 20,000 to Mr. Shyam who is having PAN.
(iii)	30-06-2024	Payment of ₹ 25,000 to M/s X Ltd. for repair of building.
(iv)	01-01-2025	Payment of ₹ 2,00,000 made to Mr. A for purchase of diaries made according to specifications of M/s S Ltd. However, no material was supplied for such diaries to Mr.A by M/s S Ltd or its associates.
(v)	01-01-2025	Payment of ₹ 2,30,000 made to Mr. Bharat for compulsory acquisition of his house as per law of the State Government.
(vi)	01-02-2025	Payment of commission of ₹ 14,000 to Mr. Y.

Answer 2

(i) No tax is required to be deducted at source under section 194C by M/s S Ltd. on payment to transporter Mr. R, since he satisfies the following conditions:

(1) He owns ten or less goods carriages at any time during the previous year.

(2) He is engaged in the business of plying, hiring or leasing goods carriages;

(3) He has furnished a declaration to this effect along with his PAN.

(ii) As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for technical services and royalty, individually, exceeds ₹ 30,000 during the financial year. In the given case, since, the individual payments for fee of technical services i.e., ₹ 25,000 and royalty₹ 20,000 is less than ₹ 30,000 each, there is no liability to deduct tax atsource. It is assumed that no other payment towards fees for technical services and royalty were made during the year to Mr. Shyam.

(iii) Provisions of section 194C are not attracted in this case, since the paymentfor repair of building on 30.06.2024 to M/s. X Ltd. is less than the threshold limit of ₹30,000.

(iv) According to section 194C, the definition of "work" does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or associate of such customer.

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Therefore, there is no liability to deduct tax at source in respect of paymentof ₹2,00,000 to Mr. A, since the contract is a contract for 'sale'.

(v) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is responsible for deduction of tax at source if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹2,50, 000. In the given case, no liability to deduct tax at source is attracted as thepayment made does not exceed ₹2,50,000.

(vi) As per section 194H, tax is deductible at source if the amount of commission or brokerage or the aggregate of the amounts of commission or brokerage credited or paid during the financial year exceeds ₹15,000.
Since the commission payment made to Mr. Y does not exceed ₹ 15,000, the provisions of section 194H are not attracted.

Question 3

Examine the applicability of TDS provisions and TDS amount in the following cases:

(a) Rent paid for hire of machinery by B Ltd. to Mr. Raman ₹ 2,60,000 on 27.9.2024.

(b) Fee paid on 1.12.2024 to Dr. Srivatsan by Sundar (HUF) ₹ 35,000 for surgery performed on a member of the family.

(c) ABC and Co. Ltd. paid ₹ 19,000 to one of its directors as sitting fees on 01-01-2025.

Answer 3

(a) Since the rent paid for hire of machinery by B. Ltd. to Mr. Raman exceeds₹ 2,40,000, the provisions of section 194-I for deduction of tax at source are attracted.
The rate applicable for deduction of tax at source under section 194-I on rent paid for hire of plant and machinery is 2%, assuming that Mr. Raman had furnished his permanent account number to B Ltd.
Therefore, the amount of tax to be deducted at source:
= ₹2,60,000 x 2% = ₹5,200.
Note: In case Mr. Raman does not furnish his permanent account numberto B Ltd., tax shall be deducted @ 20% on ₹ 2,60,000, by virtue of provisions of section 206AA.

(b) As per the provisions of section 194J, a Hindu Undivided Family is requiredto deduct tax at source on fees paid for professional services only if the total sales, gross receipts or turnover form the business or profession exceed ₹1 crore in case of business or ₹50 lakhs in case of profession, as the case may be, in the financial year preceding the current financial year and such payment made for professional services is not exclusively for the personal purpose of any member of Hindu Undivided Family.
Section 194M, provides for deduction of tax at source by a HUF (which is not required to deduct tax at source under section 194J) in respect of fees for professional service if such sum or aggregate of such sum exceeds ₹ 50 lakhs during the financial year.
In the given case, the fees for professional service to Dr. Srivatsan is paid on 1.12.2024 for a personal purpose, therefore, section 194J is not attracted.Section 194M would have been attracted, if the payment or aggregate of payments exceeded ₹ 50 lakhs in the P.Y.2024-25. However, since the payment does not exceed ₹ 50 lakh in this case, there is no liability to deduct tax at source under section 194M also.

(c) Section 194J provides for deduction of tax at source @10% from any sum paid by way

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of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of ₹ 30,000 up towhich the provisions of tax deduction at source are not attracted in respectof every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director.

Therefore, tax@10% has to be deducted at source under section 194J inrespect of the sum of ₹19,000 paid by ABC Ltd. to its director.

Therefore, the amount of tax to be deducted at source:

= ₹19,000 x 10% = ₹1,900

Question 4

Examine the applicability of tax deduction at source provisions, the rate andamount of tax deduction in the following cases for the F.Y. 2024-25:

1. **Payment made by a company to Mr. Ram, sub-contractor, ₹ 3,00,000 with outstanding balance of ₹ 1,20,000 shown in the books as on 31.3.2025.**
2. **Winning from horse race ₹ 1,50,000 paid to Mr. Shyam, an Indian resident.**
3. **₹ 2,00,000 paid to Mr. A, a resident individual, on 22-02-2025 by theState of Uttar Pradesh on compulsory acquisition of his urban land.**

Answer 4

1) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a company to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% in case the payment is made to an individual.
   Since the aggregate amount credited or paid during the year is ₹ 4,20,000, tax is deductible @ 1% on ₹ 4,20,000.
   Tax to be deducted = ₹ 4,20,000 x 1% = **₹ 4,200**
2) Under section 194BB, tax is to be deducted at source, if the winnings from horse races exceed ₹ 10,000. The rate of deduction of tax at source is 30%.
   Hence, tax to be deducted = ₹ 1,50,000 x 30% = **₹ 45,000**.
3) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 2,50,000.
   In the given case, there is no liability to deduct tax at source as the payment made to Mr. A does not exceed ₹ 2,50,000.

Question 5

Briefly discuss the provisions relating to payment of advance tax on income arisingfrom capital gains and casual income.

Answer 5

The proviso to section 234C contains the provisions for payment of advance tax incase of capital gains and casual income.

Advance tax is payable by an assessee on his/its total income, which includescapital gains and casual income like income from lotteries, crossword puzzles, etc.

Since it is not possible for the assessee to estimate his capital gains, or incomefrom lotteries etc., it has been provided that if any such income arises after thedue date for any instalment,

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then, the entire amount of the tax payable (afterconsidering tax deducted at source) on such capital gains or casual income should be paid in the remaining instalments of advance tax, which are due.

Where no such instalment is due, the entire tax should be paid by 31st March ofthe relevant financial year.

No interest liability on late payment would arise if the entire tax liability is so paid.

Note: In case of casual income the entire tax liability is fully deductible at source @30% under section 194B and 194BB. Therefore, advance tax liability would arise only if the surcharge, if any, and health and education cess@4% in respect thereof, along with tax liability in respect of other income, if any, is ₹ 10,000 or more.

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ILLUSTRATION

Question 1 (Illustration)

Paras aged 55 years is a resident of India. During the F.Y. 2024-25, interest of ₹ 2,88,000 was credited to his Non-resident (External) Account with SBI. ₹ 30,000, being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also earned ₹ 3,000 as interest on this saving account. Is Paras required to file return of income?

What will be your answer, if he has incurred ₹ 3 lakhs as travel expenditure of selfand spouse to US to stay with his married daughter for some time?

Answer 1

An individual is required to furnish a return of income under section 139(1) if his totalincome, before giving effect to the deductions under Chapter VI-A or exemption under section or section 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e. ₹ 3,00,000 under default tax regime u/s 115BAC and ₹ 2,50,000if exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) (for A.Y. 2025-26).

Computation of total income of Mr. Paras for A.Y. 2025-26

Particulars	₹
Income from other sources	
Interest earned from Non-resident (External) Account ₹ 2,88,000 [Exempt under section 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account]	NIL
Interest on fixed deposit with SBI	30,000
Interest on savings bank account	3,000
Gross Total Income	**33,000**
Less: Deduction under Chapter VI-A (not available under the default tax regime under section 115BAC)	-
Total Income	**33,000**

In case he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A), he would be eligible for deduction of ₹ 3,000 under section 80TTA. Accordingly, his total income would be ₹ 30,000. However, in both regimes, total income of ₹ 33,000, before giving effect to deductions under Chapter VI-A, would be considered.

since the total income of Mr. Paras for A.Y.2025-26, before giving effect to the deductions under Chapter VI-A, is less than the basic exemption limit in both regimes, he is not required to file return of income for A.Y.2025-26.

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Note: In the above solution, interest of ₹ 2,88,000 earned from Non-resident (External) account has been taken as exempt on the assumption that Mr. Paras, a resident, has been permitted by RBI to maintain the aforesaid account. However, in case he has not been so permitted, the said interest would be taxable. In such a case, his total income, before giving effect to, inter alia, the deductions under Chapter VI-A, would be ₹ 3,21,000 (₹ 30,000 + ₹ 2,88,000 + ₹ 3,000), which is higher than the basic exemption limit of ₹ 3,00,000 or ₹ 2,50,000, as the case may be. Consequently, he would be required to file return of income for A.Y.2025-26.

If he has incurred expenditure of ₹ 3 lakhs on foreign travel of self and spouse, he has to mandatorily file his return of income on or before the due date under section 139(1), even if his income is less than the basic exemption limit.

Question 2 (Illustration)

Explain with brief reasons whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:

(i) Belated return filed under section 139(4).

(ii) Return already revised once under section 139(5).

(iii) Return of loss filed under section 139(3).

Answer 2

Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

(i) A belated return filed under section 139(4) can be revised.

(ii) A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier. It implies that a return of income can be revised more than once within the prescribed time.

(iii) A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).

Question 3 (Illustration)

Mrs. Hetal, an individual engaged in the business of Beauty Parlour, has got her books of account for the financial year ended on 31st March, 2025 audited under section 44AB. Her total income for the A.Y. 2025-26 is ₹ 6,35,000. She wants to furnish her return of income for A.Y. 2025-26 through a tax return preparer. Can she do so?

Answer 3

Section 139B provides a scheme for submission of return of income for any assessment year through a Tax Return Preparer. However, it is not applicable to persons whose books of account are required to be audited under section 44AB. Therefore, Mrs. Hetal cannot furnish her return of income for A.Y.2025-26 through a Tax Return Preparer.

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TEST YOUR KNOWLEDGE

Question 1

State with reasons whether you agree or disagree with the following statements:

(a) Return of income of Limited Liability Partnership (LLP) could be verified by any partner.

(b) Time limit for filing return under section 139(1) in the case of Mr. A having total turnover of ₹ 160 lakhs (₹ 100 lakhs received in cash) for the year ended 31.03.2025 whether or not declaring presumptive income under section 44AD, is 31st October, 2025.

Answer 1

(a) Disagree

The return of income of LLP should be verified by a designated partner.

Any other partner can verify the Return of Income of LLP only in thefollowing cases:-

(i) where for any unavoidable reason such designated partner is notable to verify the return,or

(ii) where there is no designated partner.

(b) Disagree

In case Mr. A offers his business income as per the presumptive taxation provisions of section 44AD (₹ 11.60 lakhs or more), then, the due date under section 139(1) for filing of return of income for the year ended 31.03.2025, shall be 31st July, 2025.

In case, Mr. A wants to declare business income lower than ₹ 11.60lakhs, he has to get his accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore, in which case, the due date for filing return would be 31st October, 2025.

Question 2

Mr. Vineet exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) and submits his return of income under the optional tax regime (i.e., the normal provisions of the Act) on 12-09-2025 for A.Y 2025-26 consisting of income under the head "Salaries", "Income from house property" and bank interest. On 21-12-2025, he realized that he had not claimed deduction under section 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income. Can he do so? Examine. Would your answer be different if he discovered this omission on 21- 03-2026?

Answer 2

Since Mr. Vineet has income only under the heads "Salaries", "Income from house property" and "Income from other sources", he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2025-26 under section 139(1), in his case, is 31st July, 2025. Since Mr. Vineet had submitted his return only on 12.9.2025, the said return is a belated return under section 139(4).

As per section 139(5), a return furnished under section 139(1) or a belated return u/s 139(4) can be revised. Thus, a belated return under section 139(4) can also be revised. Therefore, Mr. Vineet can revise the return of income filed by him under section 139(4) in December 2025, to claim deduction under section 80TTA, since the time limit for filing a revised return is three months prior to the end of the relevant assessment year, which is 31.12.2025.

However, he cannot revise return had he discovered this omission only on 21- 03-2026, since it is beyond 31.12.2025.

Question 3

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Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

(i) The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable.

(ii) Where the Karta of a HUF is absent from India, the return of income canbe verified by any male member of the family.

Answer 3

i. **True:** Section 139A (2) provides that the Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, inthe manner and in accordance with the procedure as may be prescribed.

ii. **False:** Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

Question 4

Explain the term "return of loss" under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required?

Answer 4

A return of loss is a return which shows certain losses. Section 80 provides that the losses specified therein cannot be carried forward, unless such losses are determined in pursuance of return filed under the provisions of section 139(3).

Section 139(3) states that to carry forward the losses specified therein; the return should be filed within the time specified in section 139(1).

Following losses are covered by section 139(3):

- business loss to be carried forward under section 72(1),
- speculation business loss to be carried forward under section 73(2),
- loss from specified business to be carried forward under section 73A(2),in case the assessee has exercised the option of shifting out of thedefault tax regime provided under section 115BAC(1A).
- loss under the head "Capital Gains" to be carried forward under section 74(1); and
- loss incurred in the activity of owning and maintaining race horses tobe carried forward under section 74A(3)

However, loss from house property to be carried forward under section 71B and unabsorbed depreciation under section 32 can be carried forward evenif return of loss has not been filed as required under section 139(3).

Question 5

Mr. Aakash has undertaken certain transactions during the F.Y.2024-25, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents –

S. No.	Transaction
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2024-25 by account payee cheque to LIC for insuring life ofself and spouse
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days withfamily, out of which ₹

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	60,000 was paid in cash
3.	**Payment of ₹ 80,000 by ECS through bank account for acquiringthe debentures of A Ltd., an Indian company**
4.	**Payment of ₹ 95,000 by account payee cheque to Thomas Cookfor travel to Dubai for 3 days to visit relatives**
5.	**Applied to SBI for issue of credit card.**

Answer 5

	Transaction	**Is quoting of PAN mandatory in related documents?**
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2024-25 by account payee cheque to LIC forinsuring life of self and spouse	No, since the amount paid does not exceed ₹ 50,000 in the F.Y.2024-25.
2.	Payment of ₹1,00,000 to a five-starhotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash	Yes, since the amount paid incash exceeds ₹50,000
3.	Payment of ₹ 80,000, by ECS through bank account, for acquiring the debentures of A Ltd., an Indian company	Yes, since the amount paid for acquiring debentures exceeds ₹ 50,000. Mode of payment is not relevant in this case.
4.	Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives	No, since the amount was paidby account payee cheque,quoting of PAN is not mandatory even though the payment exceeds ₹50,000
5.	Applied to SBI for issue of creditcard.	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.

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Chapter 9
Computation of total income and tax payable

ILLUSTRATION

Question 1 (Illustration)

Mr. A, aged 32 years, is employed with XYZ (P) Ltd. on a basic salary of ₹ 50,000 p.m. He has received transport allowance of ₹ 15,000 p.m. and house rent allowance of ₹ 20,000 p.m. from the company for the P.Y. 2024-25. He has paid rent of ₹ 25,000 p.m. for an accommodation in Delhi. Mr. A has paid interest of ₹ 2,10,000 for housing loan taken for the construction of his house in Mumbai. The construction of the house is completed in March, 2025 and his parents live in that house.

Other Information

- **Contribution to PPF - ₹ 1,50,000**
- **Contribution to pension scheme referred to in section 80CCD - ₹ 50,000**
- **Payment of medical insurance premium for father, who is of the age of 65 - ₹ 55,000**
- **Payment of medical insurance premium for self and spouse - ₹ 32,000**

Compute the total income and tax liability of Mr. A for the A.Y. 2025-26 in the most beneficial manner.

Answer 1

Computation of total income and tax liability of Mr. A for A.Y. 2025-26 under default tax regime under section 115BAC

Particulars		₹
Salaries		
Basic Salary [₹ 50,000 x 12]		6,00,000
Transport allowance [₹ 15,000 x 12]		1,80,000
HRA received [₹ 20,000 x 12]		2,40,000
Gross salary		**10,20,000**
Less: Standard deduction u/s 16(ia)		(75,000)
		9,45,000
Income from house property		
Interest on housing loan		-
Gross Total Income		**9,45,000**
Less: Deductions under Chapter VI- A		
Section 80C		
Contribution in PPF		-
Section 80CCD		
Contribution to pension scheme		-

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Section 80D		
Mediclaim insurance premium for self and parents		-
Total Income		**9,45,000**
Tax liability		
Tax @5% on ₹ 4,00,000 [₹ 7,00,000 - ₹ 3,00,000]	20,000	
Tax @10% on ₹ 2,45,000 [₹ 9,45,000 - ₹ 7,00,000]	24,500	44,500
Add: Health & Education cess @ 4%		1,780
Total Tax Liability		**46,280**

Computation of total income and tax liability of Mr. A for A.Y. 2025-26 under normal provisions of the Act

Particulars		₹
Salaries		
Basic Salary [₹ 50,000 x 12]		6,00,000
Transport allowance [₹ 15,000 x 12]		1,80,000
HRA received	2,40,000	
Less: Least of the following exempt u/s 10(13A)	2,40,000	-
HRA Received	2,40,000	
Actual rent paid – 10% of salary[₹ 3,00,000 – ₹ 60,000]	2,40,000	
50% of salary	3,00,000	
Gross salary		**7,80,000**
Less: Standard deduction u/s 16(ia)		(50,000)
		7,30,000
Income from house property		
[Annual Value is Nil. Deduction u/s 24(b) for interest on housing loan would be restricted to ₹ 2,00,000, in case of self-occupied property, which would represent loss from house property]		(2,00,000)
Gross Total Income		**5,30,000**
Less: Deductions under Chapter VI-A		
Section 80C		
Contribution to PPF		1,50,000
Section 80CCD(1B)		
Own contribution to pension scheme		50,000
Section 80D		
Mediclaim insurance premium		
For self and spouse, restricted to	25,000	
For father, who is a senior citizen, restricted to	50,000	
		75,000
Total Income		**2,55,000**
Tax liability		
Tax @ 5% on ₹ 5,000 [₹ 2,55,000 - ₹ 2,50,000]		250
Less: Rebate u/s 87A		250
Total Tax Liability		-

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Since tax liability as per the normal provisions of the Act is lower than the tax liability under the default tax regime under section 115BAC, it would be beneficialfor Mr. A to shift out of the default tax regime under section 115BAC for A.Y. 2025-26.

Note: In this case, Mr. A is entitled to exemption u/s 10(13A), benefit of interestonhousing loan in respect of self-occupied property and Chapter VI-A deductions, owing to which his total income is reduced by ₹ 6,90,000. His total income under the regular provisions of the Act is less than ₹ 5,00,000, owing to which he becomes entitled to rebate u/s 87A. Hence, in this case, it is beneficial for Mr. A to shift out of the default tax regime under section 115BAC for A.Y. 2025-26

Question 2 (Illustration)

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

Answer 2

Computation of tax liability of Kadam under both the options

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

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Tax liability	13,666	**Nil**
Tax liability (Rounded off)	13,670	**Nil**

Cash Flow Statement

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

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

TEST YOUR KNOWLEDGE

Question 1

Compute the tax liability of Mr. Gupta (aged 61) under default tax regime, having total income of ₹ 1,02,00,000 for the A.Y.2025-26. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit.

Answer 1

Computation of tax liability of Mr. Gupta for the A.Y.2025-26 under default tax regime

(A) Income-tax (including surcharge) computed on total income of ₹ 1,02,00,000		
₹ 3,00,000 – ₹ 7,00,000 @5%	₹ 20,000	
₹ 7,00,001 – ₹ 10,00,000 @10%	₹ 30,000	
₹ 10,00,001 – ₹ 12,00,000 @15%	₹ 30,000	
₹ 12,00,001 – ₹ 15,00,000 @20%	₹ 60,000	
₹ 15,00,001 – ₹ 1,02,00,000 @30%	₹ 26,10,000	
Total	₹ 27,50,000	
Add: Surcharge @ 15%	₹ 4,12,000	₹ 31,62,500
(B) Income-tax computed on total income of ₹ 1 crore (₹ 1,40,000 plus ₹ 25,50,000)		₹ 26,90,000
Add: Surcharge@10%		₹ 2,69,000
		₹ 29,59,000
(C) Total Income Less ₹ 1crore		₹ 2,00,000
(D) Income-tax computed on total income of ₹ 1 crore plus the excess of total income over ₹ 1 crore (B +C)		₹ 31,59,000
(E) Tax liability: lower of (A) and (D)		₹ 31,59,000
Add: Health and education cess @4%		₹ 1,26,360
Tax liability (including cess)		₹ 32,85,360
(F) Marginal Relief (A – D)		₹ 3,500

Alternative method -

(A) Income-tax (including surcharge) computed on total income of ₹ 1,02,00,000		
₹ 3,00,000 – ₹ 7,00,000 @5%	₹ 20,000	

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₹ 7,00,001 – ₹ 10,00,000 @10%	₹ 30,000	
₹ 10,00,001 – ₹ 12,00,000 @15%	₹ 30,000	
₹ 12,00,001 – ₹ 15,00,000 @20%	₹ 60,000	
₹ 15,00,001 – ₹ 1,02,00,000 @30%	₹ 26,10,000	
Total	₹ 27,50,000	
Add: Surcharge @ 15%	₹ 4,12,500	₹ 31,62,500
(B) Income-tax computed on total income of ₹ 1 crore [(₹ 1,40,000 plus ₹ 25,50,000) plus surcharge@10%]		₹ 29,59,000
(C) Excess tax payable (A)-(B)		₹ 2,03,500
(D) Marginal Relief (₹ 2,03,500 – ₹ 2,00,000, being the amount of income in excess of ₹ 1,00,00,000)		**₹ 3,500**
(E) Tax liability (A)-(D)		₹ 31,59,000
Add: Health and education cess @4%		₹ 1,26,360
Tax liability (including cess)		**₹ 32,85,360**

Question 2

Miss Charlie, an American national, got married to Mr. Radhey of India inUSA on 2.03.2024 and came to India for the first time on 16.03.2024. She left for USA on 19.9.2024. She returned to India again on 27.03.2025. While in India, she had purchased a show room in Mumbai on 30.04.2024, which was leased out to a company on a rent of ₹ 25,000 p.m. from 1.05.2024. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹ 97,500 upto 31.03.2025. She had received the following cash gifts from her relatives and friends during 1.4.2024 to 31.3.2025:

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

(a) Determine her residential status and compute the total income chargeable to tax along with the amount of tax liability on such incomefor the A.Y. 2025-26 if she opts out of the default tax regime under section 115BAC.

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

Answer 2

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

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

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

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

Therefore, the residential status of Miss Charlie, an American National, for A.Y.2025-26 has to be

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determined on the basis of her stay in India during the P.Y.2024-25 and in the preceding four previous years.
Her stay in India during the P.Y.2024-25 and in the preceding four years are as under:

P.Y. 2024-25

01.04.2024 to 19.09.2024	- 172 days
27.03.2025 to 31.03.2025	- 5 days
Total	177 days
Four preceding previous years	
P.Y. 2023-24 [1.4.2023 to 31.3.2024]	- 16 days
P.Y. 2022-23 [1.4.2022 to 31.3.2023]	- Nil
P P.Y. 2021-22 [1.4.2021 to 31.3.2022]	- Nil
P.Y. 2020-21 [1.4.2020 to 31.3.2021]	- Nil
Total	16 days

The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 16 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the A.Y.2025-26.

Computation of total income of Miss Charlie for the A.Y. 2025-26

Particulars		₹	₹
Income from house property			
Show room located in Mumbai remained on rent from 01.05.2024 to 31.03.2025 @ ₹ 25,000/- p.m. Gross Annual Value [₹ 25,000 x 11] **(See Note 1below)**		2,75,000	
Less: Municipal taxes		Nil	
Net Annual Value (NAV)		2,75,000	
Less: Deduction under section 24			
30% of NAV	82,500		
Interest on loan	97,500	1,80,000	95,000
Income from other sources			
Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x), if the aggregate value of such gifts exceeds ₹ 50,000.			
- ₹ 50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relative' and gifts from a relative are not chargeable to tax.		Nil	
- ₹ 11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts froma relative are not chargeable to tax.		Nil	
- Gift received from two friends of husband ₹ 1,51,000 and ₹			

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21,000 aggregating to ₹ 1,72,000 is taxable under section 56(2)(x) since the aggregate of ₹ 1,72,000 exceeds ₹ 50,000. **(See Note 2 below)**	1,72,000	1,72,000
Total income		**2,67,000**

Computation of tax liability by Miss Charlie for the A.Y. 2025-26 under normal provisions of the Act

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

Notes:

1. Actual rent received has been taken as the gross annual value inthe absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.
2. If the aggregate value of taxable gifts received from non-relatives exceed ₹ 50,000 during the year, the entire amount received (i.e. the aggregate value of taxable gifts received) is taxable. Therefore, the entire amount of ₹ 1,72,000 is taxable under section 56(2)(x).
3. Since Miss Charlie is a non-resident for the A.Y. 2025-26, rebate under section 87A would not be available to her, even though her total income does not exceed ₹ 5 lacs.

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

If she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 (₹ 18,00,000, in her case), the condition of stay in India for a period exceeding 120 days during the previous year and 365 days during the four immediately preceding previous years would be applicable for being treated as a resident. Since her stay in India exceeds 120 days in the P.Y.2024-25 but the period of her stay in India during the four immediately preceding previous years is less than 365 days (only 16 days), her residential status as per section 6(1) would continue to be same i.e., non-resident in India.

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

Therefore, her residential status would be non-resident in India for the previous year 2024-25.

Question 3

Dr. Niranjana, a resident individual, aged 60 years is running a clinic in Surat. Her Income and Expenditure Account for the year ending March 31st, 2025 isas under:

Expenditure	₹	Income	₹
To Medicine consumed	**35,38,400**	**By Consultation and medical charges**	**58,85,850**
To Staff salary	**13,80,000**	**By Income-tax refund (principal ₹ 5,000, interest ₹ 450)**	**5,450**
To Clinic consumables	**1,10,000**	**By Dividend from units of UTI (Gross)**	**10,500**
To Rent paid	**90,000**	**By Winning from game**	**35,000**

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		show on T.V. (net of TDS of ₹ 15,000)	
To Administrative expenses	**2,55,000**	**By Rent**	**27,000**
To Amount paid to Scientific research association approved u/s 35	**1,50,000**		
To Net profit	**4,40,400**		
	59,63,800		**59,63,800**

(i) **Rent paid includes ₹ 30,000 paid by cheque towards rent for her residential house in Surat.**

(ii) **Clinic equipments are:**
1.4.2024 Opening W.D.V. - ₹ 5,00,000
7.12.2024 Acquired (cost) by cheque - ₹ 2,00,000

(iii) **Rent received relates to residential house property situated at Surat. Gross Annual Value ₹ 27,000. The municipal tax of ₹ 2,000, paid in December, 2024, has been included in "administrative expenses".**

(iv) **She received salary of ₹ 7,500 p.m. from "Full Cure Hospital" which hasnot been included in the "consultation and medical charges".**

(v) **Dr. Niranjana availed a loan of ₹ 5,50,000 from a bank for higher education of her daughter. She repaid principal of ₹ 1,00,000, and interest thereon ₹ 55,000 during the previous year 2024-25.**

(vi) **She paid ₹ 1,00,000 as tuition fee (not in the nature of development fees/ donation) to the university for full time education of her daughter.**

(vii) **An amount of ₹ 28,000 has also been paid by cheque on 27th March, 2025 for her medical insurance premium.**

From the above, compute the total income of Dr. Smt. Niranjana for the A.Y. 2025-26 under the default tax regime and optional tax regime as per the normal provisions of the Act.

Answer 3

Computation of total income of Dr. Niranjana for A.Y. 2025-26 under default tax regime

	Particulars	₹	₹	₹
I	**Income from Salary**			
	Basic Salary (₹ 7,500 x 12)		90,000	
	Less: Standard deduction u/s 16(ia)		75,000	15,000
II	**Income from house property**			
	Gross Annual Value (GAV)		27,000	
	Less: Municipal taxes paid		2,000	
	Net Annual Value (NAV)		25,000	
	Less: Deduction u/s 24@30% of ₹ 25,000		7,500	17,500
III	**Income from profession**			
	Net profit as per Income and Expenditure account		4,40,400	
	Less: Items of income to be treated separately			
	(i) Rent received (taxable under the head "Income from house property")	27,000		
	(ii) Dividend from units of UTI (taxable under the head "Income from other sources")	10,500		
	(iii) Winning from game show on T.V. (net of TDS) –	35,000		

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	taxable under the head "Income from other sources"			
	(iv) Income tax refund	5,450	77,950	
			3,62,450	
	Less: Allowable expenditure			
	Depreciation on clinic equipments			
	on ₹ 5,00,000@15%	75,000		
	on ₹ 2,00,000@7.5%	15,000	90,000	
	(On equipments acquired during the year in December 2024, she is entitled to depreciation @50% of normal depreciation, since the same are put to use for less than 180 days during the year)			
			2,72,450	
	Add: Items of expenditure not Allowable while computing business income			
	(i) Amount paid to scientific research association approved u/s 35 (not allowed underdefault tax regime)	1,50,000		
	(i) Rent for her residential accommodation included in Income and Expenditure A/c	30,000		
	(ii) Municipal tax paid relating to residential house at Surat included in administrativeexpenses	2,000	1,82,000	4,54,450
IV	**Income from other sources**			
	(a) Interest on income-taxrefund		450	
	(b) Dividend from UTI (taxable inthe hands of unit holders)		10,500	
	(c) Winnings from TV game show(₹ 35,000 + ₹ 15,000)		50,000	60,950
	Gross Total Income			**5,47,900**
	Less: **Deductions under Chapter VI-A**:			
	(a) Section 80C [Not allowed underdefault tax regime]			Nil
	(b) Section 80D [Not allowed underdefault tax regime]			Nil
	(c) Section 80E [Not allowed underdefault tax regime]			Nil
	Total income			**5,47,900**

Computation of total income of Dr. Niranjana for A.Y. 2025-26 under normal provisions of the Act

Particulars	₹	₹
Gross Total Income as per default tax regime Add: Standard deduction of Rs. 25,000, being the excess amount allowed u/s 115BAC Less: Items of expenditure allowable while computing business income under normal provisions of the Act		**5,47,900** **25,000**
100% deduction is allowable in respect of the amount paid to scientific research association allowable under normal provisions of		1,50,000

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the Act.		
Gross Total Income as per normalprovisions of the Act		**4,22,900**
Less: **Deductions under Chapter VI-A**:		
(a) Section 80C – Tuition fee paid to university for full time education of her daughter	1,00,000	
(b) Section 80D - Medical insurance premium (fully allowed since she is asenior citizen)	28,000	
(c) Section 80E - Interest on loan taken for higher education is deductible	55,000	1,83,000
Total income		**2,39,900**

Notes:

(i) The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head "Income from other sources".

(ii) Winnings from game show on T.V. should be grossed up for the chargeability under the head "Income from other sources" (₹ 35,000 + ₹ 15,000). Thereafter, while computing tax liability, TDS of ₹ 15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @30% as per section 115BB.

(iii) Dr. Niranjana would not be eligible for deduction u/s 80GG under normal provisions of the Act, as she owns a house in Surat, a place where she is residing as well as carrying on her profession.

