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DIRECT TAX

(ASSESSMENT YEAR – 2026-2027)

CMA INTER

VOLUME 1

Faculty:

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(CHARTERED ACCOUNTANT)

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CMA INTER

Assessment Year - 2026-27

CHAPTER – 1A: OPTIONAL TAX REGIME – TAX LIABILITY

OPTIONAL TAX REGIME (OLD TAX REGIME)

Tax rates for Assessment Year 2026-27:

Up to Rs.2,50,000	:	Nil
Rs.2,50,001 to Rs.5,00,000	:	5%
Rs.5,00,001 to Rs.10,00,000	:	20% plus Rs.12,500
Above Rs.10,00,000	:	30% plus Rs.1,12,500

Tax rates for RESIDENT SENIOR CITIZEN for Assessment Year 2026-27:

Up to Rs.3,00,000	:	Nil
Rs.3,00,001 to Rs.5,00,000	:	5%
Rs.5,00,001 to Rs.10,00,000	:	20% plus Rs.10,000
Above Rs.10,00,000	:	30% plus Rs.1,10,000

Note: In case of a non-resident senior citizen, basic exemption is restricted to Rs.2,50,000.

Tax Rates for RESIDENT SUPER SENIOR CITIZEN for Assessment Year 2026-27:

Up to Rs.5,00,000	:	Nil
Rs.5,00,001 to Rs.10,00,000	:	20%
Above Rs.10,00,000	:	30% plus Rs.1,00,000

Note: In case of a non-resident very senior citizen, basic exemption is restricted to Rs.2,50,000.

Important points:

- Total income and tax should be rounded off to the nearest ten rupee.

- A maximum rebate of Rs.12,500 under section 87A for resident individuals whose taxable income does not exceed Rs.5,00,000 during the previous year.

- A surcharge of 10% in case taxable income exceeds Rupees Fifty lakhs
- A surcharge of 15% in case taxable income exceeds Rupees One crore
- A higher surcharge of 25% in case taxable income exceeds Rupees Two crores
- A higher surcharge of 37% in case taxable income exceeds Rupees Five crores

- HEALTH & EDUCATION CESS of 4% to be charged. Cess is to be calculated on the total tax including surcharge.

- MAXIMUM MARGINAL TAX RATE: 42.744% (30% + 37% + 4%)

- SENIOR CITIZEN: An Individual who has attained the age of 60 years or more

- VERY SENIOR CITIZEN: An Individual who has attained the age of 80 years or more

- **"Marginal relief"** is available in case taxable income exceeds Rupees FIFTY LAKHS but does not exceed Rs.51,95,900 (Rs.51,95,520 in the case of a senior citizen and Rs.51,94,030 in the case of a very senior citizen).

- A person born on 1st April would be considered to have attained a particular age on 31st March, the day preceding the anniversary of his birthday. ***CBDT Circular***

  (e.g. A person born on 1st April, 1946 would be considered to have attained 80 years on 31st March, 2026 and shall be treated as "Very Senior Citizen" for P.Y. 2025-26).

Problems:

1. Compute the tax liability in each case separately of Mr.X (age 30) whose total income for the previous year 2025-26 (Assessment Year 2026-27) is as follows:-

- Rs.2,10,000 Rs.3,50,004 Rs.5,00,000
- Rs.9,99,995 Rs.50,00,000 Rs.1,00,00,000

Ignore Default (new) Tax Regime under section 115BAC.

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2. Mr.D (age 45) is a businessman. His taxable income for the previous year 2025-26 (Assessment Year 2026-27) is as follows: Compute his tax liability in each case separately:-

a) Rs.1,80,00,000 b) Rs.4,10,00,000 c) Rs.9,10,00,000

Ignore Default (new) Tax Regime under section 115BAC.

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3. Find out tax liability in each case separately of Mr.Y (a resident) (born on 01.04.1966) if his total income for the previous year 2025-26 (Assessment Year 2026-27) is:-

- Rs.2,90,000 Rs.5,00,000 Rs.10,00,000
- Rs.70,00,000 Rs.6,10,00,000

Ignore Default (new) Tax Regime under section 115BAC.

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4. Mr.A is a senior citizen and a resident. His taxable income for the previous year 2025-26 is Rs.5,00,000. Compute his tax liability. What will be your answer if he had been a non-resident for the relevant previous year? Ignore Default Tax (new) Regime.

