



## OVERVIEW OF SECTION III

After reading the first module of the study material, comprised in Sections I and II of the syllabus, you would have understood the basis of charge of income-tax, the significance of residential status in determining the scope of total income chargeable to tax, classification of income under the five heads, chargeability under each head, deductions available and deductions not allowable while computing income under each head.

This Section, i.e., Section III of the syllabus comprises of the following three chapters –

**Chapter 4** Income of other persons included in assessee's total income

**Chapter 5** Aggregation of income, set-off and carry forward of losses

**Chapter 6** Deductions from gross total income.

Chapter 4 will help you understand when income of other persons (for example, spouse, minor child, son's wife) have to be included in the individual's total income. These provisions have been incorporated to deter transfer of asset or income to other persons to avoid tax.

Chapter 5 will spell out whether loss from a particular source of income can be set-off against income from another source; or loss computed a particular head of income can be set-off against income under another head. This chapter also explains whether the losses not set-off in the year in which it is incurred can be carried forward for set-off in future years and if so, upto what period. The income so arrived at after applying the clubbing provisions and provisions for set-off and carry forward of losses would be the gross total income of the individual.

Chapter 6 contains the permissible deductions from gross total income (contained in Chapter VI-A of the Income-tax Act, 1961 and section 10AA) to arrive at the total income. Here, whether the individual is paying tax at the concessional rates under the default tax regime under section 115BAC or 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, assumes significance. Under the optional tax regime, the individual would be eligible for the deductions under Chapter VI-A and section 10AA and certain other exemptions under the other provisions of the Act, subject to fulfilment of the conditions stipulated therein. However, under the default regime, only select deductions are permissible. These aspects are discussed in detail in Chapter 6.



Read the Scenario below including its different components described in the table below and the “Points to Ponder” in respect thereof. Thereafter, read the chapter, understand the provisions, analyse the tax implications and then, write your response in the last column of the table. Finally, solve the Crossword Puzzle given at the end.

## SCENARIO

Aarav, a Marketing Manager of a Multi-national company, lives with his wife, Aarti, his daughter, Meera aged 16 years, his sister, Hema, and his parents in Mumbai. Aarti is a housewife and Meera is a student. Meera pursues Hindustani Music and participates in music competitions. Aarav’s parents are senior citizens and are dependent on him. Aarav has a brother, Anand, who is carrying on trading business. Anand also lives in Mumbai with his wife Gayatri and daughter Nisha, whose 18<sup>th</sup> birthday is on 2<sup>nd</sup> April, 2024. For the P.Y. 2023-24, Anand and Gayatri pay tax under the default tax regime under section 115BAC while Aarav and Aarti exercise the option to shift out of the default tax regime and pay tax as per the regular provisions of the Act under the optional tax regime.

The scenario is continued below and divided into components depicting the different types of income earned/transactions undertaken in the P.Y. 2023-24 by the family members. The “Points to Ponder” are indicated in respect of each transaction in order to urge you to put on your thinking caps and give your response after reading the chapters and analysing the tax consequences thereof.

Read the Scenario and each component thereof described in Column (1) of the table below and the Points to Ponder in respect thereof indicated in the corresponding row of Column (2). Thereafter, read the relevant chapter, understand the provision, analyse the tax consequences and give your response thereto in Column (5) of the table. Reference to the section number is mentioned in Column (4) to enable you to give your response after reading and understanding the relevant provision of law.

(1)	(2)	(3)	(4)	(5)
Scenario Components	Point(s) to Ponder	Relevant Chapter	Relevant Provision of law	Write your response after reading the chapter
(1)	<p>Aarav, whose remuneration is ₹ 2 lakhs per month, gifts his flat to Aarti. Aarti lets out the flat for a rent of ₹ 25,000 p.m.</p> <p>(i) Aarav thinks that the rental income would now be chargeable to tax in Aarti's hands, since he has gifted the flat to her.</p> <p>(ii) Is he correct? In whose hands would the rental income be taxed?</p> <p>(iii) Would clubbing provisions apply in this case?</p>	4	<p></p> <p>Section 27</p> <p>Section 64(1)(iv)</p>	
(2)	Aarav also gifts some listed shares held by him in Indian companies to Aarti.	4	Section 64(1)(iv)	

	Aarti earned dividend income of ₹ 62,000 this year from such shares.	(i) Can you tell her in whose hands would the dividend and interest on fixed deposits be taxed?			
(3)	Aarti invested the above dividend income of ₹ 62,000 in fixed deposits from time to time and earned interest of ₹ 6,000 on such deposits this year.	(ii) What is the difference in tax treatment of dividend income <i>vis-à-vis</i> rental income referred to in (1) above?			
(4)	Aarti gifts ₹ 2 lakh to Meera on her 16 <sup>th</sup> birthday out of her own savings. Meera invests the same in bank deposits and earns interest of ₹ 20,000 this year.	Aarti wonders whether the interest on bank deposits in Meera's name would be included in her hands, since Meera is not yet 18 years old. In whose hands would interest of ₹ 20,000 on fixed deposits be included and how much?	4	Section 64(1A)	
(5)	Meera won prize money of ₹ 60,000 from Music competitions during the year.	Meera is not sure whether the prize money received by her from exercise of her talent is taxable.	4	Section 64(1A)	