Question 4

Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintainsher accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2025 reads as follows:

Expenditure	(₹)	Income	(₹)	(₹)
Salary to staff	15,50,000	Fees earned:		
Stipend to articled	1,37,000	Audit	27,88,000	
Assistants		Taxation services	15,40,300	
Incentive to articled	13,000	Consultancy	12,70,000	55,98,300
Assistants		Dividend on shares of X Ltd., an Indian company (Gross)		10,524
Office rent	12,24,000	Income from UTI (Gross)		7,600
Printing and stationery	12,22,000	Honorarium Received from various Institutions for Valuation of answer papers		15,800
Meeting, seminar conference	31,600	Rent received from residential flat let out		85,600
Purchase of car (for official use)	80,000			
Repair, maintenance and petrol of car	4,000			
Travelling expenses	5,25,000			
Municipal tax paid	3,000			

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in respect of house property				
Net Profit	9,28,224			
	57,17,824			57,17,824

Other Information:

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

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

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

(iv) Repairs and maintenance of car include ₹ 2,000 for the period from 1-10-2024 to 30-09-2025.

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

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

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

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

(ix) She has paid ₹ 70,000 towards advance tax during the P.Y. 2024-25.

Compute the total income and tax payable by Ms. Purvi for the A.Y. 2025-26 in amost beneficial manner.

Answer 4

Computation of total income and tax payable by Ms. Purvi for the A.Y. 2025-26 under default tax regime under section 115BAC

Particulars	₹	₹
Income from house property **(See Working Note 1)**		57,820
Profit and gains of business or profession **(See Working Note 2)**		9,20,200
Income from other sources **(See Working Note 3)**		33,924
Gross Total Income		**10,11,944**
Less: Deductions under Chapter VI-A [not allowable under default tax regime]		-
Total Income **Total Income (rounded off)**		**10,11,944** **10,11,940**
Tax on total income		
Up-to ₹ 3,00,000 ₹ 3,00,001 - ₹ 7,00,000 @5% ₹ 7,00,001 - ₹ 10,00,000 @10% ₹ 10,00,001 - ₹ 10,11,940 @ 15%	Nil 20,000 30,000 1,791	 51,791
Add: Health and Education cess @ 4%		2,072
Total tax liability		**53,863**
Less: Advance tax paid		70,000

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Less: Tax deducted at source on dividend incomefrom an Indian company u/s 194	1,052	
Tax deducted at source on income from UTI u/s 194K	760	1,812
Tax Payable/ (Refundable)		**(17,949)**
Tax Payable/ (Refundable) (rounded off)		**(17,950)**

Computation of total income and tax payable under normal provisions of the Act

Particulars	**₹**	**₹**
Gross Total Income [Income under the "Income from house property" "Profits and gains from business or profession" and "Income from other sources" would remain the same even if Ms. Purvi opts out of the default tax regime under section 115BAC]		**10,11,944**
Less: Deductions under Chapter VI-A **(See WorkingNote 4)**		10,000
Total Income **Total Income (rounded off)**		**10,01,944** **10,01,940**
Tax on total income Upto ₹ 2,50,000 ₹ 2,50,001 – ₹ 5,00,000 @5% ₹ 5,00,000 - ₹ 10,00,000 @20% ₹ 10,00,000 – ₹ 10,01,940 @ 30% Add: Health and Education cess @ 4%	 Nil 12,500 1,00,000 582	 1,13,082 4,523
Total tax liability Less: Advance tax paid Less: TDS u/s 194 on dividend TDS u/s 194K on income from UTI	 1,052 760	**1,17,605** 70,000 1,812
Tax Payable		**45,793**
Tax Payable (rounded off)		**45,790**

Since there is tax refundable under default tax regime under section 115BAC and tax payable under the regular provisions of the Income-tax Act, 1961, it would be beneficial for Ms. Purvi to pay tax under default tax regime under section 115BAC.

Working Notes:

(1) Income from House Property

Particulars	**₹**	**₹**
Gross Annual Value under section 23(1)	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Deduction u/s 24@30% of NAV	24,780	57,820

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

(2) Income under the head "Profits & Gains of Business or Profession"

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Particulars	₹	₹
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed u/s 40A(3), since such cash payment exceeds ₹ 10,000	30,000	
(ii) Amount paid for purchase of car is not allowable under section 37(1) since it is a capital expenditure	80,000	
(iii) Municipal taxes paid in respect of residential flat let out	3,000	1,13,000
		10,41,224
Add: Value of benefit received from clients during the course of profession [taxable asbusiness income under section 28(iv)]		10,500
		10,51,724
Less: Income credited but not taxable under this head:		
(i) Dividend on shares of X Ltd., an Indian company (taxable under the head "Income from other sources")	10,524	
(ii) Income from UTI (taxable under the head "Income from other sources")	7,600	
(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	85,600	1,19,524
		9,32,200
Less: Depreciation on motor car @15% **(See Note (i) below)**		12,000
		9,20,200

Notes:

(i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).
Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).

(ii) Incentive to articled assistants for passing CA Intermediate examination in their first attempt is deductible under section 37(1).

(iii) Repairs and maintenance paid in advance for the period 1.4.2025 to 30.9.2025 i.e. for 6 months amounting to ₹ 1,000 is allowable since Ms. Purvi is following the cash system of accounting.

(iv) ₹ 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with herprofessional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

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Particulars	₹
Dividend on shares of X Ltd., an Indian company (taxablein the hands of shareholders)	10,524
Income from UTI (taxable in the hands of unit holders)	7,600
Honorarium for valuation of answer papers	15,800
	33,924

(4) Deduction under Chapter VI-A :

Particulars	₹
Deduction under section 80C (Investment in NSC)	10,000
Deduction under section 80D (See Notes (i) & (ii) below)	Nil
Total deduction under Chapter VI-A	**10,000**

Notes:

(i) Premium paid to insure the health of brother is not eligible for deduction under section 80D, even though he is a dependent,since brother is not included in the definition of "family" under section 80D.

(ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

Question 5

Mr. Y carries on his own business. An analysis of his trading and profit & lossfor the year ended 31-3-2025 revealed the following information:

(1) The net profit was ₹ 11,20,000.

(2) The following incomes were credited in the profit and loss account:
- **(a) Income from UTI ₹ 22,000 (Gross)**
- **(b) Interest on debentures ₹ 17,500 (Gross)**
- **(c) Winnings from horse races ₹ 15,000 (Gross)**

(3) It was found that some stocks were omitted to be included in both theopening and closing stocks, the value of which were:
Opening stock ₹ 8,000.
Closing stock ₹ 12,000.

(4) ₹ 1,00,000 was debited in the profit and loss account, being contributionto a University approved and notified under section 35(1)(ii).

(5) Salary includes ₹ 20,000 paid to his brother which is unreasonable tothe extent of ₹ 2,500.

(6) Advertisement expenses include 15 gift packets of dry fruits costing ₹ 1,000 per packet presented to important customers.

(7) Total expenses on car was ₹ 78,000. The car was used both for businessand personal purposes. ¾th is for business purposes.

(8) Miscellaneous expenses included ₹ 30,000 paid to A & Co., a goods transport operator in cash on 31-1-2025 for distribution of the company's product to the warehouses.

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(9) Depreciation debited in the books was ₹ 55,000. Depreciation allowedas per Income-tax Rules, 1962 was ₹ 50,000.

(10) Drawings of ₹ 10,000 debited in the books.

(11) Investment in NSC ₹ 15,000 debited in the books.

Compute the total income of Mr. Y for the assessment year 2025-26 underoptional tax regime as per normal provisions of the Act.

Answer 5

Computation of total income of Mr. Y for the A.Y. 2025-26

Particulars	₹
Profits and gains of business or profession **(See WorkingNote 1 below)**	11,21,500
Income from other sources **(See Working Note 2 below)**	54,500
Gross Total Income	**11,76,000**
Less: Deduction under section 80C (Investment in NSC)	15,000
Total Income	**11,61,000**

Working Notes:

1. Computation of profits and gains of business or profession

Particulars	₹	₹
Net profit as per profit and loss account		11,20,000
Add: **Expenses debited to profit and loss Account but not allowable as deduction**		
Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	2,500	
Motor car expenses attributable to personaluse not allowable (₹ 78,000 × ¼)	19,500	
Depreciation debited in the books ofaccount	55,000	
Drawings (not allowable since it is personal in nature) **[See Note (iii)]**	10,000	
Investment in NSC **[See Note (iii)]**	15,000	1,02,000
		12,22,000
Add: Under statement of closing stock		12,000
		12,34,000
Less: Under statement of opening stock		8,000
Less: Contribution to a University approved and notified u/s 35(1)(ii) is eligible for 100% deduction. Since whole of the actual contribution (100%) has been debited to profit and loss account, nofurther adjustment is required.		-
		12,26,000
Less: **Incomes credited to profit and loss account but not taxable as business income**		
Income from UTI [taxable under the head "Income from other	22,000	

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sources"]		
Interest on debentures (taxable under the head "Income from other sources")	17,000	
Winnings from horse races (taxable under the head "Income from othersources")	15,000	54,500
		11,71,500
Less: Depreciation allowable under the Income-tax Rules, 1962		50,000
		11,21,500

Notes:

(i) Advertisement expenses of revenue nature, namely, gift of dryfruits to important customers, is incurred wholly and exclusivelyfor business purposes. Hence, the same is allowable as deduction under section 37.

(ii) Disallowance under section 40A(3) is not attracted in respect of cash payment exceeding ₹ 10,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing goods carriages, an increased limit of ₹ 35,000 is applicable (i.e. payment of upto ₹ 35,000 can be made in cash without attracting disallowance under section 40A(3))

(iii) Since drawings and investment in NSC have been given effect toin the profit and loss account, the same have to be added backto arrive at the business income.

(iv) In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is ₹ 50,000. It has been assumed that, in the said figure of ₹ 50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car.

2. Computation of "Income from Other Sources"

Particulars	₹
Dividend from UTI	22,000
Interest on debentures	17,500
Winnings from races	15,000
	54,500

Question 6

Balamurugan furnishes the following information for the year ended 31-03-2025:

Particulars	₹
Income from textile business	**(1,35,000)**
Income from house property	**(15,000)**
Lottery winning (Gross)	**5,00,000**
Speculation business income	**1,00,000**
Income by way of salary (Computed)	**2,70,000**
Long term capital gain u/s 112 taxable @20%	**70,000**

Compute his total income, tax liability and advance tax obligations under default tax regime under section 115BAC.

Answer 6

Computation of total income of Balamurugan for the year ended 31.03.2025

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Particulars	₹	₹
Salaries	2,70,000	
Less: Loss from house property (Cannot be set offagainst income under any other head)	-	2,70,000
Profits and gains of business or profession		
Speculation business income	1,00,000	
Less: Business loss of ₹ 1,35,000 set-off to theextent of ₹ 1,00,000	(1,00,000)	
	Nil	
Balance current year business loss of ₹ 35,000 to be set-off against long-term capital gain		
Capital Gains		
Long term capital gain	70,000	
Less: Balance current year business loss set-off	(35,000)	
Long term capital gain after set off of business loss		35,000
Income from other sources		
Lottery winnings (Gross)		5,00,000
Total Income		**8,05,000**

Computation of tax liability for A.Y.2025-26

Particulars	₹
On total income of ₹ 2,70,000 (excluding lottery winning andLTCG)	Nil
On LTCG of ₹ 5,000 @20% (balance unexhausted basic exemption limit of ₹ 30,000 can be adjusted against LTCG taxable u/s 112)	1,000
On lottery winnings of ₹ 5,00,000 @ 30%	1,50,000
	1,51,000
Add: Health and Education cess @ 4%	6,040
Total tax liability	**1,57,040**

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under section 194B. Since the remaining tax liability of ₹ 6,040 (₹ 1,57,040 –
₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

Note - The first proviso to section 234C(1) provides that since it is notpossible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should bepaid in the remaining instalments of advance tax which are due. Where nosuch instalment is due, the entire tax should be paid by 31st March, 2025. The first proviso to section 234C(1) would be attracted only in case of non- deduction or short-deduction of tax at source under section 194B. In this case, it has been assumed that tax deductible at source under section 194B has been fully deducted from lottery income. Since the remaining tax liability of ₹ 1,040 (₹ 1,57,040 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

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Question 7

Mr. Rajiv, aged 50 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2024-25.

Receipts and Payments Account

Receipts	₹	Payments	₹
Opening balance (1.4.2024) Cash on hand and at Bank	12,000	Staff salary, bonus and stipend to articled clerks	21,50,000
Fee from professional services (Gross)	59,38,000	Other administrative expenses	11,48,000
Rent	50,000	Office rent	30,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000	Housing loan repaid to SBI (includes interest of ₹ 88,000)	1,88,000
		Life insurance premium (10% of sum assured)	24,000
		Motor car (acquired in Jan. 2025 by A/c payee cheque)	4,25,000
		Medical insurance Premium (for self and wife) (paid by A/c Payee cheque)	18,000
		Books bought on 1.07.2024 (annual publications by A/c payee cheque)	20,000
		Computer acquired on 1.11.2024 by A/c payee Cheque (for professional use)	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000
		Motor car maintenance	10,000
		Closing balance (31.3.2025) Cash on hand and at Bank	19,15,000
	62,50,000		62,50,000

Following further information is given to you:

(1) He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of ₹ 5,000. The buildingwas constructed during the year 1997-98, when the housing loan was taken.

(2) Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interestwas paid during the year.

(3) The written down value of assets as on 1-4-2024 are given below:

Furniture & Fittings	₹ 60,000
Plant & Machinery (Air-conditioners, Photocopiers, etc.)	₹ 80,000
Computers	₹ 50,000

Note: Mr. Rajiv follows regularly the cash system of accounting.

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Compute the total income of Mr. Rajiv for the A.Y. 2025-26 assuming that hehas shifted out of the default tax regime under section 115BAC.

Answer 7

Computation of total income of Mr. Rajiv for the A.Y.2025-26

Particulars	₹	₹	₹
Income from house property			
Self-occupied			
Annual value	Nil		
Less: Deduction under section 24(b)			
Interest on housing loan			
50% of ₹ 88,000 = 44,000 but limited to	30,000		
Loss from self-occupied property		(30,000)	
Let out property			
Annual value (Rent receivable has been taken as the annual value in the absence of other information)	60,000		
Less: Deductions u/s 24			
30% of Net Annual Value 18,000			
Interest on housing loan (50% of ₹ 88,000) 44,000	62,000	(2,000)	
Loss from house property			(32,000)
Profits and gains of business or profession			
Fees from professional services		59,38,000	
Less: Expenses allowable as deduction			
Staff salary, bonus and stipend	21,50,000		
Other administrative expenses	11,48,000		
Office rent	30,000		
Motor car maintenance (10,000 x 4/5)	8,000		
Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting)	Nil	33,36,000	
		26,02,000	
Less: Depreciation			
Motor car ₹ 4,25,000 x 7.5% x 4/5	25,500		
Books being annual publications@40%	8,000		
Furniture and fittings@10% of ₹ 60,000	6,000		
Plant and machinery@15% of ₹ 80,000	12,000		
Computer@40% of ₹ 50,000	20,000		
Computer (New) ₹ 30,000 @ 40% x 50%	6,000	77,500	25,24,500
Gross Total income			**24,92,500**
Less: Deductions under Chapter VI-A			
Deduction under section 80C			
Housing loan principal repayment	1,00,000		

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PPF subscription	20,000		
Life insurance premium	24,000		
Total amount of ₹ 1,44,000 is allowed as		1,44,000	
deduction since it is within the limit of ₹ 1,50,000			
Deduction under section 80D			
Medical insurance premium paid		18,000	1,62,000
Total income			**23,30,500**

Question 8

From the following details, compute the total income and tax liability of Siddhant, aged 31 years, of Delhi both as per section 115BAC and as per the regular provisions of the Income-tax Act, 1961 for the A.Y.2025-26. Advise Mr. Siddhant whether he should opt for section 115BAC:

Particulars	₹
Salary including dearness allowance	4,35,000
Bonus	15,000
Salary of servant provided by the employer	12,000
Rent paid by Siddhant for his accommodation	49,600
Bills paid by the employer for gas, electricity and waterprovided free of cost at the above flat	11,000

Siddhant purchased a flat in a co-operative housing society in Delhi for ₹ 4,75,000 in April, 2016, which was financed by a loan from Life Insurance Corporation of India of ₹ 1,60,000@15% interest, his own savings of ₹ 65,000 and a deposit from a nationalized bank for ₹ 2,50,000 to whom this flat wasgiven on lease for ten years. The rent payable by the bank was ₹ 3,500 per month. The following particulars are relevant:

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

(b) House Insurance ₹ 860

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

(d) In the year 2021-22, he had gifted ₹ 30,000 to his wife and ₹ 20,000 tohis son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest@19% per annum.

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

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

Answer 8

Computation of total income and tax liability of Siddhant under default tax regime under section 115BAC for the A.Y. 2025-26

Particulars	₹	₹
Salary Income		
Salary including dearness allowance		4,35,000
Bonus		15,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	23,000

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		4,73,000
Less: Standard deduction under section 16(ia)		75,000
		3,98,000
Income from house property		
Gross Annual Value (GAV) (Rent receivable is taken asGAV in the absence of other information) (₹ 3,500 × 12)	42,000	
Less: Municipal taxes paid	4,300	
Net Annual Value (NAV)	37,700	
Less: Deductions under section 24		
(i) 30% of NAV ₹ 11,310		
(ii) Interest on loan from LIC @15% of ₹ 1,60,000 **[See Note 2]** ₹ 24,000	35,310	2,390
Income from speculative business		
Income from share speculation business	2,700	
Less: Loss of ₹ 4,200 from cotton speculation businessset-off to the extent of ₹ 2,700	2,700	Nil
Balance loss of ₹ 1,500 from cotton speculation business has to be carried forward to the next year asit cannot be set off against any other head of income.		
Income from Other Sources		
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A) [Exemption under section 10(32) would not be available]	3,800	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)	5,700	
(iii) Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds ₹ 50,000)	1,20,000	1,29,500
Gross Total Income		**5,29,890**
Deduction under section 80C [No deduction under Chapter VI-A would be allowed as per section 115BAC(2)]		Nil
Total Income		**5,29,890**

Particulars	**₹**
Tax on total income [5% of ₹ 2,29,890 (₹ 5,29,890 - ₹ 3,00,000]	11,495
Less: Rebate u/s 87A, since total income does not exceed ₹ 7,00,000	11,495
Tax liability	**Nil**

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Computation of total income and tax liability of Siddhant for the A.Y. 2025-26 under normal provisions of the Act

Particulars	₹
Gross total income (as per default scheme)	**5,29,890**
Add: Standard Deduction [Rs. 25,000 being excess amount allowed under section 1 15BAC]	25,000
Less: Exemption u/s 10(32) in respect of interest income of minor son included in the hands of Siddhant	1500
Gross total income (under the normal provisions of the Act)	**5,53,390**
Less: **Deductions under Chapter VI-A**	
Under section 80C [Contribution to PPF]	50,000
Total Income	**5,03,390**

Particulars	₹
Tax on total income [5% of ₹ 2,50,000 + 20% of ₹ 3,390]	13,178
Add: HEC @4%	527
Tax liability	**13,705**
Tax liability (Rounded off)	**13,710**

Since his total income as per the normal provisions of the Act exceeds ₹ 5,00,000, he would not be eligible for rebate under section 87A.

Since Mr. Siddhant is not liable to pay any tax under default tax regimeunder section 115BAC, it would be beneficial for him to **not** to exercise the option of shift out of the default tax regime for A.Y.2025-26.

Notes:

(1) It is assumed that the entire loan of ₹ 1,60,000 is outstanding as on 31.3.2025;

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

Question 9

Ramdin, aged 33 years, working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2025:

– **Basic Salary**	**₹ 15,000 p.m.**
– **DA (50% of it is meant for retirement benefits)**	**₹ 12,000 p.m.**
– **Commission as a percentage of turnover of the Company**	**0.5 %**
– **Turnover of the Company**	**₹ 50 lacs**
– **Bonus**	**₹ 50,000**
– **Gratuity**	**₹ 30,000**

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–	Own Contribution to R.P.F.	₹ 30,000
–	Employer's contribution to R.P.F.	20% of basic salary
–	Interest credited in the R.P.F. account @ 15% p.a.	₹ 15,000

– Gold Ring worth ₹ 10,000 was given by employer on his 25th wedding anniversary.
– Music System purchased on 01.04.2024 by the company for ₹ 85,000 and was given to him for personal use.
– Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of ₹ 6,500 p.m. Books of account are not maintained.
– Received interest of ₹ 5,860 on bank FDRs on 24.4.2024 and interest of ₹ 6,786 (Net) from the debentures of Indian Companies on 5.5.2024.
– Made payment by cheques of ₹ 15,370 towards premium on Life Insurance policies and ₹ 22,500 for Mediclaim Insurance policy for self and spouse.
– Invested in NSC ₹ 30,000 and in FDR of SBI for 5 years ₹ 50,000.
– Donations of ₹ 11,000 to an institution approved u/s 80G and of ₹ 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute his total income and tax payable thereon for the A.Y. 2025-26. Assume that Mr. Ramdin has exercised the option to shift out of the default tax regime under section 115BAC.

Answer 9

Computation of Total Income of Mr. Ramdin for the A.Y.2025-26 under normal provisions of the Act

Particulars	₹	₹
Income from Salaries		
Basic Salary (₹ 15,000 x 12)		1,80,000
Dearness Allowance (₹ 12,000 x12)		1,44,000
Commission on Turnover (0.5% of ₹ 50 lacs)		25,000
Bonus		50,000
Gratuity **(See Note 1)**		30,000
Employer's contribution to recognized provident fund		
Actual contribution [20% of ₹ 1,80,000]	36,000	
Less: Exempt **(See Note 2)**	33,240	2,760
Interest credited in recognized provident fundaccount @15% p.a.	15,000	
Less: Exempt upto 9.5% p.a.	9,500	5,500
Gift of gold ring worth ₹ 10,000 on 25th wedding anniversary by employer **(See Note 3)**		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ₹ 85,000		8,500
		4,55,760
Less: Standard deduction under section 16(ia)		50,000
		4,05,760
Profits and Gains of Business or Profession		
Lease of 2 light goods vehicles on contract basis against fixed		1,80,000

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charges of ₹ 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. ₹ 7,500 p.m. for each of the two light goods vehicle (₹ 7,500 x 2 x 12). He cannot claim lower profits and gains since he has not maintained books of account.		
Income from Other Sources		
Interest on bank FDRs	5,860	
Interest on debentures (₹ 6786 x 100/90)	7,540	13,400
Gross total Income		**5,99,160**
Less: Deductions under Chapter VI-A		
Section 80C		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	1,25,370
Section 80D – Mediclaim Insurance		22,500
Section 80G (See Note 4)		10,600
Total Income		**4,40,690**
Tax on total income		
Income-tax [5% of ₹ 1,90,690 (i.e., ₹ 4,40,690 – ₹ 2,50,000)		9,535
Less: Rebate u/s 87A, since total income does not exceed ₹ 5,00,000		9,535
Tax liability		Nil
Less: Tax deducted at source (₹ 7,540 – ₹ 6,786)		754
Net tax refundable		**754**
Tax refundable (rounded off)		**750**

Notes:

1. Gratuity received during service is fully taxable.
2. Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)
   = 12% of (₹ 1,80,000+ (50% of ₹ 1,44,000)+ ₹ 25,000)
   = 12% of 2,77,000 = ₹ 33,240
3. An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. Asper this view, the value of perquisite would be ₹ 5,000. In such a casethe Income from Salaries would be ₹ 4,00,760.
4. Deduction under section 80G is computed as under:

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of ₹ 11,000) (amount contributed ₹ 11,000 or 10% of Adjusted Total Income i.e. ₹ 45,129, whichever is lower)	5,500
Total deduction	**10,600**

Adjusted Total Income = Gross Total Income - Deductions undersection 80C and 80D

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= ₹ 5,99,160 = ₹ 1,47,870 = ₹ 4,51,290.

Question 10

From the following particulars furnished by Mr. X for the year ended 31.3.2025, you are requested to compute his total income and tax payable forthe assessment year 2025-26, assuming that he opts out of the default tax regime under section 115BAC.

(a) Mr. X retired on 31.12.2024 at the age of 58, after putting in 26 years and 1 month of service, from a private company at Mumbai.

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

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

(d) He had accumulated leave of 15 days per annum during the period ofhis service; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. His average salary for last 10 months may be taken as ₹ 24,500. Employer allowed 30 days leave per annum.

(e) After retirement, he ventured into textile business and incurred a loss of ₹ 80,000 for the period upto 31.3.2025.

(f) Mr. X has deposited ₹ 1,00,000 in public provident fund.

Answer 10

Computation of total income of Mr. X for A.Y.2025-26

Particulars	₹	₹
Income from Salaries		
Basic salary (₹ 25,000 x 9 months)		2,25,000
House rent allowance:		
Actual amount received (₹ 6,000 x 9 months)	54,000	
Less: Exemption under section 10(13A)**(Note 1)**	36,000	18,000
Gratuity:		
Actual amount received	3,50,000	
Less: Exemption under section 10(10)(ii) **(Note 2)**	3,50,000	-
Leave encashment:		
Actual amount received	3,15,000	
Less: Exemption under section 10(10AA) **(Note 3)**	2,45,000	70,000
Gross Salary		**3,13,000**
Less: Standard deduction under section 16(ia)		50,000
		2,63,000
Profits and gains of business or profession		
Business loss of ₹ 80,000 to be carried forward as the same cannot be set off against salary income		Nil
Gross Total income		**2,63,000**
Less: Deduction under section 80C		

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Deposit in Public Provident Fund		1,00,000
Total income		**1,63,000**
Tax on total income(Nil, since it is lower than thebasic exemption limit of ₹ 2,50,000)		**Nil**

Notes:

(1) As per section 10(13A), house rent allowance will be exempt to theextent of least of the following three amounts:

	₹
(i) HRA actually received (₹ 6,000 x 9)	54,000
(ii) Rent paid in excess of 10% of salary (₹ 6,500 – ₹ 2,500) x 9 months	36,000
(iii) 50% of salary	1,12,500

(2) Gratuity of ₹ 3,50,000 is exempt under section 10(10)(ii), being the minimum of the following amounts:

	₹
(i) Actual amount received	3,50,000
(ii) Half month salary for each year service of completed [(₹ 25,000 x 15/26) x 26 years]	3,75,000
(iii) Statutory limit	20,00,000

(3) Leave encashment is exempt upto the least of the following:

	₹
(i) Actual amount received	3,15,000
(ii) 10 months average salary (₹ 24,500 x 10)	2,45,000
(iii) Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired **(See Note 4 below)**	3,18,500
(iv) Statutory limit	25,00,000

(4) Since the leave entitlement of Mr. X as per his employer's rules is 30 days credit for each year of service and he had accumulated 15 days per annum during the period of his service, he would have availed/taken the balance 15 days leave every year.

Leave entitlement of Mr. X on the basis of 30 days for every year of actual service rendered by him to the employer	= 30 days/year x 26 = 780 days
Less: Leave taken /availed by Mr. Xduring the period of his service	= 15 days/year x 26 = 390 days
Earned leave to the credit of Mr. Xat the time of his retirement	390 days
Cash equivalent of earned leave to the credit of Mr. X at the timeof his retirement	= 390 × ₹ 24,500/30 = ₹ 3,18,500

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Question 11

Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1982 and settled at Canada since 1982. Mary got married and settled in Mumbai. Both of them are below 60 years. The following are the details oftheir income for the previous year ended 31.3.2025:

Sr. No.	Particulars	Rosy ₹	Mary ₹
1.	Pension received from State Government	--	60,000
2.	Pension received from Canadian Government	20,000	--
3.	Long-term capital gain on sale of land on 15.5.2024 at Mumbai taxable	1,00,000	1,00,000
4.	Short-term capital gain on sale of shares on 23.4.2024 of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5.	LIC premium paid	--	10,000
6.	Premium paid to Canadian Life InsuranceCorporation at Canada	40,000	--
7.	Mediclaim policy premium paid by A/c PayeeCheque	--	25,000
8.	Deposit in PPF	--	20,000
9.	Rent received in respect of house property atMumbai	60,000	30,000

Compute the total income and tax liability of Mrs. Rosy and Mrs. Mary for the A.Y. 2025-26 and tax thereon assuming both exercised the option to shift outof the default tax regime.

Answer 11

Computation of total income of Mrs. Rosy and Mrs. Mary for the A.Y.2025-26

Sr. No.	Particulars		Mrs. Rosy (Non-resident)	Mrs.Mary (ROR)
			₹	₹
(I)	**Salaries**			
	Pension received from State Govt.	₹ 60,000		
	Less: Standard deduction u/s 16(ia)	₹ 50,000	-	10,000
	Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India		-	-
			-	**10,000**
(II)	**Income from house property**			
	Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipalvalue, fair rent and standard rent)		60,000	30,000
	Less: Deduction under section 24(a)@30%		18,000	9,000
			42,000	**21,000**
(III)	**Capital gains**			

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	Long-term capital gain on sale of land atMumbai	1,00,000	1,00,000
	Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
		1,20,000	**3,50,000**
(A)	**Gross Total Income [(I)+(II)+(III)]**	**1,62,000**	**3,81,000**
	Less: Deductions under Chapter VIA		
1.	Deduction under section 80C		
	1. LIC Premium paid	-	10,000
	2. Premium paid to Canadian Life InsuranceCorporation	40,000	-
	3. Deposit in PPF	-	20,000
		40,000	**30,000**
2.	Deduction under section 80D – Mediclaimpremium paid		25,000
		40,000	**55,000**
(B)	Total deduction under Chapter VI-A is restricted to income other than capital gainstaxable under sections 111A & 112	40,000	31,000
(C)	**Total income (A-B)**	**1,22,000**	**3,50,000**
	Tax liability of Mrs. Rosy for A.Y.2025-26		
	Tax on long-term capital gains @20% of ₹ 1,00,000	20,000	
	Tax on short-term capital gains @15% of ₹ 20,000	3,000	
	Tax on balance income of ₹ 2,000	Nil	
		23,000	
	Tax liability of Mrs. Mary for A.Y.2025-26		
	Tax on STCG @15% of ₹ 1,00,000 [i.e. ₹ 2,50,000 less ₹ 1,50,000, being the unexhausted basic exemption limit as per proviso to section 111A] **[See Notes 3 & 4 below]**		15,000
	Less: Rebate under section 87A would be lower of ₹ 12,500 or tax liability, since total income does not exceed ₹ 5,00,000		12,500
			2,500
	Add: Health and Education cess@4%	920	100
	Total tax liability	**23,920**	**2,600**

Notes:

(1) Long-term capital gains on sale of land on 15.5.2024, is chargeable to tax@20% as per section 112.

(2) Short-term capital gains on transfer of equity shares on 23.4.2024 in respect of which securities transaction tax is paid is subject to tax@15% as per section 111A.

(3) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then, the long-term capital gains u/s 112/short-term capital gains u/s 111A will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at

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20%/15%, respectively. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust unexhausted basic exemption limit against long-term capital gains taxable under section 112 and short-term capital gains taxable under section 111A, Mrs. Rosy cannot do so.

(4) Since long-term capital gains is taxable at the rate of 20% and shortterm capital gains is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of ₹ 2,50,000 against long-term capital gains of ₹ 100,000 and the balance limit of ₹ 1,50,000 (i.e., ₹ 2,50,000 – ₹ 1,50,000) against short-term capital gains.

(5) Rebate under section 87A would not be available to Mrs. Rosy even though her total income does not exceed ₹ 5,00,000, since she is non-resident for the A.Y. 2025-26.

Question 12

Mr. X, an individual set up a unit in Special Economic Zone (SEZ) in the financial year 2019-20 for production of washing machines. The unit fulfillsall the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2023-24, he has also set up a warehousing facility in a districtof Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1st April, 2024 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for the F.Y. 2024-25 are as follows:

Particulars	₹
Profit of unit located in SEZ	40,00,000
Export turnover received in India in convertible foreign exchange on or before 30.9.2025	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction under Section 35AD)	1,05,00,000

Compute income-tax (including AMT under Section 115JC) liability of Mr. X for A.Y. 2025-26 both as per section 115BAC and as per regular provisions of the Income-tax Act, 1961 for A.Y. 2025-26. Advise Mr. X whether he should pay tax under default tax regime or normal provisions of the Act.