---

5. Compute tax liability in each separately of Mr.B (a resident) (age 40 years) if his taxable income for the previous year ending 31st March 2026 (Assessment Year 2026-27) is:

a) Rs.50,00,100 b) Rs.51,00,000

Ignore Default (new) Tax Regime under section 115BAC.

Important terms:

Previous Year & Assessment Year:
Income earned in a year is taxable in the subsequent year. The year in which income is earned is known as Previous Year and the subsequent year in which income is assessed is known as the Assessment Year.

Assessee:
"assessee" means a person by whom income-tax is payable under this Act, and includes every person in respect of whom any proceeding under this Act has been taken for assessment of his income or of the amount of refund due to him

Heads of Income:
5 heads of income. Salaries, house property, business or profession, capital gains and other sources

Gross Total Income:
“Gross total income” means the aggregate income earned from all the heads before allowing deductions under Chapter VIA of the Income-tax Act.

Total Income:
“Total Income” is the income on which tax is payable by the assessee. It is computed after allowing deductions under Chapter VIA of the Income-tax Act.

Exemptions:
Incomes that are not included while computing total income of an assessee are called exempted incomes. Exempted incomes are given u.s.10 of the Income Tax Act. E.g. Agricultural income is exempt u.s.10(1).

Deductions:
Incomes that are included while computing total income of an assessee and later allowed as deduction. E.g. Deductions under chapter VIA of the Act such as section 80QQB or section TTA.

Due date for furnishing income-tax return:
Tax Audit cases: 31st October
Non-Audit cases: 31st July

I. COMPUTATION OF TOTAL INCOME OF AN ASSESSEE:

Income from salaries	xxx
Income from house property	xxx
Profits and gains of business or profession	xxx
Capital gains	xxx
Income from other sources	xxx
Gross Total Income	***xxx***
Less: Deductions under section 80C to 80U	xxx
Total Income	***xxx***

II. COMPUTATION OF TAX LIABILITY:

Tax on total income	xxx
Add: Surcharge (if applicable)	xxx
	xxx
Add: Health and education cess	xxx
Total tax	xxx
Less: TDS & TCS	xxx
Less: Advance tax	xxx
	xxx
Add: Interest u.s.234A, 234B & 234C	xxx
Add: Late fee (for delay in filing return of income)	xxx
	xxx
Less: Self-assessment tax	xxx
Final tax payable	**nil**

CHAPTER – 1B: DEFAULT TAX REGIME – TAX LIABILITY

Default tax regime (new scheme) under section 115BAC

Tax rates for Assessment Year 2026-27:

Up to Rs.4,00,000	:	Nil
Rs.4,00,001 to Rs.8,00,000	:	5%
Rs.8,00,001 to Rs.12,00,000	:	10% plus Rs.20,000
Rs.12,00,001 to Rs.16,00,000	:	15% plus Rs.60,000
Rs.16,00,001 to Rs.20,00,000	:	20% plus Rs.1,20,000
Rs.20,00,001 to Rs.24,00,000	:	25% plus Rs.2,00,000
Above Rs.24,00,000	:	30% plus Rs.3,00,000

The above concessional rates are without certain exemptions and deductions. These rates are applicable for all individuals irrespective of their age. No separate slabs for senior citizens or super senior citizens. The assesse can shift out of default tax regime (new scheme) and pay tax under optional tax regime (old scheme).

Important points:

- A maximum rebate of Rs.60,000 under the default tax regime u.s.87A for resident individuals whose taxable income does not exceed Rs.12,00,000 during the previous year.

- An individual whose total income exceeds Rs.12 lakhs marginally is also entitled to a rebate *(Note: Rebate is allowed if total income does not exceed the limit of Rs.12,70,590)*

  Step 1: *Total Income (-) Rs.12,00,000*
  Step 2: *Compute tax liability on total income*
  Step 3: *Rebate shall be available only if Step 2 > Step 1*
  Rebate shall be the difference between Step 2 & Step 1

- A surcharge of 10% in case taxable income exceeds Rupees Fifty lakhs

- A surcharge of 15% in case taxable income exceeds Rupees One crore

- A higher surcharge of 25% in case taxable income exceeds Rupees Two crores

- ***Higher surcharge of 37% is NOT applicable under the default tax regime.***

- MAXIMUM MARGINAL TAX RATE: 39% (30% + 25% + 4%)