		Is the prize money taxable and if so, in whose hands and how much?			
(6)	Mr. Aarav has fixed deposits of ₹ 10 lakhs with SBI. He earns interest of ₹ 80,000 therefrom which he transferred to his friend's son, to help him pursue higher education.	Aarav is of the opinion that since he has transferred the income to an unrelated person, and does not enjoy any part of the income himself, the same would not be taxable in his hands. Is he correct? In whose hands would the amount of ₹ 80,000 be taxed?	4	Section 60	
(7)	Aarav gifts an amount of ₹ 5 lakh to Nisha. Anand gifts ₹ 3 lakhs to Meera. Both Nisha and Meera invested the amount in fixed deposits. Nisha earned interest of ₹ 35,000 and Meera earned interest of ₹ 21,000 this year from such fixed deposits.	<div>(i) Is the interest on fixed deposits taxable in the hands of Nisha and Meera? If so, how much?</div> <div>(ii) If not, in whose hands would such sums be taxable and how much?</div>	4	Section 64(1A)	

(8)	Anand is carrying on business of trading in furniture, in which he incurred loss of ₹ 7.20 lakhs this year. He also carries on business of trading in electronic products in which he earned profits of ₹ 43 lakhs this year.	Since this is the first year in which he is incurring losses, Anand wants to know whether he can set-off his loss from the business of trading in furniture against profits from the business of trading in electronic products. Can he do so?	5	Section 70	
(9)	Gayatri is employed as a junior accountant in a company for ₹ 45,000 p.m.. She also has set up a boutique this year and incurred loss of ₹ 2.20 lakhs therefrom. She earns rental income of ₹ 10,000 p.m. from house property in addition to her salary income.	<div>(i) Can she set-off her business loss against her other income?</div> <div>(ii) If so, against which income can she set-off such loss?</div> <div>(iii) If the loss cannot be fully set-off, can she carry forward such loss?</div> <div>(iv) If so, for how many years, and against which income can such loss be set-off?</div>	5	Section 71	
				Section 72	

(10)	In April, 2023, Aarav sold some listed shares purchased by him in the F.Y.2021-22 and incurred loss. In the same month, he sold land which he had purchased in June, 2022 and earned profits.	(i) Can he set-off the loss from sale of shares against the gains from sale of land?	5	Section 70	
		(ii) If not, can he carry forward the loss? If so, for how many years?		Section 74	
(11)	This year Aarti sold ancestral jewellery held by her and earned profits. Out of this money, she started business of trading in cosmetics and incurred loss during the year.	Aarti wonders whether she can set off her loss from trading in cosmetics against such profit on sale of jewellery. Can she do so?	5	Section 71	
(12)	Aarav paid life insurance premium of ₹ 60,000 to insure his life. He also paid life insurance premium of ₹ 80,000 to insure the life of his parents. Anand paid life insurance premium of ₹ 40,000 to insure his life.	Are Aarav and Anand eligible for deduction in respect of life insurance premium paid? If so, how much?	6	Section 80C	