Answer 12

Computation of total income and tax liability of Mr. X for A.Y.2025-26
(under default tax regime under section 115BAC)

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ		40,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Depreciation under section 32		
On building @10% of ₹ 65 lakhs[4] (normal depreciation under section 32 is allowable)	6,50,000	98,50,000

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Total Income		**1,38,50,000**
Computation of tax liability as per section 115BAC		
Tax on ₹ 1,38,50,000		38,55,000
Add: Surcharge@15%		5,76,750
		44,21,750
Add: Health and Education cess@4%		1,76,870
Total tax liability		**46,98,620**

Notes:

(1) Deductions u/s 10AA and 35AD are **not** allowable as per section115BAC(2). However, normal depreciation u/s 32 is allowable.

(2) Mr. X is **not** liable to alternate minimum tax u/s 115JC under defaulttax regime under section 115BAC.

Computation of total income and tax liability of Mr. X for A.Y.2025-26
(under the regular provisions of the Income-tax Act, 1961)

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ	40,00,000	
Less: Deduction u/s 10AA **[See Note (1) below]**	16,00,000	
Business income of SEZ unit chargeable to tax		24,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction u/s 35AD **[See Note (2) below]**	65,00,000	
Business income of warehousing facilitychargeable to tax		40,00,000
Total Income		**64,00,000**
Computation of tax liability (under the normal/ regular provisions)		
Tax on ₹ 64,00,000		17,32,500
Add: Surcharge @ 10% (since the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 cr)		1,73,250
		19,05,750
Add: Health and Education cess@4%		76,230
Total tax liability		**19,81,980**

Computation of adjusted total income of Mr. X for levy of Alternate Minimum Tax

Particulars	₹	₹
Total Income (computed above as per regular provisions of income tax)		**64,00,000**
Add: Deduction under section 10AA		16,00,000

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		80,00,000
Add: Deduction under section 35AD	65,00,000	
Less: Depreciation under section 32		
On building @10% of ₹65 lakhs[5]	6,50,000	58,50,000
Adjusted Total Income		**1,38,50,000**
Alternate Minimum Tax@18.5%		25,62,250
Add: Surcharge@15% (since adjustedincome total > ₹ 1 crore)		3,84,338
		29,46,588
Add: Health and Education cess@4%		1,17,863
		30,64,451
Tax liability u/s 115JC (rounded off)		**30,64,450**

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total incomeand tax is leviable @18.5% thereof plus surcharge@15% and cess@4%. Therefore, tax liability as per section 115JC is ₹ 30,64,450.
Since the tax liability of Mr. X under section 115JC is lower than the taxliability as computed u/s 115BAC, it would be beneficial for him **to opt outof the default tax regime under section 115BAC for A.Y. 2025-26**. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess over regular tax.

AMT Credit to be carried forward under section 115JEE

	₹
Tax liability under section 115JC	30,64,450
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	19,81,980
	10,82,470

Notes:

(1) Deduction under section 10AA in respect of Unit in SEZ =
Profit of the unit in SEZ $\times \frac{Export\ Turnover\ of\ the\ unit\ in\ SEZ}{Total\ Turnover\ Of\ the\ unit\ in\ SEZ} \times 50\ \%$
₹ 40,00,000 $\times \frac{₹\ 80,000}{₹\ 1,00,00,000} \times 50\%$ = ₹ 16,00,000

(2) Deduction@100% of the capital expenditure is available under section35AD for A.Y.2025-26 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.
Further, the expenditure incurred, wholly and exclusively, for the purposes of such specified business, shall be allowed as deduction during the previous year in which he commences operations of his specified business if the expenditure is incurred prior to the commencement of its operations and the amount is capitalized in the books of account of the assessee on the date of commencement of its operations.
Deduction under section 35AD would, however, **not** be available onexpenditure incurred on acquisition of land.

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In this case, since the capital expenditure of ₹ 65 lakhs (i.e., ₹ 75 lakhs – ₹ 10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y.2023-24 and capitalized in the books of account on 1.4.2024, being the date when the warehouse became operational, ₹ 65,00,000, being 100% of ₹ 65 lakhs would qualify for deduction under section 35AD.

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Chapter 10
GST in India- An Introduction

ILLUSTRATION

Question 1(illustration)

In case of local supply of goods/ services, the supplier would charge dualGST i.e., CGST and SGST at specified rates on the supply.

(i) Supply of goods/ services by A to B

	Amount (in ₹)
Value charged for supply of goods/ services	10,000
Add: CGST @ 9%	900
Add: SGST @ 9%	900
Total price charged by A from B for local supply of goods/ services	11,800

The CGST & SGST charged on B for supply of goods/services will be remitted by A to the appropriate account of the Central and State Government respectively.

A is the first stage supplier of goods/services and hence, does not have credit of CGST, SGST or IGST.

(ii) Supply of goods/services by B to C – Value addition @ 20%

B will avail credit of CGST and SGST paid by him on the purchase of goods/ services and will utilise such credit for being set off against the CGST and SGST payable on the supply of goods/services made by him to C.

	Amount (in ₹)
Value charged for supply of goods / Service (10,000 X 120%)	12,000
Add: CGST @ 9%	1080
Add: SGST @ 9%	1080
Total price charged by B from C for local supply ofgoods/ services	14160

Computation of CGST, SGST payable by B to Government

	Amount (in ₹)
CGST payable	1080
Less: Credit of CGST	900
CGST payable to Central Government	180
SGST payable	1080
Less: Credit of SGST	900
SGST payable to State Government	180

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Note: Rates of CGST and SGST have been assumed to be 9% each for the sake of simplicity.

Statement of revenue earned by Central and State Government

Transaction	Revenue to Central Government (₹)	Revenue to State Government (₹)
Supply of goods/servicesby A to B	**900**	**900**
Supply of goods/servicesby B to C	**180**	**180**
Total	**1080**	**1080**

Question 2 (illustration)

In case of inter-State supply of goods/ services, the supplier would chargeIGST at specified rates on the supply.

(i) Supply of goods/services by X of State 1 to A of State 1

	Amount (in ₹)
Value charged for supply of goods/services	10,000
Add: CGST @ 9%	900
Add: SGST @ 9%	900
Total price charged by X from A for intra-Statesupply of goods/services	11,800

X is the first stage supplier of goods/services and hence, does not have any credit of CGST, SGST or IGST.

(ii) Supply of goods/services by A of State 1 to B of State 2 – Valueaddition @ 20%

	Amount (in ₹)
Value charged for supply of goods / Service (10,000 X 120%)	12,000
Add: IGST @ 18%	2,160
Total price charged by A from B for inter-Statesupply of goods/services	14,160

Computation of IGST payable to Government

	Amount (in ₹)
IGST payable	2,160
Less: Credit of CGST	900
Less: Credit of SGST	900
IGST payable to Central Government	360

The IGST charged on B of State 2 for supply of goods/services will be remitted by A of State 1 to the appropriate account of the Central Government. State 1 (Exporting State) will transfer SGST credit of ₹900 utilised in the payment of IGST to the Central Government.

(iii) Supply of goods/services by B of State 2 to C of State 2 – Value addition @ 20%

B will avail credit of IGST paid by him on the purchase of goods/services and will utilise such credit for being set off against the CGST and SGST payable on the local supply of goods/services madeby him to C.

	Amount (in ₹)

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Value charged for supply of goods / Service (12,000 X 120%)	14,400
Add: CGST @ 9%	1,296
Add: SGST @ 9%	1,296
Total price charged by B from C for local supply of goods/services	16,992

Computation of CGST, SGST payable to Government

	Amount (in ₹)
CGST payable	1,296
Less: Credit of IGST	1,296
CGST payable to Central Government	Nil
SGST payable	1,296
Less: Credit of IGST (₹2,160 - ₹1,296)	864
SGST payable to State Government	432

Central Government will transfer IGST credit of ₹ 864 utilised in the payment of SGST to State 2 (Importing State).

Note: Rates of CGST, SGST and IGST have been assumed to be 9%, 9%and 18% respectively for the sake of simplicity.

Statement of revenue earned by Central and State Governments

Transaction	Revenue to Central Government(₹)	Revenue to Governmentof State 1 (₹)	Revenue to Governmentof State 2 (₹)
Supply of goods/services by Xto A	900	900	
Supply of goods/services by Ato B	360		
Transfer by State 1 toCentre	900	(900)	
Supply of goods/services by B toC			432
Transfer by Centre toState 2	(864)		864
Total	1,296	Nil	1,296

Test Your Knowledge

Question 1

List some of the benefits that GST may accrue to the economy.

Answer 1

GST may accrue following benefits to the economy:

(a) **Creation of unified national market:** GST aims to make India a common market with common tax rates and procedures and remove the economic barriers, thereby paving the way for an integrated economy at the national level.

(b) **Boost to 'Make in India' initiative:** GST may give a major boost tothe 'Make in India' initiative of the Government of India by makinggoods and services produced in India competitive in the national aswell as international market. This would make India a manufacturing hub.

(c) **Boost to investments, exports and employment:** Under the GST regime, the principle of exporting only the cost of goods or services and not taxes is being followed. This may boost Indian exports thereby improving the balance of payments position. Exporters are being facilitated by grant of provisional refund of 90% of their claims within 7 days of issue of acknowledgement of their

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application, thereby resulting in the easing of position with respect to cash flows.
Further, the subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input tax on goods and services and phasing out of Central Sales Tax (CST) may reduce thecost of locally manufactured goods and services. Resultantly, the competitiveness of Indian goods and services in the international market may increase to give boost to investments and Indian exports.
With a boost in exports and manufacturing activity, more employment would be generated and GDP would increase.

Question 2

Explain with the help of examples how a particular transaction of goods and services is taxed simultaneously under Central GST (CGST) and State GST (SGST)?

Answer 2

The Central GST and the State GST is levied simultaneously on every intra-State supply of goods or services or both made by registered persons except the exempted goods and services as well as goods and services which are outside the purview of GST. Further, both are levied on the same price or transaction value. The same can be better understood with the help of following examples:
Example I: Suppose that the rate of CGST is 10% and that of SGST is 10%. When a wholesale dealer of steel in Uttar Pradesh supplies steel bars and rods to a construction company which is also located within the same State for, say ₹ 100, the dealer would charge CGST of ₹ 10 and SGST of ₹ 10 in addition to the basic price of the goods. The CGST component will go into a Central Government account while the SGST portion into the account of the concerned State Government (viz. U.P.).
It is important to note that he might not actually pay ₹ 20 (₹ 10 + ₹ 10) in cash as he would be entitled to set-off this liability against the CGST or SGST paid on his eligible purchases (inputs, input services and capital goods) assuming that all his purchases are intra-State. However, for paying CGST, he would be allowed to use only the credit of CGST paid on his purchases while for SGST he can utilize the credit of SGST alone. CGST credit cannot be used for payment of SGST and vice versa.
Example II: Suppose, again the rate of CGST is 10% and that of SGST is 10%. When an advertising company located in Mumbai supplies advertising services to a company manufacturing soap also located within the State of Maharashtra for, let us say ₹ 100, the ad company would charge CGST of ₹ 10 as well as SGST of ₹ 10 at the basic value of the service. The CGST component will go into a Central Government account while the SGST portion into the account of the Maharashtra Government.
He might not actually pay ₹ 20 (₹ 10+₹ 10) in cash as it would be entitled to set-off this liability against the CGST or SGST paid on his eligible purchases (say, of inputs such as stationery, office equipment, services of an artist etc.) assuming that all his purchases are intra-State. However, for paying CGST, he would be allowed to use only the credit of CGST paid on its purchase while for SGST, he can utilise the credit of SGST alone. CGST credit cannot be used for payment of SGST and vice versa.

Question 3

Why was the need to amend the Constitution of India before introducing the GST?

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Answer 3

Earlier, the fiscal powers between the Centre and the States were clearly demarcated in the Constitution with almost no overlap between the respective domains. The Centre had the powers to levy tax on the manufacture of goods (except alcoholic liquor for human consumption, opium, narcotics etc.) while the States had the powers to levy tax on the sale of goods. In the case of inter-State sales, the Centre had the power to levy the Central Sales Tax but the tax was collected and retained entirely by the States. As for services, it was the Centre alone that was empowered to levy service tax.

Introduction of the GST necessitated the amendments in the Constitution so as to simultaneously empower the Centre and the States to levy and collect this tax. The Constitution of India was amended by the Constitution (101st Amendment) Act, 2016 for this purpose. Article 246A of the Constitution introduced thereby empowered the Centre and the States to simultaneously levy and collect the GST.

Question 4

GST is a destination-based tax on consumption of goods or services or both. Discuss the validity of the statement.

Answer 4

The given statement is valid. GST is a destination-based tax on consumption of goods or services or both. GST is known as destination- based tax since the tax would accrue to the taxing authority which has jurisdiction over the place of consumption which is also termed as place of supply.

For example, if A in Delhi produces the goods and sells the goods to B in Haryana. In this case, the tax would accrue to the State of Haryana and not to the State of Delhi. On the other hand, under pre-GST regime, origin- based taxation was prevailing in such cases. Under origin-based taxation, the tax used to accrue to the State from where the transaction originated. In the given case, under origin-based taxation, the central sales tax would have been levied by Centre and collected by the State of Delhi and not by the State of Haryana.

Question 5

Discuss the leviability of GST or otherwise on the following:

(a) Alcoholic liquor for human consumption
(b) Petroleum crude, diesel, petrol, Aviation Turbine Fuel (ATF) and natural gas
(c) Tobacco
(d) Opium, Indian hemp and other narcotic drugs and narcotics

Answer 5

(a) Alcoholic liquor for human consumption: is outside the realm of GST. The manufacture/production of alcoholic liquor continues to be subjected to State excise duty and inter-State/intra-State sale of the same is subject to CST/VAT respectively.

(b) Petroleum crude, diesel, petrol, ATF and natural gas: As regards petroleum crude, diesel, petrol, ATF and natural gas are concerned, they are not presently leviable to GST. GST will be levied on these products from a date to be notified on the recommendations of the GST Council.

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Till such date, central excise duty continues to be levied on manufacture/production of petroleum crude, diesel, petrol, ATF and natural gas and inter-State/intra-State sale of the same is subject to CST/ VAT respectively.

(c) **Tobacco**: Tobacco is within the purview of GST, i.e. GST is leviable on tobacco. However, Union Government has also retained the power to levy excise duties on tobacco and tobacco products manufactured in India. Resultantly, tobacco is subject to GST as well as central excise duty.

(d) **Opium, Indian hemp and other narcotic drugs and narcotics**: Opium, Indian hemp and other narcotic drugs and narcotics are within the purview of GST, i.e. GST is leviable on them. However, State Governments have also retained the power to levy excise duties on such products manufactured in India. Resultantly, Opium, Indian hemp and other narcotic drugs and narcotics are subject to GST as well as State excise duties.

Question 6

Under Goods and Services Tax (GST), only value addition is taxed and burden of tax is to be borne by the final consumer. Examine the validity of the statement.

Answer 6

The statement is correct. Goods and Services Tax is a destination-based taxon consumption of goods and services. It is levied at all stages right from manufacture up to final consumption with credit of taxes paid at previous stages available as setoff. Resultantly, only value addition is taxed and burden of tax is to be borne by the final consumer.

Question 7

Which are the commodities which have been kept outside the purview of GST? Examine the status of taxation of such commodities after introduction of GST.

Answer 7

Article 366(12A) of the Constitution as amended by 101st Constitutional Amendment Act, 2016 defines the Goods and Services tax (GST) as a tax on supply of goods or services or both, except supply of alcoholic liquor for human consumption. Therefore, alcohol for human consumption is kept outof GST by way of definition of GST in the Constitution. Five petroleum products viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel have temporarily been kept out of the purview of GST; GST Council shall decide the date from which they shall be included in GST. The erstwhile taxation system (CST/VAT & central excise)still continues in respect of the said commodities.

Question 8

A dual GST has been implemented in India. Elaborate.

Answer 8

A dual GST has been implemented in India with the Centre and States simultaneously levying it on a common tax base. The GST levied by the Centre on intra-State supply of goods and / or services is called the Central GST (CGST) and that levied by the States/ Union territory is called the State GST (SGST)/ Union GST (UTGST). Similarly, Integrated GST (IGST) is levied and administered by Centre on every inter-State supply of goods and/or services.

India is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. Both the levels of Government have distinct

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responsibilities to perform according to the division of powers prescribed in the Constitution for which they need to raise resources. A dual GST, therefore, keeps with the Constitutional requirement of fiscal federalism.

Question 9

Discuss Article 269A pertaining to levy and collection of GST on inter-State supply.

Answer 9

Article 269A of the Constitution stipulates that Goods and Services Tax on supplies in the course of inter-State trade or commerce shall be levied and collected by the Government of India and such tax shall be apportioned betweenthe Union and the States in the manner as may be provided by Parliament by lawon the recommendations of the Goods and Services Tax Council.

Here, supply of goods, or of services, or both in the course of import intothe territory of India shall be deemed to be supply of goods, or of services, or both in the course of inter-State trade or commerce.

The amount so apportioned to a State shall not form part of theConsolidated Fund of India. Where an amount collected as IGST has beenused for payment of SGST or vice versa, such amount shall not form part of the Consolidated Fund of India/State respectively. This is to facilitate transfer of funds between the Centre and the States.

Parliament is empowered to formulate the principles for determining the place of supply, and when a supply of goods, or of services, or both takes place in the course of inter-State trade or commerce.

Question 10

Discuss Article 246A which grants the power to make laws with respect to Goods and Services Tax.

Answer 10

Article 246A stipulates that Parliament, and, the Legislature of every State, have power to make laws with respect to goods and services tax imposed by the Union or by such State.

Parliament has exclusive power to make laws with respect to goods and services tax where the supply of goods, or of services, or both takes place in the course of inter-State trade or commerce.

However, in respect to petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel, the aforesaid provisions shall apply from the date to be notified by the Government on the recommendations by the GST Council.

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Test Your Knowledge

Question 1

Meghraj & Co. wishes to commence the business of supplying ready-made garments within Punjab and in the neighbouring States of Delhi and Haryana. Kindly state as to what is the taxable event under GST and leviability of CGST, SGST/UTGST and IGST on the same?

Answer 1

Taxable event under GST is the supply of goods or services or both made for consideration in the course or furtherance of business. CGST and SGST will be levied on intra-State supplies. IGST will be levied on inter-State supplies.

Question 2

Damodar Private Ltd., registered in Delhi, is planning to transfer some goods to its branch, registered in West Bengal, without any consideration, so that the goods can be sold from the branch. The company believes that the transaction that will be undertaken by it would not qualify as supply as no consideration is involved. Ascertain whether the transfer of goods by Damodar Private Ltd. to its branch office would qualify as supply.

Answer 2

As per Schedule I read with section 7(1)(c), supply of goods or services or both between related persons or between distinct persons as specified in section 25, when made in the course or furtherance of business, is deemed as supply even if made without consideration. In the given case, since the Damodar Private Ltd. and its branch located in another State are distinct persons, supply of goods between them would qualify as supply.

Question 3

Prithvi Associates is engaged in supply of taxable goods. It enquires from its tax advisor as to whether any activity can be treated as supply even if made without consideration in accordance with the provisions. You are required to enumerate such activities, if any.

Answer 3

Section 7(1)(a) stipulates that the supply should be for a consideration and should be in the course or furtherance of business. However, section 7(1)(c) read with Schedule I enumerates the cases where an activity is treated as supply, even if the same is without consideration. These are as follows:

(i) Permanent transfer or disposal of business assets where input tax credit has been availed on such assets.

(ii) Supply of goods or services or both between related persons or between distinct

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persons as specified in section 25, when made in the course or furtherance of business.

However, gifts not exceeding ₹50,000 in value in a financial year by an employer to an employee shall not be treated as supply of goods or services or both.

(i) Supply of goods —
  (a) by a principal to his agent where the agent undertakes to supply such goods on behalf of the principal; or
  (b) by an agent to his principal where the agent undertakes to receive such goods on behalf of the principal.

(ii) Import of services by a person from a related person or from any of his other establishments outside India, in the course or furtherance of business.

Question 4

Composite supply is treated as supply of that particular goods or services which attracts the highest rate of tax, for the purpose of considering tax liability. Examine the validity of the statement.

Answer 4

The statement is not correct. For considering tax liability, composite supply is treated as supply of the principal supply. It is the mixed supply that is treated as supply of that particular goods or services which attracts the highest rate of tax.

Question 5

Transfer of title and/or possession is necessary for a transaction to constitute supply of goods. Examine.

Answer 5

Title as well as possession both need to be transferred for a transaction to be considered as a supply of goods.

In case title is not transferred, the transaction would be treated as supply of service in terms of Schedule II(1)(b).

In some cases, possession may be transferred immediately, but title may be transferred at a future date like in case of sale on approval basis or hire purchase arrangement. Such transactions will also be termed as supply of goods in terms of Schedule II.

Question 6

Examine whether the following activities would amount to supply under section 7 read with Schedule-I:

(a) Sulekha Manufacturers have a factory in Delhi and a depot in Mumbai. Both these establishments are registered in respective States. Finished goods are sent from factory in Delhi to the Mumbai depot without consideration so that the same can be sold from the depot.

(b) Raman is an architect in Chennai. His brother who is settled in Londonis a well-known lawyer. Raman has taken legal advice from him free of cost with regard to his family dispute.

(c) Would your answer be different if in the above case, Raman has taken advice in respect of his business unit in Chennai?

Answer 6

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(a) Schedule I read with section 7(1)(c), *inter alia*, stipulates that supply of goods or services or both between related persons or between distinct persons as specified in section 25, is supply even without consideration provided it is made in the course or furtherance of business. Further, a person who has obtained more than one registration, whether in one State/Union territory or more than one State/Union territory shall, in respect of each such registration, be treated as **distinct persons** [Section 25(4)]. In view of the same, factory and depot of Sulekha Manufacturers are distinct persons. Therefore, supply of goods from Delhi factory of Sulekha Manufacturers to Mumbai Depot without consideration, but in course/furtherance of business, is supply under section 7 read with Schedule I.

(b) Schedule I read with section 7(1)(c), inter alia, stipulates that import of services by a taxable person from a related person located outside India, without consideration is treated as supply if it is provided in the course or furtherance of business. Explanation to section 15, inter alia, provides that persons shall be deemed to be "related persons" if they are members of the same family. Further, as per section 2(49), family means, —

(i) the spouse and children of the person, and

(ii) the parents, grand-parents, brothers and sisters of the person **if they are wholly or mainly dependent on the said person.**

In the given case, Raman has received free of cost legal services fromhis brother. However, in view of section 2(49)(ii) above, Raman and his brother cannot be considered to be related as Raman's brother is a well- known lawyer and so, not wholly/mainly dependent on Raman. Further, Raman has taken legal advice from him in personal matter and not in course or furtherance of business. Consequently, services provided by Raman's brother to him would not be treated as supply under section7 read with Schedule I.

(c) In the above case, if Raman has taken advice with regard to his business unit, services provided by Raman's brother to him would still not be treated as supply under section 7 read with Schedule I as although the same are provided in course or furtherance of business, but are provided without consideration and such services have not been received from a related person

Question 7

State whether the following supplies would be treated as supply of goods or supply of services as per Schedule II:

(a) Renting of immovable property.

(b) Goods forming part of business assets are transferred or disposed of by/under directions of person carrying on the business so as no longer to form part of those assets

(c) Transfer of right in goods without the transfer of title in such goods.

(d) Transfer of title in goods under an agreement which stipulates that property shall pass at a future date upon payment of full consideration as agreed.

Answer 7

a) Supply of services
b) Supply of goods
c) Supply of services
d) Supply of goods

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Question 8

Determine whether the following supplies would be treated as supply of goods or supply of services as per Schedule II:

(a) Temporary transfer or permitting use or enjoyment of any intellectual property right.

(b) Any treatment or process which is applied to another person's goods.

(c) Transfer of title in goods.

Answer 8

a) Supply of services

b) Supply of services

c) Supply of goods

Question 9

The goods supplied on hire purchase basis will be treated as supply of services. Examine the validity of the statement.

Answer 9

The statement is not correct. Supply of goods on hire purchase shall be treated as supply of goods as there is transfer of title, albeit at a future date.

Question 10

Examine whether the activity of import of service in the following independent cases would amount to supply under section 7:

(i) Miss Shriniti Kaushik received interior decoration services for her residence located at Bandra, Mumbai from Mr. Racheal of Sydney (Australia). The amount paid for the said service is 5,000 Australian dollar.

(ii) Miss Shriniti Kaushik received interior decoration services for her residence located at Bandra, Mumbai from her brother, Mr. Varun residing in Sydney (Australia) [wholly dependent on Miss Shriniti]. Further, Miss Shriniti did not pay any consideration for the said service.

(iii) Will your answer change if in the above case, if Miss Shriniti has taken interior decoration services with regard to her business premises and not her residence?

Answer 10

i. Supply, under section 7, inter alia,

- includes import of services for a consideration
- even if it is not in the course or furtherance of business.

Thus, although the import of service for consideration by Miss. Shriniti Kaushik is not in course or furtherance of business [as the interior decoration services have been availed in respect of residence], it would amount to supply.

ii. Schedule I, inter alia, stipulates that import of services by a taxableperson from a **related person** located outside India, without consideration is treated as supply only if it is provided in the

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course or furtherance of business. Explanation to section 15, inter alia, provides that persons shall be deemed to be **"related persons"** if they are **members of the same family**. Further, as per section 2(49), family means, —

(i) the spouse and children of the person, and

(ii) the parents, grand-parents, brothers and sisters of the person **if they are wholly or mainly dependent on the said person**.

In the given case, Miss Shriniti Kaushik has received interior decoration services from her brother. In view of section 2(49)(ii) above, Miss Shriniti and her brother shall be considered to be related as Miss Shriniti's brother is wholly dependent on her. However, Miss Shrinti has taken interior decoration services for her residence and not in course or furtherance of business. Consequently, services provided by Miss Shrinti's brother to her would not be treatedas supply under section 7 read with Schedule I.

(iii) In the above case, if Miss Shriniti has taken interior decoration services with regard to her business premises, services provided by Miss Shriniti's brother to her would be treated as supply under section 7 read with Schedule I, as the same are provided in course or furtherance of business.

Question 11

Dumdum Electronics has sold the following electronic items to Akbar Retail Store.

(i) Refrigerator (500 litres) taxable @ 18%

(ii) Stabilizer for refrigerator taxable @ 12%

(iii) LED television (42 inches) taxable @ 12%

(iv) Split air conditioner (2 Tons) taxable @ 28%

(v) Stabilizer for air conditioner taxable @12%

Dumdum Electronics has issued a single invoice, indicating price of each of the above items separately in the same. Akbar Retail Store has given a single cheque of ₹1,00,000/- for all the items as a composite discounted price. State the type of supply and the tax rate applicable in this case.

Answer 11

In the given case, the items supplied by Dumdum Electronics are not naturally bundled in the ordinary course of business. Therefore, such supply is not a composite supply. Further, although Akbar Retail Store has paid a composite discounted price for these goods, Dumdum Electronics has not charged a single price for the said supply. Therefore, said supply is also not a mixed supply. Supply of these goods is, therefore, supply of individual items which are taxable at the respective rates applicable to them.

Question 12

Manikaran, a registered supplier of Delhi, has supplied 20,000 packages at₹ 30 each to Mukhija Gift Shop in Punjab. Each package consists of 2 chocolates, 2 fruit juice bottles and a packet of toy balloons. Determine the rate(s) of GST applicable in the given case assuming the rates of GST to be as under:

Goods/services supplied	GST rate
Chocolates	18%

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Fruit juice bottles	**12%**
Toy balloons	**5%**

Answer 12

As per section 2(74), mixed supply means two or more individual supplies of goods or services, or any combination thereof, made in conjunction with each other by a taxable person for a single price where such supply does not constitute a composite supply. Supply of a package containing chocolates, fruit juice bottles and a packet of toy balloons is a mixed supply as each of these items can be supplied separately and is not dependent on any other. Further, as per section 8(b), the mixed supply is treated as a supply of that particular supply which attracts the highest rate of tax. Thus, in the given case, supply of packages is treated as supply of chocolates [since it attracts the highest rate of tax] and the rate of GST applicable on the package of ₹ 6,00,000 (20,000 × ₹ 30) is 18%.

Question 13

Gagan Engineering Pvt. Ltd., registered in Haryana, is engaged in providing maintenance and repair services for heavy steel machinery. For carrying out the repair work, Gagan Engineering Pvt. Ltd. sends its container trucks equipped with items like repair equipments, consumables, tools, parts etc. from Haryana workshop to its own repairing centres (registered under GST law) located in other States across India where the clients' machinery are being brought and are being repaired. Discuss the leviability of GST on the inter-State movement of trucks from the workshop of Gagan Engineering Pvt. Ltd. in Haryana to its own repairing centres located in other States across India.

Answer 13

As per section $25(4)$[35], a person who has obtained more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as 'distinct persons'.

Schedule I to the CGST Act specifies situations where activities are to be treated as supply even if made without consideration. Supply of goods and/or services between 'distinct persons' as specified in section 25, when made in the course or furtherance of business is one such activity included in Schedule I under para 2.

However, as per CBIC circular, the inter-State movement of various modes of conveyance including, inter alia, trucks, carrying goods or passengers or both or for repairs and maintenance, between 'distinct persons' as specified in section 25(4), not involving further supply of such conveyance, may be treated 'neither as a supply of goods nor supply of service' and therefore, will not be leviable to IGST. Applicable CGST/SGST/IGST, however, shall be leviable on repairs and maintenance done for such conveyance [Circular No. 1/1/2017 IGST dated 07.07.2017].

Thus, in the given case, inter-State movement of trucks from the workshop of Gagan Engineering Pvt. Ltd. located in Haryana to its repair centres located in other States is 'neither a supply of goods nor supply of service'.

[38] Provisions of section 25(4) have been discussed in detail in Chapter 9 – Registration in Module 2 of this Study Material

Question 14

Sarvanna & Sons wishes to start supplying alcoholic liquor for human consumption in the State of Tamil Nadu. Therefore, it applies for license to the Tamil Nadu Government for selling liquor for which the State Government has charged specified fee from it.

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Examine whether the grant of alcoholic liquor license by the Tamil Nadu Government to Sarvanna & Sons qualifies as supply.

Answer 14

Services by way of grant of alcoholic liquor license by the State Governments have been notified to be treated neither as a supply of goods nor as a supply of service. Such licence is granted against consideration in the form of licence fee or application fee or by whatever name it is called.

Thus, in the given case, the grant of alcoholic liquor license by the Tamil Nadu Government to Sarvanna & Sons is neither a supply of goods nor a supply of service

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ILLUSTRATION

Question 1 (Illustration)

Taxpayer 'Tolaram' is a manufacturer who has opted for composition levy for goods , having one unit – A1 in UP and another unit – A2 in MP. Total turnover of two units in preceding FY was ₹ 115 lakh (₹ 85 lakh + ₹ 30 lakh). Turnover of units A1 and A2 in the first quarter of current financial year is ₹ 5 lakh and ₹ 10 lakh respectively. Compute the amount payable under composition levy under section 10(1) & 10(2) of the CGST Act, 2017 by 'Tolaram'.

Answer 1

Unit	Location	Turnover in previous FY	Turnover in 1st quarter of this FY	Total tax(@1%)
A1	U.P.	₹85 lakh	₹5 lakh	₹5,000
A2	M.P.	₹30 lakh	₹10 lakh	₹10,000
Total		₹115 lakh	₹15 lakh	₹15,000

Question 2 (illustration)

Taxpayer 'Bholaram' is a trader (who has opted for composition levy for goods) of both taxable and exempted goods (goods exempted by way of a notification).

It has one retail showroom – A1 in Punjab and another retail showroom – A2 in Rajasthan, both selling taxable as well as exempted goods. Total turnover (including taxable and exempted goods) of the two showrooms in last FY was ₹ 115 lakh (₹ 85 lakh + ₹ 30 lakh).

Turnover of showrooms A1 and A2 in the first quarter of current financial year is₹ 35 lakh [A1 - ₹ 15 lakh (₹ 5 lakh from sale of taxable goods and ₹ 10 lakh from sale of exempted goods) and A2 - ₹ 20 lakh (₹ 10 lakh from sale of taxable goods and ₹ 10 lakh from sale of exempted goods)]. Compute the amount payable under composition levy under section 10(1) & 10(2) of the CGST Act, 2017 by 'Bholaram'.