- **"Marginal relief"** is available in case taxable income exceeds Rupees FIFTY LAKHS but does not exceed ***Rs.51,61,190.***

Problems under the default tax regime u.s.115BAC:

1. Compute tax liability under the default tax regime in each case separately of Mr.X (resident, age 30) if his total income for the previous year 2025-26 (Assessment Year 2026-27) is as follows:-

- Rs.4,00,000 Rs.8,00,000 Rs.12,00,000
- Rs.16,00,000 Rs.20,00,000 Rs.24,00,000
- Rs.50,00,000 Rs.74,00,000 Rs.5,74,00,000

Would your answer differ to the above question if Mr.X is 62 years or 82 years of age?

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2. Compute tax liability under the default tax regime in each case separately of Mr.Y (age 70) if his total income for the previous year 2025-26 (Assessment Year 2026-27) is as follows:-

a) Rs.12,00,200 b) Rs.12,05,000 c) Rs.12,15,000

---

3. Compute the tax liability under the default tax regime of Mr.Kashyap (aged 35), having total income of Rs.50,75,000 for the A.Y.2026-27. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit.

Exemptions or deductions not available under DEFAULT TAX REGIME:

The option to pay tax at lower rates (DTR) shall be available only if the total income of an assessee is computed without claiming specified exemptions or deductions.

Exemptions & Deductions not available under the new scheme:

House Rent Allowance
Children Education/Hostel Allowance
Tribal Area Allowance
Leave Travel Concession
Transport Allowance for employees working in transport system
Free lunch provided to employees not exceeding Rs.50 per meal
Daily allowance received by MP / MLA
Entertainment allowance
Professional tax
Interest on housing loan in respect of a self-occupied property
Additional depreciation
Contribution to approved research institutions - Section 35
Investment linked tax incentive - Section 35AD
Income of minor child u.s.10(32)
Set-off of bfd losses, if such loss is attributable to the above deductions
HP loss cannot be set off against any other head of income
Exemption u.s.10AA
Chapter VIA deductions (except 80CCD (2); 80CCH(2) & 80JJAA)

Frequency of choosing between default and optional tax regime:

A. Individuals or HUF not having income by way of PGBP:
Will have the option every year (e.g. a salaried employee). Every year the assesse can compute tax under the default tax regime and optional tax regime and then decide which is more beneficial.

B. Individuals or HUF having income by way of PGBP:
An individual can opt out of default scheme and pay tax as per optional tax regime. He has to exercise this option before due date of filing income-tax return. Once he has exercised this option, he can continue for subsequent assessment years. Such an individual can withdraw the option only once and pay tax under the default tax regime u.s.115BAC. Thereafter, such person shall never be eligible for optional tax regime.

Tax Rates for other assessees (Not for exam)

HUF tax rates for Assessment Year 2026-27:
Same tax rates as applicable to an Individual assesse (default tax regime or optional tax regime)

Firm/LLPs tax rates for Assessment Year 2026-27:
30% on taxable income (12% surcharge if total income exceeds Rs.1 crore)

Co-operative society tax rates for Assessment Year 2026-27:

Up to Rs.10,000	:	10%
Rs.10,001 to Rs.20,000	:	20%
Above Rs.20,000	:	30%

Tax rates for Domestic companies:

Normal provisions:

Turnover of previous year 23-24 < Rs.400 crores: 25%
Turnover of previous year 23-24 > Rs.400 crores: 30%

Surcharge @ 7% if total income > Rs.1 crore < Rs.10 crores
Surcharge @ 12% if total income > Rs.10 crores

Special provisions:	***Section 115BAA***	***Section 115BAB***
Tax rate	22%	15%
Surcharge (compulsory)	10%	10%
Cess	4%	4%

The company can opt to pay tax as per special provisions.

Tax rates for Foreign companies:
35% on taxable income
Surcharge @ 2% if total income > Rs.1 crore < Rs.10 crores
Surcharge @ 5% if total income > Rs.10 crores

CHAPTER – 1C: SPECIAL RATES OF TAX

Incomes taxed at special rates:

LTCG on sale of any capital asset:	12.5% u.s.112 or u.s.112A
STCG on sale of listed shares:	20% u.s.111A
Casual Incomes (e.g. winnings from lottery):	30% u.s.115BB
Winning from online games:	30% u.s.115BBJ
Unexplained money, unexplained investments or unexplained expenditure:	60% u.s.115BBE (25% SC & 4% cess: 78%)

- In addition to basic exemption, long-term capital gain on sale of listed shares through the stock exchange shall be taxed at a special rate of 12.5% after availing an exemption of Rs.1,25,000.