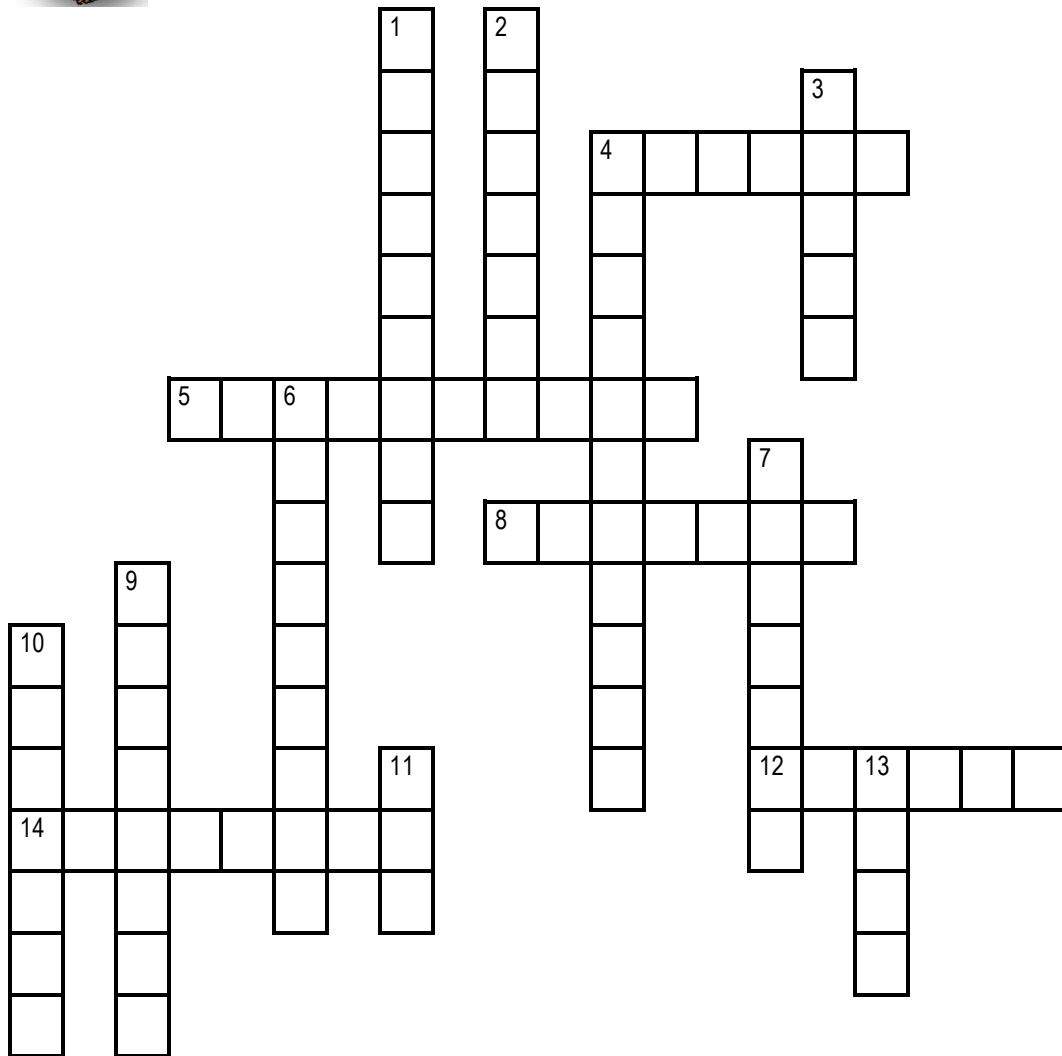
(13)	Aarav paid medical insurance premium of ₹ 30,000 by cheque to insure his health and the health of Aarti. He also paid medical insurance premium of ₹ 60,000 by cheque to insure the health of his parents. Anand paid medical insurance premium of ₹ 20,000 to insure his health and the health of Gayatri.	Are Aarav and Anand eligible for deduction in respect of medical insurance premium paid? If so, how much?	6	Section 80D	
(14)	Aarav incurred expenditure of ₹ 50,000 for medical treatment of Hema, who is disabled and is dependent on him.	Aarav wants to claim deduction of the expenditure actually incurred by him on medical treatment of Hema. Is he eligible for deduction in respect of such expenditure? If so, how much?	6	Section 80DD	
(15)	Aarav and Anand donated ₹ 10,000 each to a registered charitable trust in cash and ₹ 1 lakh to Prime	Are Aarav and Anand eligible for deduction in respect of such donations? If so, how much?	6	Section 80G	



	Minister's National Relief Fund by account payee cheque.					
(16)	Aarav's interest from savings bank account is ₹ 35,000 and Anand's interest from savings bank account is ₹ 22,000.	Are Aarav and Anand eligible for deduction in respect of interest from savings bank A/c? If so, how much?		Section 80TTA		
(17)	Anand has taken a loan from SBI for higher education of Nisha and he pays EMI (equated monthly installment) ₹ 10,000. In this year, the principal repayment was ₹ 80,000 and interest payment was ₹ 40,000.	Anand wants to know whether he is entitled to deduction in respect of EMI paid by him. Is he entitled to any deduction and if so, how much?	6	Section 80E		
(18)	Aarav has purchased an electric car by taking loan from an NBFC, which accepts deposits from public. He pays EMIs of ₹ 20,000. In this year, the principal repayment was ₹ 80,000 and interest payment was ₹ 1,60,000.	Aarav is of the opinion that the EMIs of ₹ 20,000 paid by him qualifies for deduction. Is he correct? If so, what is the amount of deduction which he can claim?	6	Section 80EEB		



# CROSSWORD PUZZLE



## ACROSS

4. Current year business loss cannot be set-off against ..... income.
5. Section 80U provides deduction in case of a person with .....
8. Section 80CCC provides deduction in respect of contributions to certain ..... funds.

12. Income earned by a minor child from an activity involving, *inter alia*, ..... is not includible in the hands of either parent.
14. Sections 80E, 80EEA and 80EEB provide deduction in respect of ..... on loan taken for specified purposes.

### DOWN

1. All income arising to any person by virtue of a ..... transfer of assets is includible in the hands of the transferor.
2. Section 80D provides deduction in respect of ..... insurance premium paid.
3. In case of ..... transfers, the income from assets transferred would be assessed in the hands of the deemed transferor.
4. Remuneration received by a spouse from a concern in which the individual has ..... interest is includible in the hands of the individual.
6. Loss from .... business can be carried forward indefinitely.
7. Section 80QQB provides deduction in respect of ..... income of authors.
9. Section 80G provides deduction in respect of .....to, *inter alia*, PM CARES Fund.
10. STCL can be set-off against any ..... Gains.
11. Deductions under Chapter VI-A cannot exceed ..... (acronym).
13. LTCL can be set-off only against ..... (acronym).

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**Scan the following QR code to find out the answers to the Scenario and Crossword puzzle.**