Answer 2

Retail showroom	Location	Turnover inprevious FY	Turnover in 1st quarter of this FY	Total tax(@1%)
A1	Punjab	₹85 lakh	₹5 lakh	₹5,000
A2	Rajasthan	₹30 lakh	₹10 lakh	₹10,000
Total		₹115 lakh	₹15 lakh	₹15,000

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Note: A supplier, other than manufacturer and restaurant service provider, eligible for composition levy under section 10(1) & 10(2) has to pay tax @ 1% (CGST+ SGST) of the turnover of only taxable supplies of goods and services in the State.

Rates of tax in case of composition levy for services

A registered person opting for composition levy for services shall pay tax @ 3% [Effective rate 6% (CGST+ SGST/UTGST)] of the turnover of supplies of goods and services in the State or Union territory.

Question 3 (illustration)

Taxpayer 'Padmavati' is a salon stylist, who has opted for composition levy for services, having one branch – B1 in Vasant Kunj, Delhi and another branch – B2 in Gurgaon, Haryana. Total turnover of two branches in last FY was ₹ 45 lakh (₹ 25 lakh + ₹ 20 lakh respectively). The turnover of branches B1 and B2 in the first quarter of current financial year is ₹ 5 lakh and ₹ 10 lakh respectively. Compute the amount payable under composition levy under section 10(2A) of the CGST Act, 2017 by 'Padmavati'.

Answer 3

Branch	Location	Turnover in previous FY	Turnover in 1st quarter of this FY	Total tax(@6%)
B1	Delhi	₹25 lakh	₹5 lakh	₹30,000
B2	Haryana	₹20 lakh	₹10 lakh	₹60,000
Total		₹45 lakh	₹15 lakh	₹90,000

As seen above, since the tax under composition scheme has to computed as a specified % of the turnover in State or turnover in Union territory, it is pertinent to understand what is turnover in State or turnover in Union territory.

Test Your Knowledge

Question 1

State the person liable to pay GST in the following independent cases provided recipient is located in the taxable territory:

(a) Services provided by an arbitral tribunal to any business entity.

(b) Sponsorship services provided by a company to an individual.

(c) Renting of immovable property service provided by the Central Government to a registered business entity.

Answer 1

a) Since GST on services provided or agreed to be provided by an arbitral tribunal to any business entity located in the taxable territory is payable under reverse charge, in the given case, GST is payable by the recipient - business entity.

b) GST on sponsorship services provided by any person to any body corporate or partnership firm located in the taxable territory is payable under reverse charge. Since in the given case, services have been provided to an individual, reverse charge provisions will not be attracted. GST is payable under forward charge by the supplier – company.

c) GST on services supplied by Central Government State Government, Union territory or local authority by way of renting of immovable property to a person registered under CGST Act, 2017 is payable under reverse charge. Therefore, in the given case, GST is payable under

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reverse charge by the recipient – registered business entity.

Question 2

Vivek Goyal, an independent director, appointed in accordance with the provisions of the Companies Act, 2013, of A2Z Pvt. Ltd., has received sitting fee amounting to ₹ 1 lakh from A2Z Pvt. Ltd for attending the Board meetings. Who is the person liable to pay tax in this case?

Answer 2

GST on supply of services by director of a company to the said company located in the taxable territory is payable on reverse charge basis.

Therefore, in the given case, person liable to pay GST is the recipient of services, i.e., A2Z Pvt. Ltd.

Question 3

Raghu Associates provided sponsorship services to WE-WIN Cricket Academy, an LLP. Determine the person liable to pay tax in this case.

Answer 3

In case of services provided by any person by way of sponsorship to any body corporate or partnership firm, GST is liable to be paid under reverse charge by such body corporate or partnership firm located in the taxable territory.

Further, for the reverse charge purposes, Limited Liability Partnership formed and registered under the provisions of the Limited Liability Partnership Act, 2008 is also be considered as a partnership firm.

Therefore, in the given case, WE-WIN Cricket Academy LLP is liable to pay GST under reverse charge.

Question 4

Legal Fees is received by Sushrut, an advocate, from M/s. Tatva Trading Company, engaged in making taxable supplies and located in Maharashtra, having turnover of ₹ 50 lakh in preceding financial year. Who is the person liable to pay tax in this case?

Answer 4

GST on legal services supplied by an advocate [Mr. Sushrut] to any business entity [M/s. Tatva Trading Company] located in the taxable territory is payable on reverse charge basis.

Therefore, in the given case, person liable to pay GST is the recipient of services, i.e., M/s. Tatva Trading Company.

Question 5

State the person liable to pay GST in the following independent cases provided recipient is located in the taxable territory:

(a) Services supplied by an insurance agent to an insurance company.

(b) Services supplied by a recovery agent to a car dealer.

(c) Security services (services provided by way of supply of security personnel) provided by a partnership firm to a registered person paying tax under regular scheme.

Answer 5

a) GST on services supplied by an insurance agent to any person carrying on insurance business located in the taxable territory is payable under reverse charge. Therefore, in the given case, GST is payable under reverse charge by the recipient – Insurance Company.

b) GST on services supplied by a recovery agent to a banking company or a financial institution or a non- banking financial company located in the taxable territory is payable under reverse

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charge. However, since, in the given case, services are being supplied by a recovery agent to a car dealer, GST is payable under forward charge by the service provider - recovery agent.

c) GST on security services (services provided by way of supply of security personnel) provided to a registered person, located in the taxable territory is payable under reverse charge. Therefore, in the given case, GST is payable under reverse charge by the recipient – registered person receiving the services.

Question 6

Sultan & Sons, a partnership firm, based in Nagpur, Maharashtra is a wholesaler of a taxable product 'P' and product 'Q' exempt by way of a notification, only within the State of Maharashtra. Its aggregate turnover in the preceding financial year is ₹ 130 lakh. The firm wishes to opt for composition scheme under sub-sections (1) & (2) of section 10 in the current financial year. However, its accountant is of the view that a person engaged in making supply of exempt goods is not eligible for the said scheme. Discuss

Note: Assume that Sultan & Sons is not engaged in manufacture of goods as notified under section 10(2)(e).

Answer 6

The view taken by the accountant of Sultan & Sons is not valid in law. A registered person with an aggregate turnover in a preceding financial year up to ₹ 1.5 crore is eligible for composition levy, under section 10(1) & 10(2), in Delhi. Further, such person must not be engaged in making any supply of goods or services which are not leviable to tax under this Act and must not be engaged in making any inter-State outward supplies of goods or services, for being eligible to pay tax under said scheme. In the given case, the aggregate turnover of Sultan & Sons does not exceed ₹ 1.5 crore. Further, it is engaged in making only intra-State supply of goods and Product P supplied by it is taxable and Product Q supplied by it is leviable to tax, though exempted by way of notification. Therefore, it is eligible for composition levy under section 10(1) & 10(2) in the current year.

Question 7

A person availing composition scheme, under sub-sections (1) & (2) of section 10, in Haryana during a financial year crosses the turnover of ₹ 1.5 crore in the month of December. Will he be allowed to pay tax under composition scheme for the remainder of the year, i.e. till 31st March? Please advise.

Answer 7

No. The option to pay tax under composition scheme lapses immediately from the day on which the aggregate turnover of the person availing composition scheme under section 10(1) during the financial year exceeds the specified limit (₹ 1.5 crore). Once he crosses the threshold, he is required to file an intimation for withdrawal from the scheme in prescribed form within 7 days of the occurrence of such event.

Every person who has furnished such an intimation, may electronically furnish at the common portal, a statement in prescribed form containing details of the stock of inputs and inputs contained in semi-finished or finished goods held in stock by him on the date on which the option is withdrawn, within a period of 30 days from the date from which the option is withdrawn.

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Question 8

Determine whether the suppliers in the following cases are eligible for composition levy, under section 10(1) & 10(2), provided their turnover in preceding year does not exceed ₹ 1.5 crore:

(i) Mohan Enterprises is engaged only in trading of pan masala in Rajasthan and is registered in the same State.

(ii) Sugam Manufacturers has registered offices in Punjab and Haryana and sells goods manufactured by it in the neighbouring States.

Answer 8

i. A supplier engaged in the manufacture of goods as notified under section 10(2)(e), during the preceding FY is not eligible for composition scheme under section 10(1) and 10(2). Ice cream and other edible ice, whether or not containing cocoa, Pan masala, Tobacco and manufactured tobacco substitutes, aerated waters, fly ash bricks, fly ash aggregate, fly ash blocks, bricks of fossil meals or similar siliceous earths, building bricks, earthen or roofing tiles are notified under this category. However, in the given case, since Mohan Enterprises is engaged in trading of pan masala and not manufacture and his turnover does not exceed ₹ 1.5 crore, he is eligible for composition scheme subject to fulfilment of specified conditions.

ii. Since supplier of inter-State outward supplies of goods or servicesis not eligible for composition levy, Sugam Manufacturers is not eligible for composition levy.

Question 9

Subramanian Enterprises has two registered places of business in Delhi. Its aggregate turnover in the preceding financial year for both the places of business is ₹ 120 lakh. It wishes to pay tax under composition levy, under section 10(1) & 10(2), for one of the places of business for the current financial while continuing paying under normal levy for other. You are required to advice Subramanian Enterprises whether he can do so?

Answer 9

A registered person with an aggregate turnover in a preceding financial year up to ₹ 1.5 crore is eligible for composition levy, under section 10(1) & 10(2),in Delhi. Since the aggregate turnover of Subramanian Enterprises does not exceed ₹ 1.5 crore, it is eligible for composition levy in the current year. However, all registered persons having the same Permanent Account Number (PAN) have to opt for composition scheme. If one such registered person opts for normal scheme, others become ineligible for composition scheme. Thus, Subramanian Enterprises either have to opt for composition levy for both the places of business or under normal levy for both the places of business

Question 10

Mr. Ajay has a registered repair centre where electronic goods are repaired/serviced. His repair centre is located in State of Rajasthan and he is not engaged in making any inter-State supply of services. His aggregate turnover in the preceding financial year (FY) is ₹ 45 lakh.

With reference to the provisions of the CGST Act, 2017, examine whether Mr. Ajay can opt for the composition scheme under section 10(1) &10(2) in the current financial year? Or whether he is eligible to avail benefit of composition scheme under section 10(2A)? Considering the option of payment of tax available to Mr. Ajay, compute the amount of tax payable by him assuming that his aggregate turnover in the current financial year is₹ 35 lakh.

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Will your answer be different if Mr. Ajay procures few items required for providing repair services from neighboring State of Madhya Pradesh?

Answer 10

Section 10(1) provides that a registered person, whose aggregate turnover in the preceding financial year did not exceed ₹ 1.5 crore (₹ 75 lakh in Special Category States except Assam, Himachal Pradesh and Jammu and Kashmir), may opt to pay, in lieu of the tax payable by him, an amount calculated at the specified rates. However, as per proviso to section 10(1), person who opts to pay tax under composition scheme may supply services other than restaurant services, of value not exceeding 10% of the turnover in a State or Union territory in the preceding financial year or ₹ 5 lakh, whichever is higher.

In the given case, since Mr. Ajay is an exclusive supplier of services other than restaurant services [viz. repair services], he is not eligible for composition scheme under section 10(1) & 10(2).

However, section 10(2A) provides an option to a registered person (subject to certain conditions) whose aggregate turnover in the preceding financial year is upto ₹ 50 lakh and who is not eligible to pay tax under composition scheme under section 10(1) & 10(2), to pay tax @ 3% [Effective rate 6% (CGST+ SGST/UTGST)] of the turnover of supplies of goods and services in the State or Union territory.

Thus, in view of the above-mentioned provisions, Mr. Ajay is eligible to avail the composition scheme under section 10(2A) as his aggregate turnover in the preceding FY does not exceed ₹ 50 lakh and he is not eligible to opt for the composition scheme under section 10(1) & 10(2).

Thus, the amount of tax payable by him as per the composition scheme under section 10(2A) is ₹ 2,10,000 [6% of ₹ 35 lakh].

A registered person cannot opt for composition scheme under section 10(2A), if, inter alia, he is engaged in making any inter-State outward supplies. However, there is no restriction on inter-State procurement of goods. Hence, answer will remain the same even if Mr. Ajay procures few items from neighboring State of Madhya Pradesh.

Question 11

M/s United Electronics, a registered dealer, is supplying all types of electronic appliances in the State of Karnataka. Their aggregate turnover in the preceding financial year by way of supply of appliances was ₹ 120 lakh. The firm also expects to provide repair and maintenance service of such appliances from the current financial year. With reference to the provisions of the CGST Act, 2017, examine:

(i) Whether the firm can opt for the composition scheme, under section 10(1) and 10(2), for the current financial year, as the turnover may include supply of both goods and services?

(ii) If yes, up to what amount, the services can be supplied?

Answer 11

(i) The registered person, whose aggregate turnover in the preceding financial year does not exceed ₹ 1.5 crore, may opt to pay tax under composition levy, under section 10(1) and 10(2). The scheme can be availed by an intra-State supplier of goods and supplier of restaurant service.

However, the composition scheme permits supply of marginal services (other than restaurant services) for a specified value along with the supply of goods and restaurant service, as the case may be.

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Thus, M/s United Electronics can opt for composition scheme for the current financial year as its aggregate turnover is less than ₹ 1.5 crore in the preceding financial year and it is not engaged in inter-State outward supplies.

(ii) The registered person opting for composition scheme, under section 10(1) and 10(2), can also supply services (other than restaurant services) for a value up to 10% of the turnover in the preceding year or ₹ 5 lakh, whichever is higher, in the current financial year.

Thus, M/s United Electronics can supply repair and maintenance services up to a value of ₹ 12 lakh [10% of ₹ 120 lakh or ₹ 5 lakh, whichever is higher] in the current financial year.

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Chapter 13
Place Of Supply

TEST YOUR KNOWLEDGE

Question 1

In case of a domestic supply, what is the place of supply where goods are removed?

Answer 1

As per section 10(1)(a), the place of supply of goods is the location of the goods at the time at which the movement of goods terminates for delivery to the recipient.

Question 2

What will be the place of supply if the goods are delivered by the supplier to another person on the direction of a third person?

Answer 2

As per section 10(1)(b), it would be deemed that the third person has received the goods and the place of supply of such goods will be the principal place of business of such person.

Question 3

What is the place of supply where the goods or services are supplied on board a conveyance, such as a vessel, an aircraft, a train or a motor vehicle?

Answer 3

As per section 10(1)(e), in respect of goods, the place of supply is the location at which such goods are taken on board.

However, in respect of services, the place of supply is the location of the first scheduled point of departure of that conveyance for the journey in terms of sections 12(10).

Question 4

The place of supply in relation to immovable property (situated in India) is the location of immovable property. Suppose a road is constructed from Delhi to Mumbai covering multiple states. What will be the place of supply of construction services?

Answer 4

Where the immovable property is located in more than one State, the supply of service is treated as made in each of the States in proportion to the value for services separately collected or determined, in terms of the contract or agreement entered into in this regard or, in the absence of such contract or agreement, on such other reasonable basis as may be prescribed in this behalf [Explanation to section 12(3)].

In the absence of a contract or agreement between the supplier and recipient of services in this regard, the proportionate value of services supplied in different States/Union territories (where the

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immovable property is located) is computed on the basis of the area of the immovable property lying in each State/ Union territories [Rule 4 of the IGST Rules].

Question 5

What would be the place of supply of services provided by an event management company for organizing a sporting event for a Sports Federation which is held in multiple States?

Answer 5

In case of an event, if the recipient of service is registered, the place of supply of services for organizing the event is the location of such person. However, if the recipient is not registered, the place of supply is the place where event is held.

Since the event is being held in multiple states and a consolidated amount is charged for such services, the place of supply will be deemed to be in each State in proportion to the value for services determined in terms of the contract or agreement entered into in this regard [Explanation to section 12(7)].

In the absence of a contract or agreement between the supplier and recipient of services, the proportionate value of services made in each State (where the event is held) will be computed in accordance with rule 5 of the IGST Rules by the application of generally accepted accounting principles.

Question 6

What is the place of supply of services by way of transportation of goods, including by mail or courier when both the supplier and the recipient of the services are located in India?

Answer 6

If the recipient is registered, the location of such person is the place of supply. However, if the recipient is not registered, the place of supply is the place where the goods are handed over for transportation. Further, if the goods are transported outside India, the destination of such goods is the place of
supply [Section 12(8)].

Question 7

What will be the place of supply of passenger transportation service, if a person travels from Mumbai to Delhi and back to Mumbai?

Answer 7

If the person is registered, the place of supply of passenger transportation service will be the location of recipient. If the person is not registered, the place of supply for the forward journey from Mumbai to Delhi will be Mumbai, the place where he embarks [Section 12(9)].

However, for the return journey, the place of supply will be Delhi as the return journey has to be treated as separate journey [Explanation to section 12(9)].

Question 8

What is the place of supply for mobile connection? Can it be the location of supplier?

Answer 8

The location of supplier of mobile services cannot be the place of supply as the mobile companies are providing services in multiple states and many of these services are inter-state. The consumption

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principle will be broken if the location of supplier is taken as place of supply and all the revenue may go to a few states where the suppliers are located.

The place of supply for mobile connection would depend on whether the connection is on postpaid or prepaid basis. In case of postpaid connections, the place of supply is the location of billing address of the recipient of services on the record of supplier of services.

In case of pre-paid connections, if the service is supplied: -

(i) through a selling agent or a re-seller or a distributor of SIM card or re-charge voucher, the place of supply is the place address of the selling agent or re-seller or distributor as per the record of the supplier at the time of supply; or

(ii) by any person to the final subscriber, the place of supply is the location where such prepayment is received or such vouchers are sold;

(iii) in other cases, the place of supply is the address of the recipient as per the records of the supplier of services and where such address is not available, the place of supply shall be location of the supplier of services.

However, if the recharge is done through internet/e-payment, the location of recipient of service on record of the supplier will be taken as the place of supply [Section 12(11)].

Question 9

A person from Mumbai goes to Kullu-Manali and takes some services from ICICI Bank in Manali. What is the place of supply?

Answer 9

The place of supply in case of banking services to any person shall be the location of the recipient of services on the records of the supplier of services. However, if the location of recipient of services is not on the records of the supplier, the place of supply shall be the location of the supplier of services i.e. Kullu-Manali, Himachal Pradesh [Section 12(12)].

Question 10

An unregistered person from Gurugram travels by Air India flight from Mumbai to Delhi and gets his travel insurance done in Mumbai. What is the place of supply of insurance services?

Answer 10

When insurance service is provided to an unregistered person, the location of the recipient of services on the records of the supplier of insurance services is the place of supply. So Gurugram is the place of supply [Section 12(13)].

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Chapter 14
Exemptions from GST

ILLUSTRATION

Question 1 (Illustration)

Good Health Medical Centre, a clinical establishment, offers the following services:

(i) Reiki healing treatments.

(ii) Plastic surgeries. One such surgery was conducted to repair cleft lip of a new born baby.

(iii) Air ambulance services to transport critically ill patients from distant locationsto the Medical Centre.

(iv) Palliative care for terminally ill patients. On request, such care is also provided to patients at their homes. (Palliative care is given to improve the quality of life of patients who have a serious or life-threatening disease but the goal of such care is not to cure the disease).

(v) Alternative medical treatments by way of yoga.

Good Health Medical Centre also operates a cord blood bank which provides services in relation to preservation of stem cells.

Good Health Medical Centre is of the view that since it is a clinical establishment,all the service provided by it as well as all the services provided to it are exemptfrom GST.

You are required to examine the situation in the light of relevant statutory provisions.

Answer 1

Health care services provided by a clinical establishment, an authorised medical practitioner or para-medics are exempt from GST under Entry 74. In light of the same, the eligibility to exemption in respect of each service offered by Good Health Medical Centre is examined below:

(i) **Not Exempt.** Since reiki healing is not a recognized system of medicine in terms of section 2(h) of Clinical Establishments Act, 2010, it would not be exempt and thus, GST would be payable thereon.

(ii) **Exempt.** Health care service does not include, inter alia, cosmetic or plastic surgery, except when undertaken to restore or to reconstruct anatomy orfunctions of body affected due to congenital defects, developmental abnormalities, injury or trauma.

Therefore, plastic surgeries will not be entitled to the said exemption andthus, GST would be payable thereon. However, plastic surgery conducted to repair a cleft lip will be eligible for exemption as it reconstructs anatomy or functions of body affected due to congenital defects (cleft lip).

(iii) **Exempt.** Health care service includes services by way of transportation of the patient to and from a clinical establishment. Thus, air ambulance serviceto transport critically ill patients to Good Health Medical Centre would be eligible for exemption under the said notification.

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(iv) **Exempt.** Health care service means any service by way of diagnosis or treatment or care for illness, injury, deformity, abnormality or pregnancy inany recognized system of medicines in India. It is immaterial whether such service is provided at the clinical establishment or at the home of the patient or at any other place. Thus, palliative care for terminally ill patientsis exempt.

(v) **Exempt.** Since Yoga is a recognized system of medicine in terms of section 2(h) of Clinical Establishments Act, 2010, the same would be eligible for exemption under the said notification.

Further, services provided by cord blood banks by way of preservation of stem cells or any other service in relation to such preservation are not exempt from GST. Therefore, services provided in relation to preservation of stem cells by the cord blood bank operated by Good Health Medical Centre will be liable to GST.

It is important to note that Entry 74 of the exemption notification grants exemption to health care services provided BY a clinical establishment and not to services provided TO a clinical establishment. Therefore, Good Health Medical Centre's contention that since it is a clinical establishment, all the services provided to it are also exempt from GST is not correct in law.

Question 2 (Illustration)

M/s. Apna Bank Limited, a scheduled commercial bank, has furnished the following details for the month of August:

Particulars	**Amount [₹ in crores] (excluding GST)**
Extended housing loan to its customers	**100**
Processing fees collected from its customers on sanction of loan	**20**
Commission collected from its customers on bank guarantee	**30**
Interest income on credit card issued by the bank	**40**
Interest received on housing loan extended by the bank	**25**
Minimum balance charges collected from current account and saving account holder	**01**

Compute the value of taxable outward supply.

ANSWER 2

Computation of value of taxable outward supply of M/s. Apna Bank Limited for the month of August:

Particulars	**Amount in crores (₹)**
Housing loan extended to customers [Since money does not constitute goods, extending housing loan is not a supply.]	Nil
Processing fee collected on sanction of loan [Interest does not include processing fee on sanction of the loan. Hence, the same is taxable.]	20
Commission collected on bank guarantee	30

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[Any commission collected over and above interest on loan, advance or deposit are not exempt.]	
Interest income on credit card issued by the bank	40
[Services by way of extending loans in so far as the consideration is represented by way of interest are exempt from tax. However, interest involved in credit card services is specifically excluded from this exemption entry.]	
Interest received on housing loan	Nil
[Services by way of extending loans in so far as the consideration is represented by way of interest are exempt from tax.]	
Minimum balance charges collected from current account and saving account holder	01
[Any charges collected over and above interest on loan, advance or deposit are not exempt.]	
Value of taxable outward supply	91

Question 3 (Illustration)

Determine the GST payable, if any, in each of the following independent cases, assuming that the rate of GST is 18% and that the service providers are registered:

(a) Bollywood dance performance by a film actor in a film and consideration charged is ₹1,45,000.

(b) Carnatic music performance by a classical singer to promote a brand of readymade garments and consideration charged is ₹1,30,000.

(c) Carnatic music performance by a classical singer in a music concert and consideration charged is ₹1,55,000.

(d) Kathak dance performance by a classical dancer in a cultural programme and consideration charged is ₹ 1,45,000.

Answer 3

(a) Bollywood Dance performance by a film actor in a film is not exempt from GST even though the consideration charged is less than threshold limit of ₹ 1,50,000. The reason for the same is that the dance performance by an artist is exempt only if it is a performance in folk or classical art forms of dance.

(b) Carnatic music performance by a classical singer to promote a brand of readymade garments is not exempt from GST even though, the consideration charged is less than threshold limit of ₹ 1,50,000 and it is a performance in classical art forms of music. The reason for the same is that the said exemption is not applicable to service provided by such artist as a brand ambassador.

(c) Carnatic music performance by a classical singer in a music concert is not exempt from GST even though it is a performance in classical art forms of music. The reason for the same is the consideration charged for the service exceeds ₹ 1,50,000. Consequently, entire consideration charged is subject to GST as follows: = ₹ 1,55,000 × 18% = ₹ 27,900

(d) Kathak dance performance by a classical dancer in a cultural programme is exempt from GST as it is a performance in classical art forms of dance and consideration charged does not exceed ₹ 1,50,000 [i.e. ₹ 1,45,000].

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TEST YOUR KNOWLEDGE

Question 1

Exempt supply means supply of any goods or services or both which attracts nil rate of tax and which may be wholly exempt from tax, but excludes non- taxable supply. Discuss the validity of the statement.

Answer 1

The statement is not fully valid in law. Exempt supply has been defined as supply of any goods or services or both which attracts nil rate of tax or which may be wholly exempt from tax and includes non-taxable supply [Section 2(47)].

Question 2

Services provided by an entity registered under section 12AB of the Income- tax Act, 1961 are exempt from GST if such services are provided by way of charitable activities. Elaborate the term 'charitable activities'.

Answer 2

The term 'charitable activities' mean activities relating to-

(i) public health by way of-
- (A) care or counseling of
  - (I) terminally ill persons or persons with severe physical or mental disability;
  - (II) persons afflicted with HIV or AIDS;
  - (III) persons addicted to a dependence-forming substance such as narcotics drugs or alcohol; or
- (B) public awareness of preventive health, family planning or prevention of HIV infection;

(ii) advancement of religion, spirituality or yoga;

(iii) advancement of educational programmes/skill development relating to,-
- (A) abandoned, orphaned or homeless children;
- (B) physically or mentally abused and traumatized persons;
- (C) prisoners; or
- (D) persons over the age of 65 years residing in a rural area;

(iv) preservation of environment including watershed, forests & wildlife.

Question 3

Examine which of the following independent services are exempt from GST:

(a) Food supplied by the canteen run by a hospital to the in-patients as advised by the doctors.

(b) An RWA in a housing society, registered under GST, collects the maintenance charges of ₹ 6,500 per month per member.

Answer 3

(a) Services by way of health care services by a clinical establishment, an authorised medical practitioner or para-medics are exempt from GST. Food supplied to the in-patients by a canteen run by the hospital, as advised by the doctor/nutritionists, is a part of composite supply of healthcare and not separately taxable. Thus, said services are exempt from GST.

(b) Supply of service by a RWA (unincorporated body or a non- profit entity registered under any law) to its own members by way of reimbursement of charges or share of contribution up to an

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amount of ₹ 7500 per month per member for providing services and goods forthe common use of its members in a housing society/a residential complex are exempt from GST. Hence, in the given case, services provided by the RWA are exempt from GST since the maintenance charges collected per month per member do not exceed ₹7500.

Question 4

An individual acts as a referee in a football match organized by Sports Authority of India. He has also acted as a referee in another charity football match organized by a local sports club, in lieu of a lump sum payment. Discuss whether any GST is payable on the activities undertaken by him.

Answer 4

Services provided to a recognized sports body by an individual, inter alia, as a referee in a sporting event organized by a recognized sports body is exempt from GST.

Since in the first case, the football match is organized by Sports Authority of India, which is a recognized sports body, services provided by the individual as a referee in such football match will be exempt. However, when he acts as a referee in a charity football match organized bya local sports club, he would not be entitled to afore-mentioned exemption as a local sports club is not a recognized sports body and thus, GST will be payable in this case.

Question 5

RXL Pvt. Ltd. manufactures a beauty soap with the brand name 'Forever Young'. RXL Pvt. Ltd. has organized a concert to promote its brand. Ms. Ahana Kapoor, its brand ambassador, who is a leading film actress, has given a classical dance performance in the said concert as a part of her services as a brand ambassador of the company. The proceeds of the concert worth ₹ 1,20,000 will be donated to a charitable organization by Ms. Ahana.

Examine whether Ms. Ahana Kapoor will be required to pay any GST for classical dance performance given in the said concert.

Answer 5

Services by an artist by way of a performance in folk or classical art forms of (i) music, or (ii) dance, or (iii) theatre, are exempt from GST, if the consideration charged for such performance is not more than ₹ 1,50,000. However, such exemption is not available in respect of service provided by such artist as a brand ambassador.

Since Ms. Ahana Kapoor is the brand ambassador of 'Forever Young' soap manufactured by RXL Pvt. Ltd., the services rendered by her by way of a classical dance performance in the concert organized by RXL Pvt. Ltd. to promote its brand will not be eligible for the above-mentioned exemption and thus, be liable to GST. The fact that the proceeds of the concert will be donated to a charitable organization by Ms. Ahana will not have any bearing on the eligibility or otherwise to the above-mentioned exemption.

Question 6

Examine whether GST is exempted on the following independent supplies of services:

(i) Service provided by a private transport operator to Scholar Boys Higher Secondary School in relation to transportation of students to and from the school.

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(ii) Services provided by way of vehicle parking to general public in a shopping mall.

Answer 6

(i) Yes. Services provided TO an educational institution by way of transportation of students are exempted from GST.

(ii) No. Services provided by way of vehicle parking to general public are not exempted from GST. Therefore, GST is payable on the same.

Question 7

A State Transport Undertaking has hired motor vehicles meant to carry 8 - 10 passengers from Fast Cab Renting, a motor vehicle renting company. Give your comments as to whether any GST is payable in this case.

Answer 7

Services by way of giving on hire, inter alia, to a State Transport Undertaking, a motor vehicle meant to carry more than 12 passengers isexempt from GST.

Since the motor vehicles given on hire by Fast Cab Renting to the StateTransport Undertaking are meant to carry 8-10 passengers, the same would not be eligible for exemption and would thus, be liable to GST.

Question 8

Indiana Engineering College, an educational institution, has conducted an entrance test examination for various courses run by it (for obtaining qualification(s) recognised by law for the time being in force) and charged entrance fees from the applicants. Determine whether Indiana Engineering College is liable to pay GST on the same.

Answer 8

Services provided by an educational institution by way of conduct of entrance examination against consideration in the form of entrance fee are exempt from GST.

Since in the given case, services provided by Indiana Engineering College -an educational institution - are by way of conduct of entrance examination against entrance fee, the same is exempt and thus, GST is not payable in this case.

Question 9

Babloo Transporters, a Goods Transport Agency, transported relief materials in a goods carriage meant for victims of Kerala floods, a natural disaster, by road from Delhi to Ernakulam, for a company. Babloo Transporters is of the view that it is not liable to pay GST on the said services provided as said services are exempt. You are required to advice it on the said issue.

Answer 9

Services provided by a goods transport agency, by way of transport in a goods carriage of relief materials meant for victims of, inter alia, natural or man-made disasters, calamities, are exempt from GST. Therefore, services provided by Babloo Transporters will be exempt from GST.

Question 10

Keyan Enterprises, an event organizer, provided services to Breathing Wall Ltd. by way of organizing business exhibition in New Delhi as part of Make in India initiative. Keyan Enterprises claims that it is not required to pay GST as the services provided by way of organizing business

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exhibition are exempt from GST. Examine the technical veracity of the claim of Keyan Enterprises, in the given case.

Answer 10

No, the claim made by Keyan Enterprises that it is not required to pay GST is not correct. Services provided by an organiser to any person in respect of a business exhibition are exempt from GST only when such business exhibition is held outside India. However, since in the given case, the exhibition is being organized in India, the services of organization of eventby Keyan Enterprises will not be exempt from GST.

Question 11

ST Ltd. has given on hire 5 trucks to Titu Transporters of Delhi (a goods transport agency) for transporting goods in Central and West Delhi. The hiring charges for the trucks are ₹ 7,500 per truck per day. Examine whether GST is payable in the given case.

Answer 11

GST is not payable in case of hiring of trucks to Titu Transporters since services by way of giving on hire, inter alia, to a goods transport agency, a means of transportation of goods are exempt.

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ILLUSTRATION

Question 1 (Illustration)

A machine has to be supplied at site. It is done by sourcing various components from vendors and assembling the machine at site. The details of the various events are:

17th September	**Purchase order with advance of ₹ 50,000 is received for machine worth ₹ 12 lakh and entry duly made in the seller's books of account**
20th October	**The machine is assembled, tested at site, and accepted by buyer**
23rd October	**Invoice raised**
4th November	**Balance payment of ₹11,50,000 received**

Determine the time of supply(ies) in the above scenario for the purpose of payment of tax.