- If basic exemption is not fully exhausted against slab rate income, the unexhausted exemption can be adjusted against incomes taxed at special rates. This benefit is **NOT** available to a non-resident individual.

Important:

Higher surcharge of 25% or 37% does not apply:

a) on any long-term capital gain;
b) on short-term capital gain on sale of listed shares; and
c) on dividend income.

However, higher surcharge is applicable only on <u>other income</u> (e.g. salaries, hp, pgbp, etc)

If total income after excluding (a, b, c) given above:

I. Exceeds Rs.2 crores: 25%
II. Exceeds 5 crores: 37%

---

1. Mr.X, a resident, furnishes the following information for the previous year ending 31st March, 2026: His total income is Rs.24 lacs. Compute his tax liability for A.Y. 2026-27 assuming that he has opted default tax regime.

a) His income consists of income from salary and income from other sources only; or
b) His income consists of winning from a TV contest only.
c) His income consists only of income from long term capital gain on sale of listed shares through the stock exchange.

---

2. The assesse is found to be the owner of gold (market value of which is Rs.50 lakhs) during the financial year ending 31.03.2026 but he recorded to have spent Rs.10 lakhs in acquiring the same. Explain how the Assessing Officer will deal with the issue.

---

3. On 18th June, 2025, unexplained money of Rs.30 lakhs u/s.69A was detected of Mr.Mahesh. Expenses of Rs.10 lakhs were incurred to earn the income. He has also a brought forward business loss of Rs.4,00,000. Amount of income tax payable by Mr.Mahesh on such income shall be:-

(a) Rs.23,40,000
(b) Rs.19,36,000
(c) Rs.12,48,000
(d) Rs.15,60,000 ***option A***

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4. Mr.X, a resident, declares the following incomes for the previous year 2026-27:

Income from other sources of Rs.8,00,000; and
Long-term capital gain on sale of listed shares through the stock exchange Rs.3,25,000.

Compute tax liability under default tax regime for Assessment Year 2026-27.

Hint: No rebate allowed against tax payable on LTCG on sale of listed shares.

Additional Problems:

1. *Mr.X an individual furnishes the following information for the previous year 2025-26. He wants to know the applicable surcharge rate on his income:*

Case A:	*Other income*	*Rs.25,00,000*
	LTCG u.s.112	*Rs.15,00,000*
	LTCG u.s.112A	*Rs.20,00,000*
	STCG u.s.111A	*Rs.20,00,000*
	Dividend	*Rs.10,00,000*
	Total Income	***Rs.90,00,000***
Case B:	*Other income*	*Rs.50,00,000*
	LTCG u.s.112	*Rs.55,00,000*
	LTCG u.s.112A	*Rs.35,00,000*
	STCG u.s.111A	*Rs.40,00,000*
	Dividend	*Rs.10,00,000*
	Total Income	***Rs.1,90,00,000***
Case C:	*Other income*	*Rs.3,00,00,000*
	LTCG u.s.112	*Rs.42,00,000*
	LTCG u.s.112A	*Rs.55,00,000*
	STCG u.s.111A	*Rs.44,00,000*
	Dividend	*Rs.51,00,000*
	Total Income	***Rs.4,92,00,000***
Case D:	*Other income*	*Rs.6,00,00,000*
	LTCG u.s.112	*Rs.42,00,000*
	LTCG u.s.112A	*Rs.25,00,000*
	STCG u.s.111A	*Rs.50,00,000*
	Dividend	*Rs.60,00,000*
	Total Income	***Rs.7,77,00,000***

CHAPTER – 2 AGRICULTURAL INCOME

Agricultural Income:

- Income should be derived from land
- Land should be situated in India
- Land should be used for agricultural purposes

Treatment of agricultural income for tax purposes:

Agricultural Income is exempt from tax under section 10 (1). However, agricultural income is integrated to non-agricultural income for rate purposes.