Answer 1

As per Notification No. 66/2017 CT dated 15.11.2017, a registered person (excluding composition supplier) has to pay GST on the outward supply of goods at the time of supply as specified in section 12(2)(a) i.e., date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31.

Therefore, the time of supply for the purpose of payment of tax for the entire amount of ₹ 12,00,000 is 20th October which is the date on which the goods were made available to the recipient as per section 31(1)(b), and the invoice should have been issued by this date [Section 12(2)(a)].

Question 2 (Illustration)

Gas is supplied by a pipeline to the recipient. The supply is to be made for a period of one year. Monthly payments are to be made by the recipient as per the contract. The details of the payment made are:

July 5, August 5, September 5	**Payments of ₹2 lakh made in each month**

Determine the time of supply for the purpose of payment of tax.

Answer 2

As per notification No. 66/2017 CT dated 15.11.2017 , a registered person (excluding composition supplier) has to pay GST on the outward supply of goods at the time of supply as specified in section 12(2)(a), i.e. date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31. As per section 31(4), in case of continuous supply of goods, where successive statements of accounts or successive payments are involved, the invoice is issued before or at the time of each such statement is issued or, as the case may be, each such payment is received. Therefore,

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invoices should be issued for ₹ 2 lakh each on or before July 5, August 5 and September 5, when monthly payments of ₹ 2 lakh are received.

Thus, assuming that the invoice is issued on July 5, August 5 and September 5, the time of supply for the purpose of payment of tax will be July 5, August 5 and September 5 respectively for goods valued at ₹ 2 lakh each.

Question 3 (Illustration)

Determine the time of supply from the given information.

May 4	**Supplier invoices goods taxable on reverse charge basis to Bridge &Co. (30 days from the date of issuance of invoice elapse on June 3)**
May 12	**Bridge & Co receives the goods**
May 30	**Bridge & Co makes the payment**

Answer 3

Here, May 12 will be the time of supply, being the earliest of the three stipulated dates namely, receipt of goods, date of payment and date immediately following 30 days of issuance of invoice [Section 12(3)]. (Here, date of invoice is relevant only for calculating thirty days from that date.)

Question 4 (Illustration)

Determine the time of supply from the given information.

May 4	**Supplier invoices goods taxable on reverse charge basis to Pillar &Co. (30 days from the date of issuance of invoice elapse on June 3)**
June 12	**Pillar & Co receives the goods, which were held up in transit**
July 3	**Payment made for the goods**

Answer 4

Here, June 4, 31st day from the date of supplier's invoice, will be the time of supply, being the earliest of the three stipulated dates namely, receipt of goods, date of payment and date immediately following 30 days of issuance of invoice [Section 12(3)].

Question 5 (Illustration)

Determine the time of supply from the following particulars:	
6th May	**Booking of convention hall, sum agreed ₹ 15000, advance of ₹ 3000 received**
15th September	**Function held in convention hall**
27th October	**Tax invoice issued for ₹ 15000, indicating balance of ₹ 12000 payable**
3rd November	**Balance payment of ₹ 12000 received**

Answer 5

As per section 31(2) read with rule 47 of CGST Rules, the tax invoice is to be issued within 30 days of supply of service. In the given case, the invoice is not issued within the prescribed time limit. As per section 13(2)(b), in a case where the invoice is not issued within the prescribed time, the time of supply of service is the date of provision of service or receipt of payment, whicheveris earlier.

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Therefore, the time of supply of service to the extent of ₹ 3,000 is 6th May as the date of payment of ₹ 3000 is earlier than the date of provision of service. The time of supply of service to the extent of the balance ₹ 12,000 is 15th September which is the date of provision of service.

Question 6 (Illustration)

Investigation shows that ABC & Co carried out service of cleaning and repairs of tanks in an apartment complex, for which the Apartment Owners'Association showed a payment in cash on 4th April to them against work of this description. The dates of the work are not clear from the records of ABC & Co. ABC & Co have not issued invoice or entered the payment in their books of account.

Answer 6

The time of supply cannot be determined vide the provisions of clauses (a)and (b) of section 13(2) as neither the invoice has been issued nor the date of provision of service is available as also the date of receipt of payment inthe books of the supplier is also not available. Therefore, the time of supply will be determined vide clause (c) of section 13(2) i.e., the date on which the recipient of service shows receipt of the service in his books of account. Thus, time of supply will be 4th April, the date on which the Apartment Owners' Association records the receipt of service in its books of account.

Question 7 (Illustration)

Determine the time of supply from the given information. (Assume that servicebeing supplied is taxable under reverse charge)

May 4	**The supplier of service issues invoice for service provided. There is a dispute about amount payable, and payment is delayed.**
August 21	**Payment made to the supplier of service**

Answer 7

Here, July 4 will be the time of supply, being the earliest of the two stipulated dates namely, date of payment and date immediately following 60 days since issue of invoice.

Question 8 (Illustration)

Determine the time of supply from the given information. (Old & New)

May 4	**A German company issues email informing its associated enterprise, ABC Ltd. of the cost of technical services provided to it, which was recorded in ABC Ltd.'s books on May 1**
July 2	**ABC Ltd transfers the amount to the account of the German company**

Answer 8

Here, May 1 will be the time of supply, being the earlier of the two stipulated dates namely, date of entry in the books of account of the recipient of supply or the date of payment, in terms of second proviso to section 13(3).

TEST YOUR KNOWLEGDE

Question 1

Explain the significance of time of supply under GST law.

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Answer 1

GST is payable on supply of goods or services. Time of supply indicates the point in time when the liability to pay tax arises. However, it is important to note that though the liability to pay tax arises at the time of supply, the same can be paid to the Government by the due date prescribed with reference to the said 'time of supply'. The CGST Act provides separate provisions for time of supply for goods and services vide sections 12 and 13.

Question 2

GST is payable on advance received for supply of goods and services taxable under forward charge. Do you agree with the statement? Support your answer with legal provisons.

Answer 2

The statement is not correct. While GST is payable on advance received for supply of services taxable under forward charge, the same is not payable in case of advance received for supply of goods taxable under forward charge.

As per section 13, the time of supply of services taxable under forward chargeis –

- Date of issue of invoice or date of receipt of payment, whichever is earlier, if the same is issued within 30 days from the date of supply of service;

OR

- Date of provision of service or date of receipt of payment, whichever is earlier, if the invoice is not issued within 30 days from the date of supply of service.

Thus, in case of services, if the supplier receives any payment before the provision of service or before the issuance of invoice for such service, the timeof supply gets fixed at that point in time and the liability to pay tax on such payment arises. However, the tax can be paid by the due date prescribed with reference to such time of supply. As regards time of supply of goods taxable under forward charge is concerned, Notification No. 66/2017 CT dated 15.11.2017 provides that a registered person (excluding composition supplier) should pay GST on the outward supply of goodsat the time of supply as specified in section 12(2)(a), i.e. date of issue of invoice orthe last date on which invoice ought to have been issued in terms of section 31. Therefore, in case of goods, tax is not payable on receipt of advance payment.

Question 3

Determine the time of supply in the following cases assuming that GST is payable under reverse charge:

S. No.	Date of Receipt ofgoods	Date of payment by therecipient of goods	Date of issue of invoice by the supplier of goods
(i)	July 1	August 10	June 29
(ii)	July 1	June 25	June 29
(iii)	July 1	Part payment made on June 30 and balance amount paidon July 20	June 29
(iv)	July 5	Payment is entered in the books of account on June 28 and debited in recipient's bank account on June 30	June 1
(v)	July 1	Payment is entered in the books of account on June 30 and debited in	June 29

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		recipient's bank account on June 26	
(vi)	**August 1**	**August 10**	**June 29**

Answer 3

S. No.	Date of receipt of goods	Date of payment by the recipient of goods	Date of issue of invoice by the supplier of goods	Date immediately following30 Days from the Date of invoice	Time of Supply of goods [Earlier of (1), (2) & (4)]
	(1)	**(2)**	**(3)**	**(4)**	**(5)**
(i)	July 1	August 10	June 29	July 30	**July 1**
(ii)	July 1	June 25	June 29	July 30	**June 25**
(iii)	July 1	Part paymentmade on June 30 and balance amount paidon July 20	June 29	July 30	**June 30 for part payment made and July 1 for balance amount**
(iv)	July 5	Payment is entered in the books of Account onJune 28 and debited in recipient's bank accounton June 30	June 1	July 2	**June 28 (i.e.,when payment is entered in the books of account of the recipient)**
(v)	July 1	Payment is entered in the books of account on June 30 and debited in recipient's bank accounton June 26	June 29	July 30	**June 26 (i.e.,when payment is debited in the recipient's bank account)**
(vi)	August1	August 10	June 29	July 30	**July 30 (i.e., 31st day from issuance of invoice)**

Question 4

Determine the time of supply in the following cases assuming that GST is payable under reverse charge:

S. No	Date of payment by the recipient forsupply of services	Date of issue of invoice bythe supplier of services
(i)	**August 10**	**June 29**
(ii	**August 10**	**June 1**
(iii)	**Part payment made on June 30 andbalance amount**	**June 29**

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	paid on September 1	
(iv)	**Payment is entered in the books of account on June 28 and debited in recipient's bank account on June 30**	**June 1**
(v)	**Payment is entered in the books of account on June 30 and debited in recipient's bank account on June 26**	**June 29**

Answer 4

S. No.	**Date of payment by the recipient forsupply of services**	**Date of issue of invoice by the supplier of services**	**Date immediately following 60days from invoice**	**Time of supply ofgoods [Earlier of(1) & (3)]**
	(1)	**(2)**	**(3)**	
(i)	August 10	June 29	August 29	**August 10**
(ii)	August 10	June 1	August 1	**August 1**
(iii)	Part payment madeon June 30 and balance amount paid on September 1	June 29	August 29	**June 30 for part payment and August 29 for Balance amount**
(iv)	Payment is entered in the books of account on June 28 and debited in recipient's bank account on June 30	June 1	August 1	**June 28 (i.e.when payment is entered in the books of account of the recipient)**
(v)	Payment is entered in the books of account on June 30 and debited in recipient's bank account on June 26	June 29	August 29	**June 26 (i.e.when payment is debited inthe recipient's bank account)**

Question 5

Kabira Industries Ltd engaged the services of a transporter for road transportof a consignment on 17th June and made advance payment for the transporton the same date, i.e. 17th June. However, the consignment could not be sent immediately on account of a strike in the factory, and instead was sent on 20th July. Invoice was received from the transporter on 22nd July. What is the time of supply of the transporter's service?

Answer 5

Time of supply of service taxable under reverse charge is the earlier of the following two dates in terms of section 13(3):

- Date of payment
- 61st day from the date of issue of invoice

In this case, the date of payment precedes 61st day from the date of issue of invoice by the supplier

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of service. Hence, the date of payment, i.e. 17th June, will be treated as the time of supply of service [Section 13(3)(a)].

Question 6

Raju Pvt Ltd. receives the order and advance payment on 5th January for carrying out an architectural design job. It delivers the designs on 23rd April. By oversight, no invoice is issued at that time, and it is issued much later, after the expiry of prescribed period for issue of invoice. When is the time of supply of service?

Answer 6

Since the invoice has not been issued within the prescribed time period, timeof supply of service will be the earlier of the following two dates in terms of section 13(2)(b):

- Date of provision of service
- Date of receipt of payment

The payment was received on 5th January and the service was provided on23rd April. Therefore, the date of payment, i.e. 5th January is the time of supply of the service in this case.

Question 7

Investigation shows that 150 cartons of ceramic capacitors were dispatched on2nd August but no invoice was raised and the transaction (dispatch of cartons) were not entered in the accounts. There was no evidence of receipt of payment. What is the time of supply of 150 cartons for the purpose of payment of tax?

Answer 7

As per Notification No. 66/2017 CT dated 15.11.2017, a registered person(excluding composition supplier) has to pay GST on the outward supply of goods at the time of supply as specified in section 12(2)(a), i.e. date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31.

In this case since the invoice has not been issued, the time of supply for the purpose of payment of tax will be the last date on which the invoice is required to be issued.

The invoice for supply of goods must be issued on or before the dispatch of goods, i.e. on 2nd August. Therefore, the time of supply for the purpose of payment of tax for the goods will be 2nd August, the date when the invoice should have been issued.

Question 8

An order is placed on Ram & Co. on 18th August for supply of a consignment of customized shoes. Ram & Co. gets the consignment ready and informs the customer and issues the invoice on 2nd December. The customer collects the consignment from the premises of Ram & Co. on 7th December and electronically transfers the payment on the same date, which is entered in the accounts on the next day, 8th December. What is the time of supply of the shoes for the purpose of payment of tax?

Answer 8

As per Notification No. 66/2017 CT dated 15.11.2017, a registered person(excluding composition supplier) has to pay GST on the outward supply of goods at the time of supply as specified in section

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12(2)(a), i.e. date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31.

In this case, the invoice is issued before the removal of the goods and is thus, within the time limit prescribed under section 31(1). Therefore, the time of supply for the purpose of payment of tax is the date of issue of invoice, whichis 2nd December.

Question 9

Meal coupons are sold to a company on 9th August for being distributed to the employees of the said company. The coupons are valid for six months and can be used against purchase of food items. The employees use them in various stores for purchases of various edible items on different dates throughout the six months. What is the date of supply of the coupons?

Answer 9

As the coupons can be used for a variety of food items, which are taxed at different rates, the supply cannot be identified at the time of purchase of the coupons. Therefore, the time of supply of the coupons is the date of their redemption in terms of section 12(4).

Question 10

A firm of advocates issues invoice for services to ABC Ltd. on 17th Feb. The payment is contested by ABC Ltd. on the ground that on account of negligenceof the firm, the company's case was dismissed by the Court for non-appearance, which necessitated further appearance for which the firm is billing the company. The dispute drags on and finally payment is made on 3rd November. Identify the time of supply of the legal services.

Answer 10

Tax on services supply by a firm of advocates by way of legal services to any business entity is payable under reverse charge by such firm of advocates. Time of supply of services that are taxable under reverse charge is earliest of the following two dates in terms of section 13(3):

- Date of payment [3rd November]
- 61st day from the date of issue of invoice [19th April]

The date of payment comes subsequent to the 61st day from the issue of invoice by the supplier of service. Therefore, the 61st day from the date of supplier's invoice has to be taken as the time of supply. This fixes 19th Aprilas the time of supply.

Question 11

Modern Security Co. provides service of testing of electronic devices. In one case, it tested a batch of devices on 4th and 5th September but could not raise invoice till 19th November because of some dispute about the condition of the devices on return. The payment was made in December.
What is the method to fix the time of supply of the service?

Answer 11

The time of supply of services, if the invoice is not issued in time, is the date of payment or the date of provision of service, whichever is earlier [Section 13(2)(b)]. In this case, the service is provided on 5th September but not invoiced within the prescribed time limit. Therefore, 5th September, the date of provision of service, being earlier than the date of payment, will be thetime of supply.

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Question 12

XYZ & Co., a firm of Chartered Accountants, issued invoice for services rendered to Mr. A on 7th September. Determine the time of supply in the following independent cases:

(1) The provision of service was completed on 1st August and payment wasreceived on 28th September.

(2) The provision of service was completed on 14th August and payment wasreceived on 28th September.

(3) Mr. A made the payment on 3rd August. However, provision of servicewas remaining to be completed at that time.

(4) Mr. A made the payment on 15th September. However, provision ofservice was remaining to be completed at that time.

Answer 12

The time of supply of services is the date of issue of invoice if the same isissued within 30 days from the date of supply of service OR the date of receipt of payment, whichever is earlier [Section 13(2)(a)].

In case the invoice is not issued within 30 days from the date of supply of service, time of supply is the date of provision of service OR the date of receipt of payment, whichever is earlier [Section 13(2)(b)].

In accordance with the aforesaid provisions, the time of supply in the four independent cases will be:

(1) 1st August since the invoice is not issued within 30 days of supply ofservice.

(2) 7th September since the invoice is issued within 30 days of supply ofservice and the payment is received after the issuance of invoice.

(3) 3rd August viz., earlier of date of issuance of invoice (7th September) ordate of receipt of payment (3rd August)

(4) 7th September viz., earlier of date of issuance of invoice (7th September)or date of receipt of payment (15th September)

Question 13

M/s Pranav Associates, a partnership firm, provided recovery agent services to Newtron Credits Ltd., a non-banking financial company and a registered supplier, on 15th January. Invoice for the same was issued on 7th February and the payment was made on 18th April by Newtron Credits Ltd. Bank account of the company was debited on 20th April.

Determine the following:

(i) Person liable to pay GST

(ii) Time of supply of service

Answer 13

(i) Tax on services supplied by a recovery agent to, inter alia, a non- banking financial company (NBFC) is payable under reverse charge by such non-banking financial company.

Therefore, in the given case, person liable to pay GST is the NBFC - Newton Credits Ltd.

(ii) As per section 13(3), the time of supply of service on which GST is payable under reverse charge is earlier of the following:-

a. Date of payment as entered in the books of account of the recipient (18th April) or the date on which the payment is debitedin his bank account (20th April), whichever is earlier;

b. Date immediately following 60 days since issue of invoice by the supplier, i.e. 9th April.

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Thus, time of supply of service is 9th April.

Question 14

Mr. X supplied goods for ₹ 50,000 to its customer Miss Diyana on 1st Januaryon the condition that payment for the same will be made within a week. However, Miss Diyana made payment for the said goods on 2nd February and thus, paid interest amounting to ₹ 2,000.

What is the time of supply with regard to addition in the value by way of interest in lieu of delayed payment of consideration?

Answer 14

As per section 12(6), the time of supply with regard to an addition in valueon account of interest, late fee or penalty or delayed payment of consideration is the date on which the supplier received such additional consideration.

Thus, time of supply in respect of interest would be the date on which the supplier has received such additional consideration, i.e. 2nd February.

Question 15

Mansh & Vansh Trading Company, a registered supplier, is liable to pay GST under forward charge. It has furnished the following information:

(i) Goods were supplied on 3rd October

(ii) Invoice was issued on 5th October

(iii) Payment received on 9th October

Determine the time of supply of goods for the purpose of payment of tax.

Answer 15

As per Notification No. 66/2017 CT dated 15.11.2017, a registered person(excluding composition supplier) has to pay GST on the outward supply of goods at the time of supply as specified in section 12(2)(a), i.e. date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31.

Further, a registered person is required to issue a tax invoice before or at the time of removal of goods for supply to the recipient. Thus, in the given case, the invoice for supply of goods should have been issued on or before the removal of goods i.e., on 3rd October.

However, since the invoice has not been issued within the prescribed time, the time of supply for the purpose of payment of tax will be the last date on which the invoice is required to be issued i.e., 3rd October.

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ILLUSTRATION

Question 1 (Illustration)

Black and White Pvt. Ltd. has provided the following particulars relating to goods sold by it to Colorful Pvt. Ltd.

Particulars	₹
List price of the goods (exclusive of taxes and discounts)	**50,000**
Tax levied by Municipal Authority on the sale of such goods	**5,000**
Packing charges (not included in price above)	**1,000**

Black and White Pvt. Ltd. received ₹ 2,000 as a price linked subsidy from a NGO on sale of such goods. The price of ₹ 50,000 of the goods is after considering such subsidy. Black and White Ltd. offers 2% discount on the list price of the goods which is recorded in the invoice for the goods. Determine the value of taxable supply made by Black and White Pvt. Ltd.

Answer 1

Computation of value of taxable supply

Particulars	₹
List price of the goods (exclusive of taxes and discounts)	50,000
Tax levied by Municipal Authority on the sale of such goods[Includible in the value as per section 15(2)(a)]	5,000
Packing charges [Includible in the value as per section 15(2)(c)]	1,000
Subsidy received from a non-Government body [Since subsidy is received from a non-Government body, the same is included in the value in terms of section 15(2)(e)]	2,000
Total	58,000
Less: Discount @ 2% on ₹ 50,000 [Since discount is known at thetime of supply and recorded in invoice, it is deductible from the value in terms of section 15(3)(a)]	1,000
Value of taxable supply	**57,000**

Question 2 (Illustration)

Samriddhi Advertisers conceptualised and designed the advertising campaign for a new product launched by New Moon Pvt Ltd. for a consideration of ₹ 5,00,000. Samriddhi Advertisers owed ₹ 20,000 to one of its vendors in relation to the advertising service provided by it to New Moon Pvt Ltd. Such liability of Samriddhi Advertisers was discharged by New Moon Pvt Ltd. New Moon Pvt Ltd.

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delayed the payment of consideration and thus, paid ₹ 15,000 as interest. Assume the rate of GST to be 18%.
Determine the value of taxable supply made by Samriddhi Advertisers.

Answer 2

Computation of value of taxable supply

Particulars	₹
Service charges	5,00,000
Payment made by New Moon Pvt. Ltd to vendor of Samriddhi Advertisers [Liability of the supplier being discharged by the recipient, is includible in the value in terms of section 15(2)(b)]	20,000
Interest for delay in payment of consideration [Includible in the value in terms of section 15(2)(d) – Refer note below] [15,000× (100/118)](rounded off)	12,712
Value of taxable supply	**5,32,712**

Note: The interest for delay in payment of consideration will be includible in the value of supply but the time of supply of such interest will be the date when such interest is received in terms of section 13(6). Such interest has been assumed to be inclusive of GST and thus, the value has been computed by making back Calculations $\left[\frac{Interest}{100+tax\ rate} \times 100\right]$ **It is also possible to assume the interest to be exclusive of GST.** In that case, the value of supply will work out to be ₹ 5,35,000.

TEST YOUR KNOWLEDGE

Question 1

Are post-supply discounts eligible for deduction from the value of supplies in all situations? Explain.

Answer 1

No, the post-supply discounts are not eligible for deduction from the value of supplies in all situations. Such discounts are allowed as a deduction from the value of supply only in the situations where the following two conditions are satisfied cumulatively :

(i) The discount is in terms of an agreement that existed at or before the time of supply and can be worked out invoice-wise; and

(ii) Proportionate input tax credit (ITC) is reversed by the recipient - The buyer would have availed ITC of GST payable on the gross value specified in the invoice. Thus, when a credit note is issued to him by the supplier for the discount, the buyer will reverse the proportionate credit; consequent to which, the supplier's output tax liability will be reduced by the same amount.

If any of the above conditions are not satisfied, post-supply discount is not allowed as a deduction from the value of supply and consequently, GST liability of the supplier does not get reduced.

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Question 2

'Consideration under GST law includes both monetary and non-monetary considerations.'
Discuss the correctness or otherwise of the statement with reference to the definition of term 'consideration' provided under the CGST Act.

Answer 2

The statement is correct. As per the definition of the term ***'consideration'*** provided under the CGST Act, consideration under the GST law includes both payment in money or otherwise made by the recipient or any other person and also takes within its sweep the monetary value of any act or forbearance, by the recipient or any other person for the supply. Further, it includes within its ambit any deposit which is applied as a consideration for the supply but excludes the subsidies provided by the State or Central Government.

The term ***'money'*** has also been defined under the CGST Act and it not only includes cash (Indian as well as foreign currency) but also cheque, promissory note, bill of exchange, letter of credit, draft, pay order, traveler's cheque, money order, postal/electronic remittance or any such similar instrument recognized by RBI when used as a consideration to settle an obligation or exchange with Indian legal tender of another denomination

but shall not include any currency that is held for its numismatic value. Non-monetary consideration essentially means consideration in kind.

Question 3

Sharp Minds Institute provides coaching for engineering entrance examinations. The monthly fee charged by the Institute from a student is ₹ 10,000. The Institute is known for its commitment to provide education to underprivileged children. It trains 10 students every year for entrance examinations free of cost.

The Institute has received ₹ 3,00,000 as coaching fees during a month. Nav Jeevan, an NGO working in the area of education for underprivileged children, has given a subsidy of ₹ 10,000 (in lumpsum) during the month tothe Institute as it is serving the cause of underprivileged children. Determine the value of supply of education services made by Sharp MindsInstitute during the month.

Answer 3

As per section 15(2)(e), the value of a supply includes subsidies directly linked to the price, excluding subsidies provided by the State Governmentsand the Central Government.

In the given case, though the subsidy is given by a non-Government body, the same is not includible in the value **as it is given in lumpsum and notdirectly linked to the price of the supply being valued.** Therefore, the value of supply made by Sharp Minds during the month is ₹3,00,000.

Question 4

Furniture Wala is a chain of retail showrooms selling both modern and classic furniture. In order to build strong customer association, the showroom provides free delivery of the furniture at the premises of the customers if the distance between the showroom and the customer's premises is upto 20 kms. Where the distance is more than 20 kms, the showroom charges a concessional freight of ₹ 10 for every additional km.

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Ms. Leena Kapoor purchases a double bed, a dressing table and a centre table for ₹ 2,00,000 from Furniture Wala. Ms. Leena gets free delivery of the furniture as her residence is located at a distance of 18 km from the showroom. The showroom incurs an expenditure of ₹ 1000 for delivering the furniture at Ms. Leena's residence.

Determine the value of taxable supply made by Furniture Wala. Will your answer change if residence of Ms. Leena is 50 km away from the showroom?

Answer 4

In the given case, the showroom is not charging any amount towards freight from Ms. Leena but incurring the same out of its own pocket. Therefore, the same should not be added to the value. Hence, the value of supply will be ₹ 2,00,000.

However, the answer will change in the second case when the showroom will charge ₹ 300 for freight [(50km – 20 km) x ₹ 10] from Ms. Leena. In this case, the supply will be a **composite supply** (principal supply being the supply of furniture) and value thereof will be ₹ 2,00,300.

Question 5

AKJ Foods Pvt. Ltd. gets an order for supply of processed food from a customer. The customer wants the consignment tested for gluten and specified chemical residues. AKJ Foods Pvt. Ltd. does the testing before the supply and charges a testing fee for the same from the customer. AKJ Foods Pvt. Ltd. argues that such testing fees should not form part of the consideration for the supply as it is a separate activity.

Is the company's argument correct in the light of section 15?

Answer 5

Section 15(2) mandates addition of certain elements in the value of supply. Clause (c) of section 15(2) specifies that the amount charged for anything done by the supplier in respect of the supply **at the time of or before delivery of goods or supply of services** shall be included in the value of supply.

Since AKJ Foods Pvt. Ltd. does the testing before the delivery of goods, the charges therefor will be included in the value of the supply. Therefore, AKJ Foods Pvt. Ltd.'s argument is not correct. The testing fee should be included in the price to arrive at value of supply.

Question 6

Mezda Banners, an advertising firm, gives its customers an interest-free credit period of 30 days for payment. Its customer ABC paid for the supply 32 days after the supply of service. Mezda Banners waived the interest payable for delay of two days.

The Department wants to add interest for two days to the value of supply. Should notional interest be added to the value?

Answer 6

This is a supply that is valued as per transaction value under section 15(1) as price is the sole consideration for the supply and the supply is made to unrelated person. The value of a supply includes interest for delayed payment of any consideration for any supply. However, the **time of supply** to the extent it relates to an addition in the value of supply by way of interest for delayed payment of any consideration is the **date on which the supplier receives such addition in value.** In the given case, the

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supplier has waived the interest for delayed payment. Consequently, the supplier has not received the interest. Therefore, **notional interest** for 2 days shall not be included in the value of the supply.

Question 7

Crunch Bakery Products Ltd sells biscuits and cakes through its dealers, to whom it charges the list price minus standard discount and pays GST accordingly. When goods remain unsold with the dealers, it offered additional discounts on the stock as an incentive to push the sales. Without any prior agreement between them for offering such additional discount.

Can this additional discount be reduced from the price at which the goods were sold, and concomitant tax adjustments made?

Answer 7

The discounts were not known or agreed for at the time of supply of goods to the dealers. Therefore, in terms of section 15(3), such discounts cannotbe reduced from the price on which tax had been paid.

Question 8

Red Pepper Ltd., Delhi, a registered supplier, manufactures taxable goods. It provides the following details of taxable inter-State supply made by it during the month of March.

S. No.	Particulars	Amount (₹)
(i)	List price of taxable goods supplied inter-state (exclusive of taxes)	15,00,000
(ii)	Price linked Subsidy received from the Central Government for supply of taxable goods to Government School (exclusively related to supply of goods included at S. No. 1)	2,10,000
(iii)	Price linked Subsidy received from an NGO for supply of taxable goods to an old age home (exclusively related to supply of goods included at S. No.1)	50,000
(iv)	Tax levied by Municipal Authority	20,000
(v)	Packing charges	15,000
(vi)	Late fee paid by the recipient of supply for delayed payment of consideration (Recipient has agreed to pay ₹ 6,000 in lump sum and no additional amount is payable by him over and above such amount)	6,000

The list price of the goods is net of the two subsidies received. However, the other charges/taxes/fee are charged to the customers over and above the list price.

Calculate the total value of taxable supplies made by Red Pepper Ltd. during the month of March. Rate of IGST is 18%.

Answer 8

Computation of total value of taxable supplies made by Red Pepper Ltd. during the month of March

Particulars	Amount (₹)
List price of the goods	15,00,000
Subsidy amounting to ₹ 2,10,000 received from the Central Government [Since the subsidy is received from the Government, the same is not includible in the value in terms of section 15(2)(e)]	NIL

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Subsidy received from NGO [Since the subsidy is received from a non-Government body and directly linked to the supply, the same is includible in the value in terms of section 15(2)(e)]	50,000
Tax levied by the Municipal Authority [Includible in the value as per section 15(2)(a)]	20,000
Packing charges [Being incidental expenses, the same are includible in thevalue as per section 15(2)(c)]	15,000
Late fees paid by recipient of supply for delayed payment [Includible in the value as per section 15(2)(d) - As the amount of interest received is a lump sum amount, the same has to be taken as inclusive of GST] [₹ 6,000 x 100/118] rounded off	5,085
Total value of taxable supplies	**15,90,085**

Question 9

M/s. Flow Pro, a registered supplier, sold a machine to BP Ltd. It provides the following information in this regard:

S. No	Particulars	Amount(₹)
(i)	**Price of the machine [excluding taxes and othercharges mentioned at S. Nos. (ii) and (iii)]**	**25,000**
(ii)	**Third party inspection charges [Such charges were payable by M/s Flow Pro but the same have been directly paid by BP Ltd. to the inspection agency. These charges were not recorded in the invoice issued by M/s Flo Pro.]**	**5,000**
(iii)	**Freight charges for delivery of the machine [M/s Flow Pro has agreed to deliver the goods at BPLtd.'s premises]**	**2,000**
(iv)	**Subsidy received from the State Government on sale of machine under Skill Development Programme [Subsidy is directly linked to the price]**	**5,000**
(v)	**Discount of 2% is offered to BP Ltd. on the price mentioned at S. No. (i) above and recorded in the invoice**	

Note: Price of the machine is net of the subsidy received.

Determine the value of taxable supply made by M/s Flow Pro to BP Ltd.

Answer 9

Computation of value of taxable supply made by M/s. Flo Pro to BP Ltd.

Particulars	Amount (₹)
Price of the machine [Since the **subsidy** is received from the State Government, the same is not includible in the value of supply in terms of section 15(2)(e)]	25,000

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Third party inspection charges [Any amount that the supplier is liable to pay in relation to the supply but has been incurred by the recipient and not included in the price actually paid or payable for the goods, is includible in the value of supply in terms of section 15(2)(b)]	5,000
Freight charges for delivery of the machine [Since arranging freight is the liability of supplier, it is a case of composite supply and thus, freight charges are added in the value of principal supply.]	2,000
Total	32,000
Less: Discount @ 2% on ₹ 25,000 being price charged to BP Ltd. [Discount given before or at the time of supply if duly recorded in the invoice is deductible from the value of supply in terms of section 15(3)(a)]	500
Value of taxable supply	**31,500**

Question 10

Shri Krishna Pvt. Ltd., a registered supplier, furnishes the following information relating to goods sold by it to Shri Balram Pvt. Ltd

S. No	Particulars	Amount (₹)
(i)	**Price of the goods [excluding taxes and other charges mentioned at S. Nos. (iii), (v) and (vi)]**	**1,00,000**
(ii)	**Municipal tax**	**2,000**
(iii)	**Inspection charges**	**15,000**
(iv)	**Subsidy received from Shri Ram Trust [Subsidy is directly linked to the goods supplied]**	**50,000**
(v)	**Late fees for delayed payment inclusive of GST [Shri Balram Pvt. Ltd. paid the late fees. However, these charges were ultimately waived by Shri Krishna Pvt. Ltd. and the amount was refunded to Shri Balram Pvt. Ltd.during the same month]**	**1,000**
(vi)	**Weighment charges [Such charges were paid by Shri Balram Pvt. Ltd. to Radhe Pvt. Ltd. on behalf of Shri Krishna Pvt. Ltd.]**	**2,000**

Note: Price of the goods is net of the subsidy received.