Step 1: Integrate both agricultural income and non-agricultural income if possible.
Step 2: Compute tax on the integrated income.
Step 3: Compute tax on agricultural income after adding basic exemption to it.
Step 4: Step 2 minus step 3.

note: Integration is possible only if agricultural income exceeds Rs.5,000 and non-agricultural income exceeds basic exemption limit.

note: The purpose of integration is that assessee pays more tax on his other income by way of increase in the slab rate.

note: Integration is not applicable in cases where incomes are taxed at special rates.

Income from:	Rule	Agricultural income	Non-agricultural income
Growing and manufacturing tea in India	8	60%	40%
Growing rubber plants and manufacturing latex in India	7A	65%	35%
Coffee grown and cured in India	7B (1)	75%	25%
Coffee grown, cured, roasted and grounded in India	7B (1A)	60%	40%

Few examples of agricultural income:

Income derived from the sale of seeds
Income from growing of flowers and creepers
Rent received from land used for grazing of cattle required for agricultural activities
Income from growing of bamboo

Few examples of Non-agricultural income:
Income from purchase and sale of standing crops
Income from breeding of livestock
Income from poultry farming
Income from fisheries
Income from dairy farming

Whether income from nursery constitutes agricultural income?
Yes, 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.

Problems:

1. For the previous year ending March 31, 2026, non-agricultural income of X (age: 32 years) is Rs.2,40,000, whereas agricultural income is Rs.18,00,000. Is he liable to pay income tax?

---

2. Mr.X, a resident, has provided the following particulars of his income for previous year 25-26: Income from salary (computed) Rs.10,80,000; Income from house property (computed) Rs.2,50,000; Agricultural income from a land in Jaipur Rs.4,80,000; Expenses incurred for earning agricultural income Rs.1,70,000. Determine his tax liability under default tax regime and under optional tax regime assuming his age is: a) 45 years or b) 70 years.

---

3. Mr.A, aged 67 years, is engaged in the business of roasting and grounding of coffee, derives income Rs.24 lakhs during the financial year 2025-26. He has no other income. Compute tax liability assuming that he has opted default tax regime.

4. Mr.B earned Rs.20,00,000 from sale of coffee grown and cured (processed) by him. He claims the entire income as agricultural income, hence exempt from tax. Is he correct?

5. Mr.Raja, a resident Indian, earns income of Rs.10 lakhs from sale of coffee grown and cured in India during the previous year 25-26. His friend, Mr.Shyam, a resident Indian, earns income of Rs.20 lakhs from sale of coffee grown, cured, roasted and grounded by him in India during the previous year 25-26. What would be the business income chargeable to tax in India?

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

7. Mr.Sumit, a resident Indian, earns income of Rs.15 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in India and Rs.20 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia during the A.Y.2026-27. What would be his business income, assuming he has no other business?

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8. Mr.A, a resident aged 25 years, manufactures tea from the tea plants grown by him in India. These are then sold in the Indian market for Rs.72 lakhs. The cost of growing tea plants was Rs.30 lakhs and the cost of manufacturing tea was Rs.18 lakhs. Compute his tax liability for the Assessment Year 2026-27 under the default tax regime.

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9. Mr.R had estates in Rubber, Tea and Coffee. He derives income from them. He has also a nursery wherein he grows plants and sells. For the previous year ending 31.03.2026, he furnishes the following particulars of his sources of income from estates and sale of plants. You are requested to compute the taxable income for the Assessment Year 2026-27:

• Manufacture of Rubber	Rs.10,00,000
• Manufacture of Coffee grown and cured	Rs.5,00,000
• Manufacture of Tea	Rs.7,00,000
• Sale of plants through nursery	Rs.1,00,000

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10. Miss Vivitha, a resident and ordinary resident, has derived the following incomes from various operations (relating to plantations and estates owned by her) during the year ended 31.03.2026:

- Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling: Rs.3,00,000
- Income from sale of coffee grown and cured in Yercaud, Tamil Nadu: Rs.1,00,000
- Income from sale of coffee grown, cured, roasted and grounded, in Colombo. Sale consideration was received at Chennai: Rs.2,50,000
- Income from sale of tea grown and manufactured in Shimla Rs.4,00,000
- Income from sapling and seedling grown in a nursery at Cochin: Rs.80,000 (basic operations were not carried out by her on land)

You are required to compute the business income and agricultural income of Miss Vivitha for the Assessment Year 2026-27.