Determine the value of taxable supply made by Shri Krishna Pvt. Ltd. to Shri Balram Pvt. Ltd.

Answer 10

Computation of value of taxable supply made by Shri Krishna Pvt. Ltd.to Shri Balram Pvt. Ltd.

Particulars	Amount (₹)
Price of the goods	1,00,000
Municipal tax [Includible in the value as per section 15(2)(a)]	2,000
Inspection charges [Any amount charged for anything done by the supplier in respect of the	15,000

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supply of goods at the time of/before delivery of goods is includible in the value as per section 15(2)(c)]	
Subsidy received from Shri Ram Trust [Since the subsidy is received from a non-Government body and directly linked to the supply, the same is includible in the value in terms of section 15(2)(e)]	50,000
Late fees for delayed payment [Not includible since the same is waived off]	Nil
Weighment charges paid to Radhe Pvt. Ltd. on behalf of Shri Krishna Pvt. Ltd. [Any amount that the supplier is liable to pay in relationto the supply but has been incurred by the recipient and not included in the price actually paid or payable for the goods, is includible in the value of supply in terms of section 15(2)(b)]	2,000
Value of taxable supply	**1,69,000**

Question 11

Koli Ltd., a registered supplier, has supplied machinery to Ghisa Ltd. (a supplier registered in the same State). It provides following particulars regarding the same:

S. No	Particulars	Amount(₹)
(i)	**Price of machinery (exclusive of taxes and discounts)**	**5,50,000**
(ii)	**Part fitted in the machinery at the premises of Ghisa Ltd. [Amount has been paid by Ghisa Ltd. directly to the supplier. However, it was Koli Ltd.'s liability to pay the said amount. The said amount has not been recorded in the invoice issued by Koli Ltd.)**	**20,000**
(iii)	**Installation and testing charges for machinery, not included in price**	**25,000**
(iv)	**Discount @ 2% on price of the machinery mentioned at S. No. (i) above (recorded in the invoice)**	
(v)	**Koli Ltd. provides additional discount @ 1% at year end, based on additional purchase of other machinery for which adjustment is made at the end of the financial year without any change in individual transactions.**	

Determine the value of taxable supply made by Koli Ltd. to Ghisa Ltd.

Answer 11

computation of value of taxable supply made by Koli Ltd. to Ghisa Ltd.

Particulars	Amount (₹)
Price of machinery (exclusive of taxes and discounts)	5,50,000
Amount paid by Ghisa Ltd. directly to the supplier forthe part fitted in the machinery [Any amount that the supplier is liable to pay in relation to a supply but which has been incurred by the recipientof the supply and not included	20,000

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in the price actually paidor payable for the goods is includible in the value of supply in terms of section 15(2)(b).]	
Installation and testing charges [Any amount charged for anything done by the supplier in respect of the supply of goods at the time of/before delivery of goods is includible in the value of supply in terms of section 15(2)(c).]	25,000
Less: Discount @ 2% on the price of machinery[₹5,50,000 x 2%] [Since discount is given at the time of supply of machinery and recorded in the invoice, the same is deductible from the value of the supply in terms of section 15(3)(a).]	11,000
Less: Additional 1% discount at year end [Though the additional discount is established before/at the time of supply, it is not deductible from the value of supply in terms of section 15(3)(b) **as the same is not linked to any specific transaction** and is adjusted by the parties at the end of the financial year.]	Nil
Value of taxable supply	**5,84,000**

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ILLUSTRATION

Question 1(Illustration)

Vijay Sales, a registered supplier, receives 100 invoices (for inward supply of goods/ services) involving GST of ₹ 10 lakh, from various suppliers during the month of October.

Out of 100 invoices, details of 80 invoices involving GST of ₹ 6 lakh have been furnished by the suppliers in their respective GSTR-1s filed on the prescribed due date therefor and are reflected in GSTR-2B of Vijay Sales.

Compute the ITC that can be claimed by Vijay Sales in its GSTR-3B for the month of October to be filed by 20th November assuming that GST of ₹ 10 lakh is otherwise eligible for ITC.

Answer 1

ITC to be claimed by Vijay Sales in its GSTR-3B for the month of Octoberto be filed by 20th November will be computed as under-

Invoices	Amount of ITC involved in the invoices (₹)	Amount of ITC that can be availed (₹)
80 invoices furnished inGSTR-1	6 lakh	6 lakh [Refer Note 1]
20 invoices not furnished inGSTR-1	4 lakh	Nil [Refer Note 2]
Total	**10 lakh**	**6 lakh**

Notes:

(1) 100% ITC can be availed on invoices furnished by the suppliers in their GSTR-1s and reflected in GSTR-2B of Vijay Sales.

(2) As per rule 36(4), the ITC in respect of invoices not furnished by the suppliers in their GSTR-1s and thus, not being reflected in GSTR-2B of recipient, cannot be claimed. Thus, in respect of 20 invoices which are not furnished in GSTR-1s of suppliers and are not reflected in GSTR-2B of Vijay Sales, no ITC can be availed8.

Question 2 (Illustration)

ABC Co. Ltd., registered under GST, is engaged in the manufacture of heavy machinery. It procured the following items during the month of July.

S. No.	Items	GST (₹)
(i)	Electrical transformers to be used in the manufacturing process	5,20,000
(ii)	Trucks used for the transport of raw material	1,00,000
(iii)	Raw material	2,00,000
(iv)	Confectionery items. These items were supplied free of cost to the customers in a customer meet organized by the	25,000

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	company	

Determine the amount of ITC that can be available with ABC Co. Ltd., for the month of July by giving necessary explanations for treatment of various items. Subject to the information given above, assume that all the other conditions necessary for availing ITC have been fulfilled.

Answer 2

Computation of ITC that can be availed by with ABC Co. Ltd. for the month of July

S. No.	Items	ITC (₹)
(i)	Electrical transformers [Being goods used in the course or furtherance of business, ITC thereon is available in terms of section 16(1)]	5,20,000
(ii)	Trucks used for the transport of raw material [ITC on motor vehicles used for transportation of goods is not blocked under section 17(5)(a)]	1,00,000
(iii)	Raw material [Being goods used in the course or furtherance of business, ITC thereon is available in terms of section 16(1)]	2,00,000
(iv)	Confectionery items for consumption of customers at customers meet [ITC on food or beverages is specifically disallowed unless the same is used for making outward taxable supply ofthe same category or as an element of the taxable composite or mixed supply-Section 17(5)(b)(i)]	Nil
	Total ITC	**8,20,000**

Question 3 (Illustration)

XYZ Ltd., registered under GST, is engaged in manufacture of taxable goods. Compute the ITC that can be availed by XYZ Ltd. for the month of October from the following particulars:-

S.No.	Inward supplies	GST (₹)	Remarks
(i)	**Inputs 'A'**	**1,00,000**	**One invoice on which GST payablewas ₹ 10,000, is missing**
(ii)	**Inputs 'B'**	**50,000**	**Inputs are to be received in two lots. First lot has been received in October**
(iii)	**Capital goods**	**1,20,000**	**XYZ Ltd. has capitalized the capital goods at full invoice value inclusive of GST as it will avail depreciation on the full invoice value.**
(iv)	**Input services**	**2,25,000**	**One invoice dated 20th January on which GST payable was ₹ 50,000 was missing and has been found in October**

Note:

(i) Subject to the information given above, assume that all the other conditions necessary for availing ITC have been fulfilled.

(ii) The annual return for the previous financial year was filed on 15th September.

Answer 3

Computation of ITC available with XYZ Ltd. for the month of October

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S. No.	Inward supplies	ITC (₹)
(i)	Inputs 'A' [ITC cannot be taken on missing invoice. The registered person should have the invoice in its possession to claim ITC-Section 16(2)(a)]	90,000
(ii)	Inputs 'B' [When inputs are received in lots, ITC can be availed only on receipt of last lot-First proviso to section 16(2)]	Nil
(iii)	Capital goods [Input tax paid on capital goods cannot be availed as ITC,if depreciation has been claimed on such tax component – Section 16(3)]	Nil
(iv)	Input services [As per section 16(4), ITC on an invoice cannot be availed after 30th November following the end of financial year to which such invoice pertains or the date of filing annual return, whichever is earlier. Since the annual return for the previous financial year has been filed on 15th September (prior to 30th November), ITC on the invoice pertaining to previous financial year cannot be availed after 15th September]	1,75,000
	Total ITC	**2,65,000**

Question 4 (Illustration)

XT Pvt. Ltd., a supplier of goods, pays GST under regular scheme. It has made the following outward taxable supplies in a tax period:

Particulars	Amount (₹)
Intra-State supply of goods	8,00,000
Inter-State supply of goods	3,00,000

It has also furnished the following information in respect of purchases made by it inthat tax period:

Particulars	Amount (₹)
Intra-State purchases of goods	2,00,000
Inter-State purchases of goods	50,000

The company has following ITCs with it at the beginning of the tax period:

Particulars	Amount (₹)
CGST	57,000
SGST	Nil
IGST	70,000

Note:

(i) Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively.

(ii) Both inward and outward supplies are exclusive of taxes, wherever applicable.

(iii) All the conditions necessary for availing the ITC have been fulfilled.

Compute the minimum GST, payable in cash, by XT Pvt. Ltd. for the tax period. Make suitable assumptions as required.

Answer 4

Computation of GST payable on outward supplies

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S. No.	Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)	Total (₹)
(i)	Intra-State supply of goods for ₹ 8,00,000	72,000	72,000		1,44,000
(ii)	Inter-State supply of goods for ₹ 3,00,000			54,000	54,000
	Total GST payable				**1,98,000**

Computation of total ITC

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Opening ITC	57,000	Nil	70,000
Add: ITC on Intra-State Purchases of goods valuing ₹ 2,00,000	18,000	18,000	Nil
Add: ITC on Inter-State Purchases of goods valuing ₹ 50,000	Nil	Nil	9,000
Total ITC	**75,000**	**18,000**	**79,000**

Computation of minimum GST payable from electronic cash ledger

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)	Total (₹)
GST payable	72,000	72,000	54,000	1,98,000
Less: ITC [First ITC of IGST should be utilized in full - first against IGST liability and then against CGST and SGST liabilities in a manner to minimize cash outflow]	(Nil) IGST	(25,000) IGST	(54,000) IGST	79,000
ITC of CGST and SGST set off against CGST and SGST respectively	(72,000) CGST	(18,000) SGST		90,000
Minimum GST payable in cash	**Nil**	**29,000**	**Nil**	**29,000**

Note: Since sufficient balance of ITC of CGST is available for paying CGST liability and cross utilization of ITC of CGST and SGST is not allowed, ITC of IGST has been used to pay SGST (after paying IGST liability) to minimize cash outflow.

TEST YOUR KNOWLEDGE

Question 1

What is input tax?

Answer 1

Input tax means the central tax (CGST), State tax (SGST), integrated tax (IGST)or Union territory tax (UTGST) charged on supply of goods or services or both made to a registered person. It also includes tax paid on reverse charge basis and integrated goods and services tax charged on import of goods. It does not include tax paid under composition levy.

Question 2

What are the conditions necessary for availing ITC?

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Answer 2

Following four conditions are to be satisfied by the registered taxable person for obtaining ITC:

(a) he is in possession of tax invoice or debit note or such other tax paying documents as may be prescribed;

(aa) the details of the invoice or debit note referred above has been furnished by the supplier in the statement of outward supplies and such details have been communicated to the recipient of such invoice or debit note in the manner specified under section 37;

(b) he has received the goods or services or both;

(ba) the details of input tax credit in respect of the said supply communicated to such registered person under section 38 has not been restricted

(c) subject to section 41, the supplier has actually paid the tax charged in respect of the supply to the Government; and

(d) he has furnished the return under section 39.

Question 3

Can a person take ITC without payment of consideration for the supply along with tax?

Answer 3

Yes, the recipient can take ITC. However, he is required to pay the amount towards value of supply along with tax within 180 days from the date of issue of invoice. This condition is not applicable where tax is payable on reverse charge basis.

Question 4

What is the time limit for taking ITC and reasons therefor?

Answer 4

Refer point (vi) "Time limit for availing ITC: 30th November of succeeding financial year to which such invoice or debit note pertains or date of filing of relevant annual return, whichever is earlier" under Heading No. 3 "Eligibility and Conditions for Taking Input Tax Credit [Section 16]".

Question 5

What is the ITC entitlement of a newly registered person?

Answer 5

(i) A person who has applied for registration within 30 days from the date on which he became liable to registration, can take ITC of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date on which he became liable to pay tax can be taken.

(ii) In case of voluntary registration, ITC of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date of registration can be taken.

Question 6

What is the tax implication of supply of capital goods by a registered person who had taken ITC on such capital goods?

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Answer 6

In case of supply of capital goods or plant and machinery on which ITC has been taken, the registered person shall pay an amount equal to the ITC taken on the said capital goods or plant and machinery reduced by 5% per quarter or part thereof from the date of invoice or the tax on the transaction value of such capital goods or plant and machinery, whichever is higher.

However, in case of refractory bricks, moulds and dies, jigs and fixtures when these are supplied as scrap, the person can pay tax on the transaction value.

Question 7

A registered person transfers its business to another person.

Is such registered person allowed to transfer the unutilized ITC lying in its electronic credit ledger to such transferred business? Discuss.

Answer 7

As per section 18(3), in case of sale, merger, demerger, amalgamation, transfer or change in ownership of business etc., the ITC that remains unutilized in the electronic credit ledger of the registered person can be

transferred to the new entity, provided there is a specific provision for transfer of liabilities to the new entity.

The registered person should furnish the details of change in constitution on the common portal and submit a certificate from practicing Chartered Account/Cost Accountant certifying that the change in constitution has

been done with a specific provision for transfer of liabilities. Upon acceptance of such details by the transferee on the common portal, the unutilized ITC gets credited to his electronic credit ledger. The transferee should duly account for the inputs and capital goods so transferred in his books of account.

Question 8

Swastik Pvt. Ltd. is a manufacturer of taxable goods. It purchased a machinery for ₹ 8,00,000 on which IGST of ₹ 14,400 is paid. The company has claimed depreciation under the Income-tax Act, 1961 on the full value of the machine, i.e. including the IGST component as also availed ITC of ₹ 14,400 paid by it as IGST.

Examine if the stand taken by the company is correct in law.

Answer 8

As per section 16(3), if the person taking the ITC on capital goods and plant and machinery has claimed depreciation on the tax component of the cost of the said items under the Income-tax Act 1961, the ITC on the said tax component shall not be allowed.

Since in the given case, Swastik Pvt. Ltd. has claimed depreciation on the tax component of the cost of the machine, it cannot claim ITC of IGST of ₹ 14,400 paid by it on the machine. It can either claim depreciation on the tax component or avail ITC of such tax but cannot avail both the benefits simultaneously.

Question 9

Sigma Consultants, an LLP of finance professionals, provides financial consultancy services. It made an advance payment of ₹ 1,18,000 (inclusive of IGST @ 18%) in the month of October to Azuro Computer Services for developing a software. The software would be used by the LLP to enhance the precision of the financial advice given by it to various clients. The balance payment is to be made

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after the successful test run of the software in the month of December. Sigma Consultants has availed ITC of IGST of ₹ 18,000 in the return field for the month of October.

Do you think Sigma Consultants can avail such ITC? Examine the scenario with reference to the relevant legal provisions.

Answer 9

As per section 16(2)(b), tax paid on supply of goods and/or services can be availed as ITC only if such goods and/or services are received by the registered person.

In the given case, Sigma Consultants has paid IGST of ₹ 18,000, in the month of October, on advance for IT services intended to be used in the course or furtherance of business. However, it cannot avail ITC of such tax in the month of October as the services in relation to which the advance payment has been made have not been received in that month.

Question 10

A taxable person is in the business of information technology. He buys a car (maximum seating capacity – 5 persons) for use of his Executive Directors. Can he avail the ITC in respect of GST paid on purchase of such car?

Answer 10

No. ITC on motor vehicles for transportation of persons with approved seating capacity of up to 13 persons (including driver), can be availed only if the taxable person is in the business of transport of passengers or is providing the services of imparting training on driving such motor vehicles or is in the business of further supply of such motor vehicles. Also, ITC can be availed on motor vehicles used for transportation of goods.

Question 11

A technical testing agency tests and certifies each batch of machine tools before dispatch by BMT Ltd. Some of these tools are dispatched to a unit in a SEZ without payment of GST as these supplies are not taxable.

The finance personnel of BMT Ltd. want to know whether they need to carry out reversal of ITC on the testing agency's services to the extent attributable to the SEZ supplies. Give your comments.

Answer 11

ITC is disallowed only to the extent it pertains to supplies used for non-business purposes or supplies other than taxable and zero-rated supplies.Supplies to SEZ units are zero rated supplies in terms of section 16(1) of the IGST Act. Thus, full ITC is allowed on inward supplies of BMT Ltd. used for effecting supplies to the unit in the SEZ.

Question 12

'AB', a registered person, was paying tax under composition scheme up to 30th July. However, w.e.f. 31st July, 'AB' becomes liable to pay tax under regular scheme. Is 'AB' eligible for any ITC?

Answer 12

'AB' is eligible for ITC on inputs held in stock and inputs contained in semi- finished or finished goods held in stock and capital goods as on 30th July. ITC on capital goods will be reduced by 5% per quarter or part thereof from the date of invoice.

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Question 13

Babla Enterprises is exclusively engaged in making exempt supply of goods and is thus, not registered under GST. On 1st October, the exemption available on its goods gets withdrawn. On that day, the turnover of Babla Enterprises was ₹ 45 lakh.

Examine the eligibility of Babla Enterprises for availing ITC, if any.

Answer 13

Since the exemption available on goods being supplied by Babla Enterprises, an unregistered person, gets withdrawn, it becomes liable to registration as its turnover had crossed the threshold limit on the day when

the exemption is withdrawn.

Assuming that Babla Enterprises applies for registration within 30 days of 1st October and it obtains such registration, it will be entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semifinished or finished goods held in stock on the day immediately preceding the date from which it becomes liable to pay tax, i.e. 30th September [Section 18(1)(a)]. Input tax paid on capital goods will not be available as ITC in this case.

Question 14

Mamta Trade Links trades in exempt goods and provides taxable services. It is registered under GST. On 1st October, the exemption available on its goods gets withdrawn.

Analyze the scenario and determine the eligibility of Mamta Trade Links for availing ITC, if any, on inputs and/or capital goods used in the supply of exempt goods.

Answer 14

If the exempt supply made by a registered person becomes a taxable supply, provisions of section 18(1)(d) become applicable. In the given case, since Mamta Trade Links is a registered person, section 18(1)(d) will be applicable.

As per section 18(1)(d), Mamta Trade Links will be entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi- finished or finished goods held in stock relatable to such exempt supply and on capital goods exclusively used for such exempt supply on the day immediately preceding the date from which such supply becomes taxable, i.e. 30th September. ITC on capital goods will be reduced by 5% per quarter or part thereof from the date of invoice.

Question 15

Harshgeet Pvt. Ltd., a registered supplier, is engaged in the manufacture of taxable goods. The company provides the following information pertaining to purchases made/services availed by it during the month of July:

S. No	Particulars	GST (₹)
(1)	Raw material(to be received in the month of September)	2,50,000
(2)	Membership of a club availed for employees working in the factory (not obligatory to be provided under any law)	1,45,000
(3)	Inputs to be received in 5 lots, out of which 3rd lot was received during the month	80,000
(4)	Trucks used for transport of raw material	40,000
(5)	Capital goods (out of 3 items, invoice for 2 items is missing and GST paid on those items is ₹ 80,000)	1,50,000

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Determine the amount of ITC available with Harshgeet Pvt. Ltd. for the monthof July by giving the necessary explanation for treatment of various items. Subject to the information given above, all the other conditions necessary for availing ITC have been fulfilled.

Answer 15

Computation of ITC that can be availed by Harshgeet Pvt. Ltd. for the month of July:

Particulars	ITC (₹)
Raw Material [ITC not available as raw material is not received in July]	Nil
Membership of a club availed for employees working in the factory(not obligatory to be provided under any law) [Blocked credit in terms of section 17(5)]	Nil
Inputs to be received in 5 lots, out of which 3rdlot was received during the month [In case of goods received in lots, ITC can be taken only upon receipt of the last lot]	Nil
Trucks used for transport of raw material [ITC of GST paid on motor vehicles used for transportation of goods is allowed unconditionally]	40,000
Capital goods [ITC can be availed only on the basis of a valid document (invoice). Thus, GST paid on items for which invoice is missing, i.e. ₹ 80,000, is not available.]	70,000
Total ITC	**1,10,000**

Question 16

Jamku Ltd., a registered person, is engaged in the business of spices. It provides following details in relation to GST paid on inward supplies procured by itduring the month of October.

S. No.	Particulars	GST (₹)
(1)	Raw spices purchase - Raw spices sold to customers - Raw spices used for personal use of directors	 50,000 20,000
(2)	Electric machinery purchased for being used in the manufacturing process	25,000
(3)	motor vehicle used for transportation of employees	55,000
(4)	Payment made to contractor for construction of staff quarter	1,25,000

Determine the amount of ITC that can be available by Jamku Ltd. for the month October by giving the necessary explanation for treatment of various items. Subject to the information given above, all the other conditions necessary for availing ITC have been fulfilled.

Answer 16

Computation of ITC that can be availed by Jamku Ltd. for the month of October

Particulars	ITC (₹)
Purchase of raw spices which are sold to customers [Every registered person is entitled to take credit of input tax charged on any supply of goods to him which are used or intended to be used in the course or furtherance	50,000

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of his business.]	
Purchase of raw spices for personal use of directors [ITC is not available on goods used for personal consumption.]	Nil
Electric machinery purchased for being used in the manufacturing process [Every registered person is entitled to take credit of input tax charged on any supply of goods to him which are used or intended to be used in the course or furtherance of his business.]	25,000
Motor vehicle used for transportation of employee [ITC on motor vehicles for transportation of persons with seating capacity ≤ 13 persons (including the driver) is blocked except when the same are used for (i) making further taxable supply of such motor vehicles (ii) making taxable supply of transportation of passengers (iii) making taxable supply of imparting training on driving such motor vehicles. In the given case, since the supplier is in the business of spices, ITC on a 6 seater motor vehicle used for transportation of employees is blocked credit.]	Nil
Payment made to a contractor for construction of staff quarters [ITC is not available for works contract services when supplied for construction of an immovable property (other than plant and machinery) except where it is an input service for further supply of works contract service]	Nil
Total ITC	**75,000**

Question 17

Dina Ltd., a registered supplier from Maharashtra, is engaged in the manufacture of passenger autos. The company provides the following details of purchases made/services availed by it during the month of March:

S. No.	Particulars	GST (₹)
(1)	Purchase of iron which is used as a raw material [Goods were received in two lots - first in March and the second in April]	2,50,000
(2)	Purchase of accessories which were delivered directly to the dealers of the company on the direction of Dina Ltd. [Only invoice was received by Dina Ltd.]	90,000
(3)	Purchase of bus (seating capacity 15) for the transportation of employees from their residence to company and back	1,97,000
(4)	General insurance taken on a car (seating capacity 5) used by executives of the company for official purposes	5,200

You are required to determine the ITC that can be availed by Dina Ltd. for the month of March, by giving brief explanations for treatment of various items. Subject to the information given above, all the other conditions necessary for availing ITC have been fulfilled.

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Answer 17

Computation of ITC that can be availed by Dina Ltd. for the month of March

Particulars	ITC (₹)
Purchase of iron used as a raw material [When inputs are received in lots, ITC can be availed only on the receipt of last lot. Hence, since last lot is received in April, ITC cannot be availed in March.]	Nil
Purchase of accessories delivered directly to the dealers of the company [Goods delivered to another person on the direction of the registered person by way of transfer of documents of title or otherwise, either before or during the movement, are deemed to have been received by such registered person. Thus, ITC is available to the registered person, on whose order/direction the goods are delivered to a third person.]	90,000
Bus for the transportation of employees [ITC on motor vehicles for transportation of persons with seating capacity > 13 persons (including the driver) used for any purpose is allowed.	1,97,000
General insurance taken on car (seating capacity 5) used by executives of the company for official purpose [ITC on motor vehicles for transportation of persons with seating capacity ≤ 13 persons (including the driver) is blocked except when the same are used for (i) making further taxable supply of such motor vehicles (ii) making taxable supply of transportation of passengers (iii) making taxable supply of imparting training on driving such motor vehicles. Further, ITC is not allowed on services of general insurance relating to such ineligible motor vehicles. Since, the car is not used for any of the eligible purposes, ITC thereon is blocked and thus, ITC on general insurance taken on such car is also blocked.]	Nil
Total ITC	**2,87,000**

Question 18

Comfortable (P) Ltd. is registered under GST in the State of Odisha. It is engaged in the business of manufacturing of iron and steel products. It has received IT engineering services from High-Fi Infotech (P) Ltd. for ₹ 11,00,000/- (excluding GST @ 18%) on 28thOctober. Invoice for service rendered was issued on 5thNovember.

Comfortable (P) Ltd. made part payment of ₹ 4,20,000/- on 30thNovember. Being unhappy with service provided by High-fi Infotech (P) Ltd., it did not make the balance payment. Deficiency in service rendered was made good by High-Fi Infotech (P) Ltd. by 15thApril of next year. Comfortable (P) Ltd. made the balance payment on 6thJuly of next year.

Examine the availability of ITC with Comfortable (P) Ltd. in respect of IT engineering services received by it from High-Fi Infotech (P) Ltd.

Answer 18

Every registered person is entitled to take credit of input tax charged on any supply of goods and/or services which are used or intended to be used in the course or furtherance of his business if, inter alia, he is in possession of a tax invoice issued by a supplier and he has received the goods and/or services. The registered person must pay to the supplier, the value of the goods and/or services along with the tax within 180 days from the date of issue of invoice. In the event of failure to do so, the corresponding

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credits availed by the registered person would be required to be reversed or paid by such person alongwith interest. However, once the recipient makes the payment of value of goods and/or services along with tax, he will be entitled to avail the credit again without any time limit. In case part-payment has been made, proportionate credit would be allowed.

In the given case, High-fi Infotech (P) Ltd. provides the service in the month of October and Comfortable (P) Ltd. receives the invoice in the month of November. Therefore, in view of the above provisions and assuming all other conditions required for availing ITC having been fulfilled, ITC of ₹ 1,98,000 (₹ 11,00,000 x 18%) will be availed by Comfortable (P) Ltd. For the month of November when it receives the invoice issued by High-fi Infotech (P) Ltd.

However, proportionate ITC amounting to ₹1,33,932⇒[(₹ 12,98,000 - ₹ 4,20,000)/118] x 18] will be reversed in GSTR-3B of Comfortable (P) Ltd. for May month, along with interest thereon, as full payment has not been made within 180 days of issuance of the invoice, i.e. by 4thMay of next F.Y. ITC of ₹ 1,33,932 can, however, be availed again by Comfortable (P) Ltd. for the month of July next year when it makes the balance payment.

Question 19

M/s. Diwan & Sons of New Delhi, has placed an order for 250 kg of plastic granules @ ₹ 50 per kg (exclusive of GST) on M/s. Karim & Bros. of Noida, U.P. M/s. Karim & Bros. has agreed to deliver the goods at the warehouse of M/s. Diwan & Sons at New Delhi.

While the order was getting packed at the factory of M/s. Karim & Bros., M/s. Diwan & Sons got an order from Shubhkamna Sales of Hapur, U.P.,for 250 kg of plastic granules @ ₹ 60 per kg (exclusive of GST). In order to save on transportation cost, M/s. Diwan & Sons asks M/s. Karim & Bros. to directly deliver the plastic granules to Shubhkamna Sales at its godown located in Hapur. Accordingly, M/s. Karim & Bros. has delivered the plastic granules at the godown of Shubhkamna Sales at Hapur. Examine the availability of ITC with M/s. Diwan & Sons & M/s. Karim & Bros.

Note: All the parties are registered under GST and rate of GST is 18%.

Answer 19

One of the conditions for availing ITC is that the registered person taking the ITC must have received the goods and / or services. However, goods delivered to a third person on the direction of the registered person by way of transfer of documents of title or otherwise, either before or during the movement, are deemed to have been received by such registered person. So, ITC is available to the registered person, on whose direction the goods are delivered to a third person even though the registered person does not receive the goods by itself.

In the given case, goods have been delivered by M/s. Karim & Bros. (supplier) to Shubhkamna Sales (third person) on the direction of M/s. Diwan & Sons (registered person). Therefore, in view of the above provisions, ITC of ₹ 2,250(₹50 x 250 x 18%) will be available to M/s. Diwan & Sons (registered person) on the purchase of 250 kg of plastic granules @ 50 per kg.

Further, in this case there is another supply between Diwan & Sons (supplier) and Shubhkamna Sales (recipient). Therefore, Shubhkamna Sales can avail ITC of ₹ 2,700 (₹ 60 x 250 x 18%) on the purchase of 250 kg of plastic granules @ 60 per kg.

Question 20

Paritosh & Co., a supplier of goods, pays GST under regular scheme. It has made the following outward taxable supplies in a tax period:

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Particulars	Amount (₹)
Intra-State supply of goods	10,00,000
Inter-State supply of goods	8,00,000

It has also furnished the following information in respect of purchases made by it in that tax period:

Particulars	Amount (₹)
Intra-State purchases of goods	3,00,000
Inter-State purchases of goods	2,50,000

Paritosh & Co. has following ITCs with it at the beginning of the tax period:

Particulars	Amount (₹)
CGST	57,000
SGST	60,000
IGST	1,40,000

Note:

(i) Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively.

(ii) Both inward and outward supplies are exclusive of taxes, wherever applicable.

(iii) All the conditions necessary for availing ITC have been fulfilled.

Compute the minimum GST, payable in cash, by Paritosh & Co. for the tax period and the ITC to be carried forward to the next month. Make suitable assumptions as required.

Answer 20

Computation of GST payable on outward supplies

S.No.	Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)	Total (Rs.)
(i)	Intra-State supply of goods for ₹ 10,00,000	90,000	90,000		1,80,000
(ii)	Inter-State supply of goods for ₹ 8,00,000			1,44,000	1,44,000
	Total GST payable				3,24,000

Computation of total ITC

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Opening ITC	57,000	60,000	1,40,000
Add: ITC on Intra-State purchases ofgoods valuing ₹ 3,00,000	27,000	27,000	Nil
Add: ITC on Inter-State purchases ofgoods valuing ₹ 2,50,000	Nil	Nil	45,000
Total ITC	84,000	87,000	1,85,000

Computation of minimum GST payable from electronic cash ledger

Particulars	CGST @	SGST @	IGST @	Total

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	9% (₹)	9% (₹)	18% (₹)	(₹)
GST payable	90,000	90,000	1,44,000	3,24,000
Less: ITC [First ITC of IGST should be utilized in full - first against IGST liability and then against CGST or SGST liabilities in any order to minimize cash outflow]	(22,000) IGST	(19,000) IGST	(1,44,000)IGST	1,85,000
CGST and SGST ITC utilized against CGST and SGST output Tax liability respectively	(68,000) CGST	(71,000) SGST		1,39,000
Minimum GST payable incash	Nil	Nil	Nil	Nil
ITC balance to be carriedforward next month	**16,000**	**16,000**	**Nil**	**32,000**

Note :
The above computation is one of the many ways to set off the ITC of IGST (₹ 41,000-after set off against IGST liability) against CGST and SGST liability to compute minimum GST payable in cash and carry forward both CGST and SGST ITC equally. To illustrate, IGST of ₹ 10,000 can be set off against SGST payable and IGST of ₹ 31,000 can be set off against CGST payable. In this situation also, the net GST payable will be nil but the ITC of CGST and SGST to be carried forward will be ₹ 25,000 and ₹ 7,000 (totaling to ₹ 32,000), respectively. However, if the entire ITC of ₹ 41,000 is set off against CGST payable, then SGST of ₹ 3,000 will be payable in cash thus, increasing the cash outflow. Therefore, such a set-off would not be advisable for computing the minimum GST payable.

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Chapter 18
Registration

ILLUSTRATION

Question 1(Illustration)

Examine, with reason, whether registration is required, under CGST Act, in the following independent cases:

(i) Aadhav Computers of Gujarat is providing computer maintenance service. Aggregate turnover of Aadhav Computers is ₹ 15 lakh which comprises both inter-State and intra-State supply.

(ii) Soft Wings of West Bengal, exclusively trading in garments, supplies its taxable goods in various States of India from its outlet in West Bengal. Aggregate turnover of Soft Wings is ₹ 35 lakh.

Answer 1

(i) Registration is compulsory for suppliers engaged in inter-State supply. However, as per Notification No. 10/2017 IT dated 13.10.2017, threshold exemption of ₹ 20 lakh [₹ 10 lakh in case of Special Category States of Mizoram, Tripura, Manipur and Nagaland] is available in case of inter-State supply of taxable services.

Therefore, Aadhav Computers (aggregate turnover ₹ 15 lakh) is not required to obtain registration even though it is engaged in inter-State supply of taxable services.

(ii) The threshold limit for registration in the State of West Bengal for the persons engaged exclusively in supply of goods, is ₹40 lakh. However, registration is compulsory if the supplier is engaged inter-State supply of goods irrespective of the quantum of aggregate turnover. The threshold exemption is not available in case of inter-State supply of taxable goods. Thus, Soft Wings is required to obtain registration.

Question 2 (Illustration)

Examine whether the liability to register compulsorily under section 24 arises in each of the independent cases mentioned below:

(1) Meenu, a supplier in Maharashtra, is exclusively engaged in supply of potatoes produced out of cultivation of her own land, within Maharashtra and also outside Maharashtra.

(2) Jinu Oils, Gujarat, is engaged in supplying machine oil as well as petrol. Further, it provides intra-state services of refining of oil to customers. Total turnover of supply of machine oil is ₹ 10 lakh, supply of petrol is ₹ 5 lakh and supply of services is ₹ 6 lakh.

(3) Tilu is working as an agent, he is supplying taxable goods as an agent of Tiku (who is registered taxable person) and its aggregate turnover does not exceed the applicable threshold limit during the financial year. Invoices to customers are issued in name of Tilu.

Answer 2

1) Section 24 provides that persons making any inter-State taxable supply of goods are required to obtain registration compulsorily under GST laws irrespective of the quantum of aggregate

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turnover.

However, as per section 23, an agriculturist, to the extent of supply of produce out of cultivation of land, is not liable to registration.

Meenu is exclusively engaged in cultivation and supply of potatoes. Thus, she is not liable to registration irrespective of the fact that she is engaged in making inter-State supply of goods. Further, Meenu will not be liable to registration, in the given case, even if her turnover exceeds the threshold limit.

2) Section 24 specifies the categories of persons who are required to be mandatorily registered under GST irrespective of the quantum of their aggregate turnover.

In the given case, Jinu Oils does not fall in any of the specified categories. Therefore, it is not required to obtain registration compulsorily under GST.

However, as per section 22 read with Notification No. 10/2019 CT dated 07.03.2019, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making supply of both goods and services is ₹ 10 lakh for the States of Mizoram, Tripura, Manipur and Nagaland and ₹ 20 lakh for the rest of India. Thus, the applicable threshold limit for the State of Gujarat is ₹ 20 lakh for supply of both goods and services. Further,

aggregate turnover includes exempted turnover of goods or services.

Accordingly, Jinu Oils is liable obtain registration since its aggregate turnover [₹ 21 lakh (including turnover of exempt supply of petrol)] exceeds the threshold limit of ₹ 20 lakh.

3) Section 24 provides that persons who make taxable supply of goods and/or services on behalf of other taxable persons whether as an agent or otherwise are required to obtain registration compulsorily under GST laws irrespective of the quantum of aggregate turnover.

Therefore, Tilu will be mandatorily required to obtain registration.

Question 3 (Illustration)

Determine the effective date of registration under CGST Act in respect of thefollowing cases with proper explanation:

(i) The aggregate turnover of Varun Industries of Mumbai has exceeded ₹ 40 lakh on 1st August. Varun Industries manufactures LED TVs in Mumbai and sells them in Pune. It submits the application for registration on 20th August. Registration certificate granted on 25th August

(ii) Sweta InfoTech Services is the provider of internet services in Pune. Its aggregate turnover exceeds ₹ 20 lakh on 25th September. It submits the application for registration on 27th October. Registration certificate is granted on 5th November.

Answer 3

As per section 22 read with *Notification No. 10/2019 CT dated 07.03.2019,* a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive intra-State taxable supplies of goods is as under:-

(a) ₹10 lakh for the States of Mizoram, Tripura, Manipur and Nagaland.

(b) ₹ 20 lakh for the States of States of Arunachal Pradesh, Meghalaya,Puducherry, Sikkim, Telangana and Uttarakhand.

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(c) ₹ 40 lakh for rest of India. However, the higher threshold limit of ₹ 40 lakh is not available to persons engaged in making supplies of ice cream and other edible ice, whether or not containing cocoa, Pan masala and Tobacco and manufactured tobacco substitutes. ***fly ash bricks; fly ash aggregates; fly ash blocks, bricks of fossil meals or similar siliceous earths, building bricks, earthen or roofing tiles***. The threshold limit for a person making exclusive taxable supply of servicesor supply of both goods and services is as under:-

(a) ₹10 lakh for the States of Mizoram, Tripura, Manipur and Nagaland.

(b) ₹20 lakh for the rest of India.

As per rule 10, where a person submits the application for registration within 30 days of becoming liable for registration, the effective date of registration is the date on which the person becomes liable to registration; otherwise it is the date of grant of registration. In the light of the above provisions, in the given cases, the applicable turnover limit for registration will be ₹ 40 lakh and ₹ 20 lakh respectively in case (i) and (ii).

(i) Since Varun Industries applied for registration within 30 days of becoming liable to registration, the effective date of registration is 1st August.

(ii) Since Sweta InfoTech Services applied for registration after the expiry of 30 days from the date of becoming liable to registration, the effective date of registration is 5th November.

TEST YOUR KNOWLEDGE

Question 1

Determine the effective date of registration in following cases:

(a) The aggregate turnover of Dhampur Footwear Industries of Delhi has exceeded the applicable threshold limit of ₹ 40 lakh on 1st September. It submits the application for registration on 20th September. Registration certificate is granted to it on 25th September.

(b) Mehta Teleservices is an architect in Lucknow. Its aggregate turnover exceeds ₹ 20 lakh on 25th October. It submits the application for registration on 27th November. Registration certificate is granted to iton 5th December.

Answer 1

(a) Every supplier becomes liable to registration if his turnover exceeds the applicable threshold limit [₹ 40 lakh in this case] in a finacial year [Section 22 read with *Notification No. 10/2019 CT dated 07.03.2019*].

Since in the given case, the turnover of Dhampur Industries exceeded ₹ 40 lakh on 1st September, it becomes liable to registration on said date.

Further, since the application for registration has been submitted within 30 days from such date, the registration shall be effective from the date on which the person becomes liable to registration [Section 25 read with rule 10]. Therefore, the effective date of registration is 1st September.

(b) Since in the given case, the turnover of Mehta Teleservices exceeds the applicable threshold limit [₹ 20 lakh] on 25th October, it becomes liable to registration on said date.

Further, since the application for registration has been submitted after 30 days from the date such person becomes liable to registration, the registration shall be effective from the date of grant of registration.

Therefore, the effective date of registration is 5th December.

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Question 2

In order to be eligible for grant of registration, a person must have a Permanent Account Number issued under the Income- tax Act, 1961. Stateone exception to it.

Answer 2

A Permanent Account Number is mandatory to be eligible for grant of registration. One exception to this is a non-resident taxable person. A nonresident taxable person may be granted registration on the basis of other prescribed documents instead of PAN. He has to submit a self-attested copy of his valid passport along with the application duly signed or verified through electronic verification code by his authorized signatory who is an Indian Resident having valid PAN and application will be submitted in a different prescribed form [Section 25(6) & (7)].

Question 3

State which of the following suppliers are liable to be registered:

(a) Agent supplying taxable goods on behalf of some other taxable person and such agent's aggregate turnover does not exceed the applicable threshold limit during the financial year. Note: Invoices are issued to customers in the name of agent.

(b) An agriculturist who is only engaged in supply of produce out of cultivation of land and its aggregate turnover exceeds the applicable threshold limit during the financial year.

Answer 3

(a) Section 22 stipulates that every supplier becomes liable to registration if his turnover exceeds the applicable threshold limit in a financial year. However, as per section 24, a person making taxable supply of goods/services or both on behalf of other taxable persons whether as an agent or not is liable to be compulsorily registered even if its aggregate turnover does not exceed the applicable threshold limit during the financial year.

(b) As per section 23, an agriculturist who is only engaged in supply of produce out of cultivation of land is not required to obtain registration even if his turnover exceeded the applicable threshold limit for registration.

Question 4

Pure Oils, Delhi has supplied machine oil and high-speed diesel in the month of April as per the details given in table below. Pure Oils is not yet registered.

S .No.	Particulars	Amount (₹)*
(i)	Supply of machine oil in Delhi	15,00,000
(ii)	Supply of high speed diesel in Delhi	10,00,000
(iii)	Supply of machine oil made in Punjab by PureOils from its branch located in Punjab	10,00,000

***excluding GST Determine whether Pure Oils is liable for registration.**

Answer 4

As per section 22 read with *Notification No. 10/2019 CT dated 07.03.2019*, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive intra-State taxable supplies of goods is as under:-

(a) ₹ 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.

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(b) ₹ 20 lakh for the States, namely, States of Arunachal Pradesh, Meghalaya, Puducherry, Sikkim, Telangana and Uttarakhand.

(c) ₹ 40 lakh for rest of India except persons engaged in making supplies of ice cream and other edible ice, whether or not containing cocoa, Pan masala and Tobacco and manufactured tobacco substitutes, **fly ash bricks; fly ash aggregates; fly ash blocks, bricks of fossil meals or similar siliceous earths, building bricks, earthen or roofing tiles.**

The threshold limit for a person making exclusive taxable supply of servicesor supply of both goods and services is as under:-

(a) ₹ 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.

(b) ₹20 lakh for the rest of India.

As per section 2(6), aggregate turnover includes the aggregate value of:

(i) all taxable supplies,

(ii) all exempt supplies,

(iii) exports of goods and/or services and

(iv) all inter-State supplies of persons having the same PAN.

The above aggregate turnover is computed on all India basis. Further, the aggregate turnover excludes central tax, State tax, Union territory tax, integrated tax and cess. Moreover, the value of inward supplies on which tax is payable under reverse charge is not taken into account for calculation of 'aggregate turnover'.

Section 9(2) provides that CGST is not leviable on five petroleum products i.e. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel. As per section 2(47), exempt supply includes nontaxable supply. Thus, supply of high speed diesel in Delhi, being a nontaxable

supply, is an exempt supply and is, therefore, includible while computing the aggregate turnover.

In the backdrop of the above-mentioned discussion, the aggregate turnover of Pure Oils for the month of April is computed as under:

S. No.	Particulars	Amount (in ₹)
(i)	Supply of machine oils in Delhi	15,00,000
(ii)	Add: Supply of high speed diesel in Delhi	10,00,000
(iii)	Add: Supply of machine oil made by Pure Oilsfrom its branch located in Punjab	10,00,000
	Aggregate Turnover	**35,00,000**

Pure Oils is making exclusive supply of goods and hence the threshold limit for registration would be ₹ 40,00,000. Since the aggregate turnover does not exceed ₹ 40,00,000, Pure Oils is not liable to be registered till April. However, if in remaining months of the financial year, its turnover exceeds the said limit, then it would be liable to be registered.

Question 5

What will be your answer if in question 4 above, in S.No. (ii), Pure Oils supplies the high speed diesel in Delhi in the capacity of an agent of Mixed Oils Ltd., where invoices to customers are issued in name of Pure Oils?

Answer 5

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In case Pure Oils makes the supply in capacity of an agent of Mixed Oils Ltd.:
Section 24 provides that an agent who is engaged in making taxable supplying of goods on behalf of other taxable persons, shall be liable to obtain registration irrespective of the threshold turnover limit. However, in the present case, if Pure Oils supply high speed diesel on behalf of Mixed Oil Ltd. in Delhi as its agent where invoices to customers are issued in name of Pure Oils, it shall still not be liable to obtain registration in Delhi since section 24 comes into play only when agent is making **taxable supply** of goods on behalf of principal whereas in the given case, Pure Oils is supplying nontaxable goods on behalf of Mixed Oils Ltd.

Question 6

Examine whether the supplier of goods is liable to get registered in the following independent cases:-

(i) Raghav of Assam is exclusively engaged in intra-State taxable supply of readymade garments. His turnover in the current financial year (FY) from Assam showroom is₹33 lakh. He has another showroom in Tripura with a turnover of ₹11 lakh in the current FY.

(ii) Pulkit of Panjim, Goa is exclusively engaged in intra-State taxable supply of shoes. His aggregate turnover in the current financial year is₹22 lakh.

(iii) Harshit of Himachal Pradesh is exclusively engaged in intra-State supply of pan masala. His aggregate turnover in the current financial year is ₹24 lakh.

Answer 6

As per section 22 read with *Notification No. 10/2019 CT dated 07.03.2019*, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive intra-State taxable supplies of goods is as under:-

(a) ₹ 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.

(b) ₹ 20 lakh for the States, namely, States of Arunachal Pradesh, Meghalaya, Puducherry, Sikkim, Telangana and Uttarakhand.

(c) ₹40 lakh for rest of India except persons engaged in making supplies of ice cream and other edible ice, whether or not containing cocoa,Pan masala and Tobacco and manufactured tobacco substitutes.

fly ash bricks; fly ash aggregates; fly ash blocks, bricks of fossil meals or similar siliceous earths, building bricks, earthen or roofing tiles.

In the light of the afore-mentioned provisions, the answer to the independent cases is as under:-

(i) Raghav is eligible for higher threshold limit of turnover for registration, i.e. ₹ 40 lakh as he is exclusively engaged in intra-State supply of goods. However, since Raghav is engaged in supplying readymade garments from a Special Category State i.e. Tripura, the threshold limit gets reduced to ₹ 10 lakh. Thus, Raghav is liable to get registered under GST as his turnover has exceeded limit of ₹10 lakh. Further, he is required to obtain registration in both Assam and Tripura as he is making taxable supplies from both the States.

(ii) The applicable threshold limit for registration for Pulkit in the given case is ₹ 40 lakh as he is exclusively engaged in intra-State taxable supply of goods in Goa. Thus, he is not liable to get registered under GST as his turnover is less than the threshold limit.

(iii) Harshit being exclusively engaged in supply of pan masala is not eligible for higher threshold limit of ₹40 lakh. The applicable threshold limit for registration in this case is ₹20 lakh. Thus, Harshit is liable to get registered under GST.

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Question 7

Examine whether the supplier is liable to get registered in the following independent cases:-

(i) Ankit of Assam is exclusively engaged in intra-State supply of taxable services. His aggregate turnover in the current financial year is ₹ 25 lakh.

(ii) Sanchit of Assam is engaged in intra-State supply of both taxable goods and services. His aggregate turnover in the current financial year is ₹ 30 lakh.

Answer 7

As per section 22 read with *Notification No. 10/2019 CT dated 07.03.2019*, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive taxable supply of services or supply of both goods and services is as under:-

(a) ₹ 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.

(b) ₹20 lakh for the rest of India.

(i) Though Ankit is dealing in Assam, he is not entitled for higher threshold limit for registration as the same is applicable only in case of exclusively supply of goods and he is exclusively engaged in providing services. Thus, the applicable threshold limit for registration in this case is ₹20 lakh and hence, Ankit is liable to get registered under GST.

(ii) Since Sanchit is engaged in supply of both taxable goods and services, the applicable threshold limit for registration in his case is ₹ 20 lakh. Thus, Sanchit is liable to get registered under GST as his turnover ismore than the threshold limit.

Question 8

What are the advantages of taking registration in GST?

Answer 8

Registration will confer following advantages to the business:

- Legally recognized as supplier of goods or services.
- Proper accounting of taxes paid on the input goods or services which can be utilized for payment of GST due on supply of goods or services or both by the business.
- Legally authorized to collect tax from his purchasers and pass on the credit of the taxes paid on the goods or services supplied to purchasers or recipients.
- Become eligible to avail various other benefits and privileges rendered under the GST laws.

Question 9

Can a person without GST registration collect GST and claim ITC?

Answer 9

No, a person without GST registration can neither collect GST from his customers nor can claim any input tax credit of GST paid by him.

Question 10

If a person is making taxable supplies from different States, with the same PAN number, can he operate with a single registration?

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Answer 10

No. Every person who is liable to take a registration will have to get registered separately for each of the States from where he makes taxable supply(ies) provided his aggregate turnover exceeds applicable threshold limit in a financial year.

Question 11

Can a person having multiple places of business in a State obtain separate registrations for each place of business?

Answer 11

Yes. In terms of the proviso to sub-section (2) of section 25, a person having multiple places of buiness in a State may obtain a separate registration for each place of business, subject to such conditions as may be prescribed.

Question 12

Is there a provision for a person to get himself voluntarily registered though he may not be liable to pay GST?

Answer 12

Yes. In terms of sub-section (3) of section 25, a person, though not liable to be registered under sections 22 or 24 may get himself registered voluntarily, and all provisions of the GST law, as are applicable to a registered person, shall apply to such person.

Question 13

Can the Department, through the proper officer, suo-moto proceed to registera person under GST?

Answer 13

Yes. In terms of sub-section (8) of section 25, where a person who is liable to be registered under GST law fails to obtain registration, the proper officer may, without prejudice to any action which may be taken under CGST Act, or under any other law for the time being in force, proceed to register such person in the manner as is prescribed in the CGST Rules.

Question 14

Whether the registration granted to any person is permanent?

Answer 14

Yes, the registration certificate once granted is permanent unless surrendered, cancelled or suspended.

Question 15

Is it necessary for the UN bodies to get registration under GST?

Answer 15

In terms of section 25(9), all notified UN bodies, Consulate or Embassy of foreign countries and any other class of persons so notified would be required to obtain a unique identification number (UIN) from the GST portal.

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The structure of the said ID would be uniform across the States in conformity with GSTIN structure and the same will be common for the Centre and the States. This UIN will be needed for claiming refund of taxes paid on notified supplies of goods and services received by them, and for any other purpose as may be notified.

Question 16

What is the responsibility of the taxable person making supplies to UN bodies?

Answer 16

The taxable supplier making supplies to UN bodies is expected to mention the UIN on the invoices and treat such supplies as supplies to another registered person (B2B).

Question 17

What is the validity period of the registration certificate issued to a casual taxable person and non-resident taxable person

Answer 17

In terms of section 27(1) read with proviso thereto, the certificate of registration issued to a "casual taxable person" or a "non-resident taxable person" shall be valid for a period specified in the application for registration or 90 days from the effective date of registration, whichever is earlier. However, the proper officer, at the request of the said taxable person, may extend the validity of the aforesaid period of 90 days by a further period not exceeding 90 days.

Question 18

What happens when the registration is obtained by means of willful mis-statement, fraud or suppression of facts?

Answer 18

In such cases, the registration may be cancelled from such date, including any retrospective date, as may deem fit by the proper officer [Section 29(2)(e)].

Question 19

Is there an option to take centralized registration for services under GST Law? (Old & New)

Answer 19

No, the tax paper has to take separate registration in every State from where he makes taxable supply of services.

Question 20

What could be the liabilities (in so far as registration is concerned) on transferof a business?

Answer 20

The transferee or the successor shall be liable to be registered with effect from the date of such transfer or succession and he will have to obtain a fresh registration with effect from the date of such transfer or succession [Section22(3)].

Question 21

At the time of registration, will the assessee have to declare all his places of business?

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Answer 21

Yes. The principal place of business and place of business have been separately defined under section 2(89) & 2(85) respectively. The taxpayer will have to declare the principal place of business as well as the details of additional places of business in the registration form.

Question 22

Does cancellation of registration impose any tax obligations on the personwhose registration is so cancelled?

Answer 22

Yes, as per section 29(5), every registered taxable person whose registration is cancelled shall pay an amount, by way of debit in the electronic credit ledger or electronic cash ledger, equivalent to the credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock or capital goods or plant and machinery on the day immediately preceding the date of such cancellation or the output tax payable on such goods, whichever is higher, calculated in prescribed manner.

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ILLUSTRATION

Question 1 (Illustration)

Luv & Kush Pvt. Ltd. of Meghalaya engaged in the supply of gifts items and repair services, provides you the following details: -

S. No.	Particulars	Date
1.	Commencement of the business of supplying goods and services	01st August
2.	Turnover exceeds ₹ 10,00,000 on	15th August
3.	Turnover exceeds ₹ 20,00,000 on	05th September
4.	Application for registration made on	28th September
5.	Registration certificate granted on	06th October

The company seeks your advice as to how it should raise revised tax invoices for supplies made. Is there any specific provision for issuance of revised tax invoices to unregistered customers? Explain.

Answer 1

A supplier of both goods and services whose aggregate turnover in a financial year exceeds ₹ 20 lakh in a State/UT [₹ 10 lakh in specified Special Category States] is liable to apply for registration within 30 days from the date of becoming liable to registration (i.e., the date of crossing the threshold limit of ₹ 20 lakh/ ₹ 10 lakh) in terms of section 22. Since Meghalaya is not a specified Special Category State, applicable threshold limit is ₹ 20 lakh

Further, where the application is submitted within said period, the effective date of registration is the date on which the person becomes liable to registration; otherwise it is the date of grant of registration. Every registered person who has been granted registration with effect from a date earlier than the date of issuance of registration certificate to him, may issue revised tax invoices within 1 month from the date of issuance of registration certificate in respect of taxable supplies effected during this period i.e. from the effective date of registration till the date of issuance of registration.

Since Luv & Kush Pvt. Ltd. has made the application for registration within 30 days of becoming liable for registration, the effective date of registration becomes the date on which the company becomes liable to registration i.e. 5th September.

Thus, Luv & Kush Pvt. Ltd. may issue revised tax invoices against the invoices already issued during the period between effective date of registration (5th September) and the date of issuance of registration certificate (6th October), within 1 month from 6th October.

Further, Luv & Kush Pvt. Ltd may issue a consolidated revised tax invoice in respect of all taxable supplies made to unregistered dealers during such period. However, in case of inter-State supplies where the value of supply does not exceed ₹ 2.5 Lakh, a consolidated revised invoice may be issued separately in respect of all unregistered recipients located in a State.

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Question 2 (Illustration)

Jain & Sons is a trader dealing in stationery items. It is registered under GSTand has undertaken following sales during the day:

S. No.	Recipient of supply	Amount (₹)
1.	Raghav Traders - a registered retail dealer	190
2.	Dhruv Enterprises – an unregistered trader	358
3.	Gaurav – a painter [unregistered]	500
4.	Oberoi Orphanage – an unregistered entity	188
5.	Aaradhya – a student [unregistered]	158

None of the recipients require a tax invoice [Raghav Traders being acomposition dealer]. Determine in respect of which of the above supplies, Jain & Sons may issue aConsolidated Tax Invoice instead of Tax Invoice, at the end of the day.

Answer 2

In the given illustration, Jain & Sons can issue a Consolidated Tax Invoice only with respect to supplies made to Oberoi Orphanage [worth ₹188] and Aaradhya [worth ₹158] as the value of goods supplied to these recipients is less than ₹200 as also these recipients are unregistered and don't require a tax invoice.

As regards the supply made to Raghav Traders, although the value of goods supplied to it is less than ₹200, Raghav Traders is registered under GST. So, Consolidated Tax Invoice cannot be issued.

Consolidated Tax Invoice can also not be issued for supplies of goods made to Dhruv Enterprises and Gaurav although both of them are unregistered. The reason for the same is that the value of goods supplied is not less than ₹ 200.

Question 3 (Illustration)

Kartik & Co., a registered supplier under GST, provides the following information regarding various tax invoices issued by it during the month of March:

(i) Value of supply charged in invoice no. 1 was ₹ 2,50,000 against the actual taxable value of ₹ 2,30,000.

(ii) Tax charged in invoice no. 4 was ₹ 32,000 against the actual tax liabilityof ₹ 68,000 due to wrong HSN code being chosen while issuing invoice.

(iii) Value charged in invoice no. 8 was ₹ 3,20,000 as against the actual value of ₹ 4,20,000 due to wrong quantity considered while billing.

Kartik & Co. asks you to answer the following:

(1) Who shall issue a debit/credit note under the CGST Act?

(2) Whether debit note or credit note has to be issued in each of the above circumstances?

(3) What is the maximum time-limit available for declaring the credit note in the GST Return?

Answer 3

(1) The debit/credit note shall be issued by the registered person who has supplied the goods and/or services, i.e. Kartik & Co.

(2) Yes, debit/credit note need to be issued in each of the circumstances as under:

(i) A credit note is required to be issued as the taxable value ininvoice no. 1 exceeds the actual taxable value.

(ii) A debit note is required to be issued as the tax charged in the invoice no. 4 is less

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than the actual tax payable.

(iii) A debit note is required to be issued as the value of supply charged in the invoice no. 8 is less than the actual value.

(3) The details of the credit note cannot be declared later than **30th November** following the end of the financial year in which such supply was made or the date of furnishing of the relevant annual return, whichever is earlier.

TEST YOUR KNOWLEDGE

Question 1

Sultan Industries Ltd., Delhi, entered into a contract with Prakash Entrepreneurs, Delhi, for supply of spare parts of a machine on 7th September. The spare parts were to be delivered on 30th September. Sultan Industries Ltd. removed the finished spare parts from its factory on 29th September for supply to Prakash Entrepreneurs. Determine the date by which tax invoice must be issued by Sultan Industries Ltd. under GST law.

Answer 1

As per the provisions of section 31, invoice shall be issued before or at the time of removal of goods for supply to the recipient, where the supply involves movement of goods. Accordingly, in the given case, the tax invoice must be issued on or before 29th September.

Question 2

MBM Caretakers, a registered person, provides the services of repair and maintenance of electrical appliances. On April 1, it has entered into an annual maintenance contract with P for its Air Conditioner and Washing Machine. As per the terms of contract, maintenance services will be provided on the first day of each quarter of the relevant financial year and payment for the same will also be due on the date on which service is rendered. During the year, it provided the services on April 1, July 1, October 1, and January 1 in accordance with the terms of contract. When should MBM Caretakers issue the invoice for the services rendered?

Answer 2

Continuous supply of service means, inter alia, supply of any service which is provided, or agreed to be provided continuously or on recurrent basis, under a contract, for a period exceeding 3 months with the periodic payment obligations.

Therefore, the given situation is a case of continuous supply of service as repair and maintenance services have been provided by MBM Caretakers on a quarterly basis, under a contract, for a period of one year with the obligation for quarterly payment.

In terms of section 31, in case of continuous supply of service, where due date of payment is ascertainable from the contract (as in the given case), invoice shall be issued on or before the due date of payment. Therefore, in the given case, MBM Caretakers should issue quarterly invoices on or before April 1, July 1, October 1, and January 1.

Question 3

The aggregate turnover of Sangri Services Ltd., Delhi, exceeded ₹ 20 lakh on 12th August. He applied for registration on 3rd September and was granted the registration certificate on 6th September. You

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are required to advice Sangri Services Ltd. as to what is the effective date of registration in its case. It has also sought your advice regarding period for issuance of Revised Tax Invoices.

Answer 3

As per section 25 read with CGST Rules, where an applicant submits application for registration within 30 days from the date he becomes liable to registration, effective date of registration is the date on which he becomes liable to registration. Since, Sangri Services Ltd.'s turnover exceeded `20 lakh on 12th August, it became liable to registration on same day. Further, it applied for registration within 30 days of so becoming liable to registration, the effective date of registration is the date on which he becomes liable to registration, i.e. 12th August.

As per section 31read with CGST Rules, every registered person who has been granted registration with effect from a date earlier than the date of issuance of certificate of registration to him, may issue Revised Tax Invoices. Revised Tax Invoices shall be issued within 1 month from the date of issuance of certificate of registration. Revised Tax Invoices shall be issued within 1 month from the date of issuance of registration in respect of taxable supplies effected during the period starting from the effective date of registration till the date of issuance of certificate of registration.

Therefore, in the given case, Sangri Services Ltd. has to issue the Revised Tax Invoices in respect of taxable supplies effected during the period starting from the effective date of registration (12th August) till the date of issuance of certificate of registration (6th September) within 1 month from the date of issuance of certificate of registration, i.e. on or before 6th October.

Question 4

Shyam Fabrics has opted for composition levy scheme in the current financial year. It has approached you for advice whether it is mandatory for it to issue a tax invoice. You are required to advise him regarding same.

Answer 4

A registered person paying tax under the provisions of section 10 [composition levy] shall issue, instead of a tax invoice, a bill of supply containing such particulars and in such manner as may be prescribed [Section 31(3)(c) read with CGST Rules, 2017].

Question 5

Royal Fashions, a registered supplier of designer outfits in Delhi, decides to exhibit its products in a Fashion Show being organised at Hotel Park Royal, Delhi on 4th January. For the occasion, it gets the service by way of makeover of its models from Aura Beauty Services Ltd., Ashok Vihar, on 4th January, for which a consideration of ₹ 5,00,000 (excluding GST) has been charged. Aura Beauty Services Ltd. issued a duly signed tax invoice on 10th February showing the lumpsum amount of ₹ 5,90,000 inclusive of CGST and SGST @ 9% each for the services provided. Answer the following questions:

(i) Examine whether the tax invoice has been issued within the time limit prescribed under law.

(ii) Tax consultant of Royal Fashions objected to the invoice raised suggesting that the amount of tax charged in respect of the taxable supply should be shown separately in the invoice raised by Aura Beauty Services Ltd. However, Aura Beauty Services Ltd. contended that there is no mandatory requirement of showing tax component separately in the invoice. You are required to examine the validity of the objection raised by tax consultant of Royal Fashions.

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Answer 5

(i) As per section 31 read with the CGST Rules, in case of taxable supply of services, invoices should be issued before or after the provision of service, but within a period of 30 days [45 days in case of insurer/ banking company or financial institutions including NBFCs] from the date of supply of service.

In view of said provisions, in the present case, the tax invoice should have been issued in the prescribed time limit of 30 days from the date of supply of service i.e. upto3rd February. However, the invoice has been issued on 10th February.

(ii) Section 31 read with the CGST Rules, inter alia, provides that tax invoice in addition to other mandatory details shall also contain the amount of tax charged in respect of taxable goods or services (central tax, State tax, integrated tax, Union territory tax or cess). Further, where any supply is made for a consideration, every person who is liable to pay tax for such supply shall prominently indicate in all documents relating to assessment, tax invoice and other like documents, the amount of tax charged in respect of taxable goods or services which shall form part of the price at which such supply is made.

The objection raised by the tax consultant of Royal Fashions suggesting that the amount of tax charged in respect of the taxable supply of makeover services should be shown separately in the invoice raised by Aura Beauty Services Ltd., is valid in law.

Question 6

Kidzee Toys Ltd., a wholesaler of toys registered in Chandigarh, is renowned in the local market for the variety of toys and their reasonable prices. Kidzee Toys Ltd. makes supply of 100 pieces of baby's learning laptops and chat learning phones to Nancy General Store on 25th September by issuing a tax invoice amounting to ₹ 1,00,000.

However, the said toys were returned by Nancy General Store on 30th September. Discuss which document Kidzee Toys Ltd. is required to issue in such a case?

Answer 6

Kidzee Ltd. is required to issue a credit note in such a case. As per section 34, where one or more tax invoices have been issued for supply of any goods or services or both and the goods supplied are returned by the recipient the registered person, who has supplied such goods or services or both, may issue to the recipient one or more credit notes for supplies made in a financial year containing such particulars as may be prescribed. Therefore, Kidzee Ltd.is required to issue a credit note to Nancy General Store for the good returned.

Question 7

Rana Sanga Ltd., a registered supplier, has made following taxable supplies to its customer Babur in the quarter ending 30th June.

Date	Bill No.	Particulars	Invoice value (including GST) [₹]
5th April	102	Notebooks [10 innumbers]	1,200
10th May	197	Chart Paper [4 innumber]	600
20th May	230	Crayon colors [2packets]	500
2nd June	254	Poster colors [5packets]	900
22nd June	304	Pencil box [4 sets]	700

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Goods in respect of bill no. 102, 230 and 254 have been returned by Babur. You are required to advise Rana Sanga Ltd. whether it can issue a consolidated credit note against all the three invoices?

Answer 7

Where one or more tax invoices have been issued for supply of any goods and/or services and

(a) the taxable value/tax charged in that tax invoice is found to exceedthe taxable value/tax payable in respect of such supply, or

(b) where the goods supplied are returned by the recipient, or

(c) where goods and/or services supplied are found to be deficient,

the registered person, who has supplied such goods and/or services, may issue to the recipient one or more credit notes for supplies made in a financial year containing prescribed particulars.

Thus, one (consolidated) or more credit notes can be issued in respect of multiple invoices issued in a financial year without linking the same to individual invoices.

Hence, in view of the above-mentioned provisions, Rana Sanga Ltd. can issue a consolidated credit note for the goods returned in respect of all the three invoices.

Question 8

Chidanand Products Pvt. Ltd. is a registered supplier who has opted for composition levy in the current financial year. He wishes to know whether the issue of a bill of supply can be dispensed with under any circumstances. You are required to advise him.

Answer 8

Yes. Chidanand Products Pvt. Ltd. may not issue a bill of supply if the value of the goods or services or both supplied is less than ₹200 subject to the condition that:

(a) the recipient is not a registered person; and

(b) the recipient does not require such bill of supply,

and he shall issue a consolidated bill of supply for such supplies at the close of each day in respect of all such supplies.

Question 9

A registered person has to mandatorily issue separate invoices for taxable and exempted goods when supplying both taxable as well as exempted goods to an unregistered person. Examine the validity of the statement.

Answer 9

The statement is not valid in law. As per the CGST Rules, where a registered person is supplying taxable as well as exempted goods or services or both to an unregistered person, a single "invoice-cum-bill of supply" may be issued for all such supplies.

Question 10

A non-banking financial company can issue a consolidated tax invoice at the end of every month for the supply made during that month. Examine the validity of the statement

Answer 10

The said statement is valid in law. A customer may avail numerous services from a non-banking financial company in a given tax period. It may issue a consolidated tax invoice/ statement/ advice, any other document in lieu thereof, by whatever name called may be issued/ made available, physically/ electronically, for supply of services made during a month at the end of the month.

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Question 11

Sakthi Enterprises, Kolkata entered into a contract with Suraj Enterprises, Surat for supply of goods and the delivery shall be made on or before 31st October. The goods were removed from the factory at Kolkata on 11th October for supply to Suraj Enterprises. As per the agreement, the goods were to be delivered on or before 31st October. Suraj Enterprises has received the goods on 14th October. Determine the time of issue of invoice as per the provisions of CGST Act.

Answer 11

A registered person supplying taxable goods shall issue a tax invoice, before or at the time of removal of goods for supply to the recipient, where the supply involves movement of goods.

Therefore, in the given case, invoice has to be issued on or before, 11th October (the time of removal of goods).

Question 12

Trust and Fun Ltd., an event management company, has provided its services for an event at Kapoor Film Agencies, Mumbai on 5th June. Payment for the event was made on 19th June. Determine the time of issue of invoice as per the provisions of CGST Act.

Answer 12

A registered person [other than an insurer/banking company/financial institution, including an NBFC] supplying taxable services shall issue a tax invoice before or after the provision of service, but within a period of 30 days from the date of supply of service.

Thus, in the given case, invoice has to be issued within 30 days of 5th June (date of supply of service), i.e. on or before, 5th July.

Question 13

Udai Singh, a registered supplier, has received advance payment with respect to services to be supplied to Sujamal. His accountant asked him to issue the receipt voucher with respect to such services to be supplied. However, he is apprehensive as to what would happen in case a receipt voucher is issued, but subsequently no services are supplied. You are required to advise Udai Singh regarding the same.

Answer 13

Udai Singh is required to issue a receipt voucher at the time of receipt of advance payment with respect to services to be supplied to Sujamal. A receipt voucher is a document evidencing receipt of advance money towards a supply of goods and/or services or both. A registered person, on receipt of advance payment with respect to any supply of goods or services or both, shall issue a receipt voucher or any other document, evidencing receipt of such payment.

Where, on receipt of advance payment with respect to any supply of goods or services or both the registered person issues a receipt voucher, but subsequently no supply is made and no tax invoice is issued in pursuance thereof, the said registered person may issue to the person who had made the payment, a refund voucher against such payment. Therefore, in case subsequently no services are supplied by Udai Singh, and no tax invoice is issued in pursuance thereof, Udai Singh may issue a refund voucher against such payment to Sujamal.

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Question 14

Bhoj Raj, a registered person, has availed GTA services from unregistered supplier, on which he is liable to pay tax under reverse charge. He wishes to know whether he is required to issue an invoice. Please advise him discussing the relevant provisions under CGST Act and rules thereunder.

Answer 14

Bhoj Raj is required to issue an invoice with regard to the GTA services availed by him. A registered person who is liable to pay tax under sub-section (3) or sub-section (4) of section 9 (i.e. where the recipient is liable to discharge GST on reverse charge basis) shall issue an invoice in respect of goods or services or both received by him from the supplier who is not registered on the date of receipt of goods or services or both.

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TEST YOUR KNOWLEDGE

Question 1

Who is required to maintain books of accounts and at which place in terms of Section 35 read with relevant rules?

Answer 1

Every registered person shall keep and maintain, his books of accounts at his principal place of business and books of account relating to additional place of business as mentioned in the certificate of registration. Where more than one place of business is specified in the certificate of registration, the accounts relating to each place of business shall be kept at such places of business..

Question 2

Mr. Sky is engaged in the business of trading of mobiles. He is eligible for composition scheme and has opted for the same. He seeks your advice for records which are not required to be maintained by him as composition taxable person.

Answer 2

A supplier who has opted for composition scheme is not required to maintain records relating to;

(a) **Stock of goods**: Accounts of stock in respect of goods received and supplied by him, and such accounts shall contain particulars of the opening balance, receipt, supply, goods lost stolen, destroyed, written off or disposed of by way of gift or free sample and the balance of stock including raw materials, finished goods, scrap and wastage thereof.

(b) **Details of tax:** Account, containing the details of tax payable (including tax payable under reverse charge), tax collected and paid, input tax, input tax credit claimed, together with a register of tax invoice, credit notes, debit notes, delivery challan issued or received during any tax period.

Thus, Mr. Sky is not required to maintain above mentioned records.

Question 3

Mr. Harsh Manjula is engaged in the business of works contract services and request your guidance as to specific records required to be maintained by him under GST law, if any.

Answer 3

Mr. Harsh Manjula, executing works contract shall keep separate accounts for works contract showing

- the names and addresses of the persons on whose behalf the works contract is executed;
- description, value and quantity (wherever applicable) of goods/services received for the

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execution of works contract;
- description, value and quantity (wherever applicable) of goods/services utilized in the execution of works contract;
- the details of payment received in respect of each works contract; and
the names and addresses of suppliers from whom he received goods or services.

Question 4

Chill Chain Cold is operating cold storage warehouse and seeks your guidance on the GST accounts and records to be maintained by them in terms of Section 35.

Answer 4

Chill Chain Cold shall maintain records of the consigner, consignee and other relevant details of the goods in the prescribed manner.

Chill Chain Cold shall also maintain books of accounts with respect to the period for which particular goods remain in the warehouse, including the particulars relating to dispatch, movement, receipt, and disposal of such goods.

Chill Chain Cold shall store the goods in such manner that they can be identified item-wise and owner-wise and shall facilitate any physical verification or inspection by the proper officer on demand.

Question 5

Mr. X is of the view that records are to be mandatorily maintained manually only. You are required to examine the view taken by Mr. X?

Answer 5

The view taken by Mr. X is not valid in law. Books of account include any electronic form of data stored on any electronic device. The registered person may keep and maintain such accounts and other particulars in electronic form stored on any electronic device and record so maintained shall be authenticated by means of a digital signature. The registered person maintaining electronic records shall produce, on demand, the relevant records or documents, duly authenticated by him, in hard copy or in any electronically readable format.

Where the accounts and records are stored electronically by any registered person, he shall, on demand, provide the details of such files, passwords of such files and explanation for codes used, where necessary, for access and any other information which is required for such access along with a sample copy in print
form of the information stored in such files.

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TEST YOUR KNOWLEDGE:

Question 1

What are the documents and devices to be carried by person-in-charge of conveyance under rule 138A of CGST Rules, 2017?

Answer 1

The person-in-charge of a conveyance has to carry -

(a) the invoice or bill of supply or delivery challan, as the case may be; and

(b) a copy of the e-way bill in physical form or the e-way bill number in electronic form or mapped to a Radio Frequency Identification Device embedded on to the conveyance [except in case of movement of goods by rail or by air or vessel] in such manner as may be notified by the Commissioner

Question 2

Explain the meaning of consignment value of goods.

Answer 2

Consignment value of goods shall be the value:

- determined in accordance with the provisions of section 15,
- declared in an invoice, a bill of supply or a delivery challan, as the case may be, issued in respect of the said consignment and
- also includes the Central tax, State or Union territory tax, integrated tax and cess charged, if any, in the document and
- shall exclude the value of exempt supply of goods where the invoice is issued in respect of both exempt and taxable supply of goods.

Question 3

Mr. X, a registered person has caused movement of goods of consignment value exceeding ₹ 50,000 in relation to a supply and thus, generated e-way bill. However, after generation of e-way bill, he found a mistake in the e-way bill and wants to edit it. You are required to advise Mr. X whether he can do so with the help of relevant provisions?

Answer 3

If there is a mistake, incorrect or wrong entry in the e-way bill, then it cannot be edited or corrected. Only option is cancellation of e-way bill within 24 hours of generation and generate a new one with correct details.

Thus, in view of the above-mentioned provisions, Mr. X cannot edit the eway bill. However, he can cancel

the e-way bill within 24 hours of generation and generate a new one with correct details.

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Question 4

Talli Lal, a registered person, has transported alcoholic liquor for human consumption of consignment value of ₹ 1,50,000 from Delhi to Haryana. He has not generated e-way bill for the same. You are required to examine the correctness of action taken by Talli Lal

Answer 4

E-way bill is not required to be generated where the goods being transported are alcoholic liquor for human consumption.

Thus, the action of Talli Limited of not generating the e-way bill is correct in law.

Question 5

Dhananjay Associates registered in Gujarat deals in industrial grade iron and steel products. The proprietor of Dhananjay Associates sold TMT Iron bars (GST applicable @18%) to a retailer in Maharashtra at a value of ₹ 40,000 (excluding GST). As per the agreement of sale, goods are to be delivered at the premises of retailer. The transportation cost of ₹ 7,000 has been charged separately to deliver the same to the retailer in Maharashtra. In the above scenario, determine whether an e-way bill is required to be issued under GST?

Answer 5

Consignment value of goods is the value determined in accordance with the provisions of section 15, and also includes the central tax, state or union territory tax, integrated tax and cess charged, if any, in the document.

Further, since arranging freight is the liability of supplier, it is a case of composite supply and thus, freight charges are to be added in the value of principal supply.

Accordingly, the value of supply as per section 15 in the given case would include the transportation cost in the invoice value i.e. 47,000 (₹ 40,000 + ₹ 7,000).

Consignment value = ₹ 47,000 x 118% = ₹ 55,460.

Since the movement of goods is in relation to supply of goods and the consignment value exceeds ₹ 50,000, e-way bill is mandatorily required to be issued under GST in the given case.

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Question 1 (Illustration)

M/s. Daksha Enterprises has made a cash deposit of ₹ 10,000 under minor head 'tax' of major head 'SGST'. It has a liability of ₹ 2,000 for minor head "Interest" under the major head "SGST".

State whether M/s. Daksha Enterprises can utilise the amount available for payment of interest.

Answer 1

The registered person is allowed to transfer the amount available under any minor head of a major head to any of the minor head of the same or other major head as per Section 49(10) of the CGST Act vide Form PMT-09. Therefore, in the given case, amount of ₹ 10,000 available under minor head 'tax' of major head 'SGST' can be utilised for payment of liability of ₹ 2,000 under minor head 'interest' of the same major head, after making a due transfer entry using Form GST PMT-09 from the minor head of 'tax' to 'interest'.

Question 2 (Illustration)

Mr. Alok, a registered supplier of taxable goods, filed GSTR 3B for the month of January, 2023 on 15th April, 2023. The amount of net GST payable, in Cash i.e. Electronic Cash Ledger on supplies made by him for the said month worked out to be ₹ 36,500 which was paid on 15th April, 2023. Briefly explain the related provisions and compute the amount of interest payable under the CGST Act, 2017 by Mr. Alok. Ignore the effect of leap year, if applicable in this case.

Answer 2

Interest is payable in case of delayed payment of tax @ 18% per annum from the date following the due date of payment to the actual date of payment of tax.

Thus, the amount of interest payable by Mr. Alok is as under:-

Period of delay = 21st February, 2023 to 15th April, 2023 = 54 days

Hence, amount of interest = ₹ 36,500 x 18% x 54/365 = ₹ 972

Question 3 (Illustration)

ABC Ltd., have filed their GSTR-3B for the month of July, 2022 within the due date prescribed under Section 39 i.e. 20.08.2022. Post filing of the return, the registered person has noticed during September 2022 that tax dues of ₹ 40,000 for the month of July, 2022 have not been paid. ABC Ltd., has paid the above amount of ₹ 40,000, through GSTR-3B of September 2022, filed on 20.10.2022 [payment through Cash ledger - ₹ 30,000 and Credit ledger ₹ 10,000]. Examine the Interest payable under the CGST Act, 2017.

What would be your answer if, GSTR-3B for the month of July 2022 has been filed belatedly on 20.10.2022 and the self-assessed tax of ₹ 40,000/- has been paid on 20.10.2022 [payment through electronic cash ledger - ₹ 30,000 and electronic credit ledger ₹ 10,000]

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Notes:

- **No other supply has been made nor tax payable for the month of July, 2022 other than ₹ 40,000/- missed out to be paid on forward charge basis**
- **Ignore the effect of leap year, if applicable in this case.**

Answer 3

Interest is payable under Section 50 of the CGST Act, 2017 in case of delayed payment of tax @ 18% per annum from the date following the due date of payment to the actual date of payment of tax. As per proviso to sub-section (1) of Section 50, interest is payable on the net tax liability paid in cash, only if the return to be filed for a tax period under Section 39, has been filed after the due date to furnish such return.

In the above scenario, ABC Ltd., has defaulted in making the payment for ₹ 40,000 on self-assessment basis in the return for the month of July, 2022. Accordingly, interest is payable on the gross liability and proviso of sub-section 50(1) shall not be applicable.

Thus, the amount of interest payable by ABC Ltd., is as under:-

Period of delay = 21st August, 2022 to 20th October, 2022 = 61 days

Hence, amount of interest = ₹ 40,000 x 18% x 61/365 = ₹ 1,203

Alternatively, if ABC Ltd., have filed the return for the month of July, 2022 on 20.10.2022, beyond the stipulated due date of 20.08.2022 and if the self-assessed_tax for July, 2022 has been paid on 20.10.2022, Interest under proviso to Section 50(1) shall be payable on the tax paid through Electronic Cash Ledger only.

TEST YOUR KNOWLEDGE

Question 1

How many types of electronic ledger/register are being maintained on GST common portal?

Answer 1

(a) Electronic cash ledger
(b) Electronic credit ledger
(c) Electronic liability register

Question 2

What are the main features of GST payment process?

Answer 2

The main features of GST payment process are as follows:-

(a) Electronically generated challan from GSTN common portal in all modes of payment and no use of manually prepared challan;
(b) Facilitation for the tax payer by providing hassle free, anytime, anywhere mode of payment of tax;
(c) Convenience of making payment online;
(d) Realtime data for tax collection in electronic format;
(e) Faster remittance of tax revenue to the Government Account;
(f) Paperless transactions;
(g) Speedy Accounting and reporting;
(h) Electronic reconciliation of all receipts;

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(i) Simplified procedure for banks;
(j) Warehousing of Digital Challan

Question 3

Are principles of unjust enrichment applicable for payment of tax made under GST?

Answer 3

Yes, as per Section 49(9) of the CGST Act, 2017 every person who has paid the tax on goods or services or both under this Act shall, unless the contrary is proved by him, be deemed to have passed on the full incidence of such tax to the recipient of such goods or services or both.

Question 4

State the name of output tax under GST, where any of the input tax credit under GST can be utilized?

Answer 4

IGST. IGST, CGST, SGST, UTGST i.e. all input tax credit can be utilized against output tax liability known as IGST. However, it has to be utilized in prescribed manner.

Question 5

Mr. A has deposited a sum of ₹ 30,000 under minor head of "Interest" column for the major head "IGST". At the time of filing GSTR-3B for a particular tax period, he noticed that there is no sufficient amount under the minor head 'Tax' towards payment of ₹ 30,000. When approached with the consultant, Mr. A was guided to deposit the tax amount under proper head of account and claim a refund for the remittance of amount deposited under head "interest". Examine the relevant provisions of CGST Act, 2017 towards payment of tax and compliance with the law.

Answer 5

Provisions of Section 49(10) of CGST Act, 2017 permit a registered person for transferring the amount deposited under any of the minor head i.e. tax, interest, penalty, fees or others to any of the heads under IGST/CGST/SGST/UTGS and make the payment of taxes there upon. Accordingly, Mr. A need not deposit the tax amount under head "tax" and claim a refund for the remittance of amount deposited under head "interest". Rather, using the Form GST PMT 09, such amount can be transferred suo-moto on the common portal from "interest" to "tax" head and tax liability be paid accordingly.

Question 6

M/s ABC & Co., have defaulted in filing the return under Section 39 of CGST Act, 2017 i.e. GSTR-3B for the month of March within the specified due date. Reason for such delay is attributable to delay in closure of books for March, which have been finalised during May. The GST Common portal prompted for payment of late fees payable under Section 47 of CGST Act, 2017 for a sum of ₹ 2,000 under CGST and SGST each. Accountant, of M/s ABC & Co., sought your confirmation for payment of such late fees through the balance available in Electronic Credit Ledger Give your guidance in this regard

Answer 6

Section 49(3) of the CGST Act, 2017 provides that the amount available in the electronic cash ledger may be used for making any payment towards tax, interest, penalty, fees or any other amount payable under the provisions of this Act or the rules made there under in prescribed manner.

Further, section 49(4) provides that the amount available in the electronic credit ledger may be used for making any payment towards output tax under this Act or under the Integrated Goods and Services Tax Act in prescribed manner.

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Accordingly, as per the combined reading of the above provisions, late fees shall be paid only through electronic cash ledger and not possible through electronic credit ledger. Thus, contention of the accountant of M/s ABC & Co., is not correct and the above amount shown on the common portal has to be deposited in Electronic Cash Ledger under appropriate minor head, through any of the specified modes.

Question 7

Sahil is a supplier of taxable goods in Karnataka. He got registered under GST in the month of September and wishes to pay his IGST liability for the month. Since he is making the GST payment for the first time, he is of the view that he needs to mandatorily have the online banking facility to make payment of GST; offline payment is not permitted under GST. You are required to apprise Sahil regarding the various modes of deposit in the electronic cash ledger. Further, advise him with regard to following issues:

(a) Are manual challans allowed under GST?

(b) What is the validity period of the challan?

(c) Is cross utilization among Major and Minor heads of the electronic cash ledger permitted?

Answer 7

As per the provisions of CGST Act, 2017 read with relevant rules, the deposit in electronic cash ledger can be made through any of the following modes, namely:-

(i) Internet Banking through authorised banks;

(ii) Unified Payment Interface (UPI) from any bank;

(iii) Immediate Payment Services (IMPS) from any bank;

(iv) Credit card or Debit card through the authorised bank;

(v) National Electronic Fund Transfer or Real Time Gross Settlement from any bank; or

(vi) Over the Counter payment through authorised banks for deposits up to ten thousand rupees per challan per tax period, by cash, cheque or demand draft.

(a) Manual or physical challans are not allowed under the GST regime. It is mandatory to generate challans online on the GST Portal.

(b) Challan is valid for a period of 15 days from the date of generation of challan.

(c) A registered person may, on the common portal, transfer any amount of tax, interest, penalty, fee or any other amount available in the electronic cash ledger under the CGST Act, 2017 to the electronic cash ledger for integrated tax, central tax, State tax or Union territory tax or cess.

Question 8

Suhasini is a registered software consultant. On account of her ill health, she could not provide any services during the month of October. However, she had to incur all the expenses relating to her office. She paid ₹ 75,000 to various vendors. The total input tax involved on the goods and services procured by her is ₹ 13,500. Out of the total bills paid by her, one bill for ₹ 15,000 relates to security services availed for security of her office, tax on which is payable under reverse charge. Input tax involved in such bill is ₹ 2,700.

Suhasini is of the opinion that for the month of October, no GST is payable from electronic cash ledger as she has sufficient balance of ITC for payment of GST under reverse charge on security services.

Do you think Suhasini is right? Explain with reasons assuming provisions of rule 86B are not applicable.

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Answer 8

The amount available in the electronic credit ledger, i.e. ITC may be used for making any payment towards output tax. Output tax in relation to a taxable person, means the tax chargeable on taxable supply of goods or services or both made by him or by his agent but excludes tax payable by him on reverse charge basis. Therefore, ITC cannot be used to pay the tax liability under reverse charge. The same is always required to be paid through electronic cash ledger and not electronic credit ledger. Thus, Suhasini is wrong and she will need to pay the GST of ₹ 2,700 on security service through electronic cash ledger.

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ILLUSTRATION:

Question 1 (Illustration)

Mr. X is a supplier selling his own products through a web site hosted by him. Does he fall under the definition of an "electronic commerce operator"? Whether he is required to collect TCS on such supplies?

Answer 1

As per the definitions in Section 2(44) and 2(45) of the CGST Act, 2017, Mr. X will come under the definition of an "electronic commerce operator". However, according to Section 52 of the Act ibid, TCS is required to be collected on the net value of taxable supplies made through it by other suppliers where the consideration is to be collected by the ECO. In cases, where someone is selling their own products through a website, there is no requirement to collect tax at source as per the provisions of this Section. These transactions will be liable to GST at the prevailing rates.

Question 2 (Illustration)

If Mr. A purchase goods from different vendors and in turn Mr. A, is selling them on his own website under his own billing, Is TCS required to be collected on such supplies?

Answer 2

No. According to Section 52 of the CGST Act, 2017, TCS is required to be collected on the net value of taxable supplies made through E-commerce operator by other suppliers where the consideration is to be collected by the ECO. In this case, there are two transactions - Mr. A purchase the goods from the vendors, and those goods are sold through his own website. For the first transaction, GST is leviable, and will need to be paid to vendor, on which credit is available to Mr. A. The second transaction is a supply on own account of Mr. A, and not by other suppliers and there is no requirement to collect tax at source. The transaction will attract GST at the prevailing rates.

TEST YOUR KNOWLEDGE:

Question 1

Whether the rate of tax of 1% notified under section 52 is CGST or SGST or a combination of both CGST and SGST?

Answer 1

The rate of TCS as notified under CGST Act is payable under CGST and the equal rate of TCS is expected under the SGST Act also, in effect aggregating to 1%.

Question 2

Is every e-commerce operator required to collect tax on behalf of actual supplier?

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Answer 2

Yes, every e-commerce operator is required to collect tax where consideration with **respect to the supply is being collected by the e-commerce operator**. However, no TCS is required to be collected in the following cases:-

I. on supply of services notified under section 9(5) of the CGST Act, 2017.
II. on exempt supplies
III. on supplies on which the recipient is required to pay tax on reverse charge basis.

Question 3

State whether the provisions pertaining to tax collected at source under section 52 of CGST Act, will be applicable, if Fitan Ltd. sells watch on its own through its own website?

Answer 3

As per Section 52, every electronic commerce operator not being an agent, shall collect an amount calculated at such rate not exceeding one per cent., as may be notified by the Government on the recommendations of the Council, of the net value of taxable supplies made through it by other suppliers where the consideration with respect to such supplies is to be collected by the operator.

Hence, if the person sells on his own, provisions pertaining to tax collected at source (TCS) won't be applicable.

Question 4

There is no onus of filing any monthly & annual statements by ECO. Examine the technical veracity of the statement by explaining relevant provisions.

Answer 4

The given statement is invalid. An electronic statement has to be filed by the ECO containing details of the outward supplies of goods and/ or services effected through it, including the supplies returned through it and the amount collected by it as TCS during the month within 10 days after the end of the each month in which supplies are made.

Additionally, the ECO is also mandated to file an Annual Statement on or before 31st day of December following the end of the financial year.

The Commissioner has been empowered to extend the due date for furnishing of monthly and annual statement by the person collecting tax at source.

Question 5

State whether the provisions pertaining to tax collected at source under section 52 of CGST Act, will be applicable, if ABC limited who is dealer of Royul brand sells watches through Slipkart, an electronic commerce operator?

Answer 5

As per Section 52, every electronic commerce operator not being an agent, shall collect an amount calculated at such rate not exceeding one per cent., as may be notified by the Government on the recommendations of the Council, of the net value of taxable supplies made through it by other suppliers where the consideration with respect to such supplies is to be collected by the operator.

If ABC limited who is dealer of Royul brand sells watches through Slipkart, then the provision of TCS will be applicable to Slipkart.

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TEST YOUR KNOWLEDGE

Question 1

Mr. X, a registered taxpayer under regular scheme, did not make any taxable supply during the month of July.

Is he required to file a GSTR-3B if he is monthly filer?

Answer 1

A registered taxpayer is required to furnish a return u/s 39 for every month (every quarter in case of quarterly filers) even if no supplies have been effected during such period. In other words, filing of Nil GSTR-3B is also
mandatory.

Therefore, being a monthly filer, Mr. X is required to file GSTR-3B even if he did not make any taxable supply during the month of July.

Question 2

If a return has been filed, how can it be revised if some changes are required tobe made?

Answer 2

In GST since the returns are built from details of individual transactions, there is no requirement for having a revised return. Any need to revise a return may arise due to the need to change a set of invoices or debit/ credit notes. Instead of revising the return already submitted, the system allows amendment in the details of those individual details of those transactions (invoices or debit/credit notes) that are required to be amended. They can be amended in any of the future GSTR- 1 in the tables specifically provided for the purposes of amending previously declared details.

As per section 39(9), omission or incorrect particulars discovered in the returns filed u/s 39 can be rectified in the return to be filed for the month during which such omission or incorrect particulars are noticed. Any tax
payable as a result of such error or omission will be required to be paid along with interest. The rectification of errors/omissions is carried out by entering appropriate particulars in "Amendment Tables" contained in GSTR-1. However, no such rectification of any omission or incorrect particulars is allowed after the due date for furnishing of return for the month of September or second quarter (in case of quarterly filers) following the end of the financial year to which such details pertain, or the actual date of furnishing of relevant annual return, whichever is earlier.

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Question 3

"All taxpayers are required to file GSTR-1 only after the end of the tax period." Examine the validity of the statement.

Answer 3

The statement is partially valid.

A taxpayer cannot file Form GSTR-1 before the end of the current tax period. However, following are the exceptions to this rule:

a. Casual taxpayers, after the closure of their business
b. Cancellation of GSTIN of a normal taxpayer.

A taxpayer who has applied for cancellation of registration will be allowed to file Form GSTR-1 after confirming receipt of the application.

Question 4

Mr. Kohli is a registered supplier in the State of Gujarat. He is filing GSTR-1 every month. During the month of February, he went out of India and thus, could not do any business transaction during that month. He believes that as there is no transaction, there is no need to file GSTR-1 for the month of February. Is he correct if he is a monthly filer? Explain.

Answer 4

No, Mr. Kohli is not correct. GSTR-1 needs to be filed even if there is no business activity in the tax period. Therefore, in the given case, even though Mr. Kohli was out of India and thus, could not do any business transaction during the month of February, he is still required to file GSTR-1 for that month.

Question 5

Mr. Kalpesh is a registered dealer in Kerala paying tax under composition levy from 1st April. However, he opts to pay tax under regular scheme from 1st December.

Is he liable to file GSTR-4 for the said F.Y. during which he opted out of composition scheme? Discuss.

Answer 5

Where a taxpayer opts to withdraw from the composition scheme, he has to file GSTR-4 for the period for which he has paid tax under the composition scheme. Such return is required to be furnished till 30th day of April following the end of the financial year during which such withdrawal falls. Therefore, in the given case, Mr. Kalpesh is liable to file GSTR-4 for the said F.Y. during which he opted out of composition scheme by 30th April of next F.Y.

Question 6

Mrs. Zarina, a registered dealer in Rajasthan, did not file GSTR-3B for the month of June but she wants to file GSTR-3B for the month of July.

Is it possible? Answer with reference to section 39.

Answer 6

As per section 39(10), a registered person is not allowed to furnish a return for a tax period if the return for any of the previous tax periods has not been furnished by him.

Therefore, in the given case, Mrs. Zarina cannot file GSTR-3B for July if she has not filed GSTR-3B for the preceding month, i.e., June.

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Question 7

List the details of outward supplies which can be furnished using Invoice Furnishing Facility (IFF).

Answer 7

Details of outward supplies which can be furnished using IFF are as follows:

(a) invoice wise details of inter-State and intra-State supplies made to the registered persons;

(b) debit and credit notes, if any, issued during the month for such invoices issued previously.

Question 8

A is a chartered accountant in practice and is registered under GST. On a query regarding return filing process by a potential client, A has represented him as a GST practitioner. A is of the view that since he is a qualified chartered accountant with a GST registration in the name of his proprietorship firm, healso qualifies as GST practitioner.

Is the understanding of A correct? Discuss.

Answer 8

The understanding of A is not correct.

A chartered accountant can become a GST practitioner (GSTP). However, holding a certificate of practice as a chartered accountant and having GST registration does not imply that such chartered accountant is a GST

practitioner as well. For becoming a GSTP, even a chartered accountant in practice has to follow the enrolment process of GSTP as provided under the GST law and only upon approval of such enrolment can a chartered

accountant represent himself as a GSTP.

Question 9

Quicktax, a GST return filing service provider, has asked its clients to provide the scanned copies of the tax invoices issued to B2B customers for uploading on the GST portal and filing the return. Whether the process followed by Quicktax is correct?

Answer 9

No, the process followed by Quicktax is not correct.

The registered persons supplying goods or services to B2B customers are required to upload the invoice wise details of supplies made during the tax period. However, there is no requirement to upload the scanned copies of the invoices issued to the customers on the GST portal at the time of filing returns. Only information required as per the format of GST returns is to be captured in the return filing utility and the same is to be uploaded on the GST portal and not the scanned copies of the actual invoices.

Question 10

X Ltd., a normal taxpayer, is winding up its business in Rajasthan. The Tax Consultant of X Ltd. has suggested that X Ltd. will have to file either the annual return or the final return at the time of voluntary cancellation of registration in the state of Rajasthan.

Do you agree with the stand taken by Tax Consultant of X Ltd.? Offer your comments.

Answer 10

No, the stand taken by Tax Consultant of X Ltd. is not correct.

Annual return is required to be filed by every registered person paying tax as a normal taxpayer. Final return is filed by the registered persons who have applied for cancellation of registration within three

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months of the date of cancellation or the date of cancellation order.
In the given case, X Ltd., a registered person, is winding up its business and has thus, applied for cancellation of registration. Therefore, it is required to file both annual return and final return.

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