<u>Problems for practice</u>

11. Taxable Income of Mr.S for the assessment year 2026-27 is Rs.24,00,000. Compute tax payable (default tax regime) by Mr.S assuming that he has agricultural income of:

(a) Nil; (b) Rs.5,000; and (c) Rs.16,00,000.

12. Mr.X, grows sugarcane to manufacture sugar. Data for 2025-26 is as follows:

Cost of cultivation of sugarcane	Rs.4,00,000
Market value of sugarcane when sugarcane is transferred to the factory	Rs.9,00,000
Other manufacturing cost	Rs.6,00,000
Sales turnover of sugar	Rs.17,00,000

Compute taxable income of Mr.X.

13. Mr.K grows paddy and uses the same for the purpose of manufacturing rice in his own Rice Mill. The cost of cultivation of 40% paddy produce is Rs.7,00,000 which is sold for Rs.15,00,000; and the cost of cultivation of balance 60% paddy is Rs.12,00,000 and the market value of such paddy is Rs.24,00,000. To manufacture the rice, he incurred Rs.2,00,000 in the manufacturing process on the balance (60%) paddy. The rice was sold for Rs.30,00,000. Compute the business income and agricultural income of Mr.K.

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14. Mr.P (aged 25 years) is engaged in growing and manufacturing tea in India. His profit for the previous year 2025-26 amounts to Rs.10,00,000 which includes profit of Rs.2,00,000 from sale of green leaves plucked in his own garden. He has no other income during the year. Compute the total income and total tax payable by Mr.P under the optional tax regime.

15. Discuss with brief reasons, whether rent received for letting out agricultural land for a movie shooting and amounts received from sale of seedlings in a nursery adjacent to the agricultural lands owned by an assessee can be regarded as agricultural income, as per provisions of the Income-tax Act, 1961.

16. State with brief reasons whether the following are agricultural income either in whole or in part:

i. Purchase of standing sugarcane crop by Mr.A for Rs.2 lakhs and after cutting the canes, selling them for Rs.2,50,000.
ii. Income from milk dairy run by Mr.R in his agricultural lands Rs.50,000
iii. Income from sale of plants Rs.1,00,000 earned by Mr.J who maintains a nursery
iv. Income from sale of latex Rs.3,20,000 realised by Mr.T who owns rubber estate, cultivates rubber and manufactures latex.

Answers:

15. Land is not used for agricultural purposes. Therefore, rent received for letting out agricultural land for a movie shooting is NOT agricultural income.

Amount received from sale of saplings or seedlings in a nursery is to be treated as agricultural income, whether or not the basic operations were carried out on land.

16. **a.** No basic operations (agricultural activities) were carried out on the land.
To be treated as business income.
b. Business income
c. Agricultural income
d. Agricultural income (65%) and Business income (35%)

CHAPTER – 4 RESIDENTIAL STATUS

An Individual can be either:

a. Resident in India; (or)
b. Non-resident in India

A resident is an individual who satisfies any one of the basic conditions mentioned below:

BASIC CONDITIONS ~ Section 6(1):

1. One should stay in India for **182** days or more during the relevant previous year;

(OR)

2. One should stay in India for **60** days or more during the relevant previous year **AND** **365** days or more during **4** preceding previous years.

A resident individual can further be classified into:

a. Resident and ordinary resident; (or)
b. Resident but not ordinary resident

ADDITIONAL CONDITIONS ~ Section 6(6):

1. One should stay in India for 730 days or more during 7 preceding previous years.

(AND)

2. One should be a resident at least for 2 years out of 10 preceding previous years.

Important points:

a. If both the additional conditions are satisfied then he is an ordinary resident or else not ordinary resident.

b. Basic condition 2 does not apply for an Indian citizen who leaves India for the purpose of employment or one who works as a crew member of an Indian ship.

c. Basic condition 2 does not apply for an Indian citizen or a person of Indian origin who comes to India for the purpose of a visit. (refer point ***'d'*** below).

d. Basic condition 2 shall be 120 days instead of 60 days in case of an Indian citizen or a person of Indian origin who comes to India for a visit and his total income excluding income from foreign sources during the relevant previous year exceeds Rs.15 lacs. If this condition is satisfied, he shall be treated as resident. However, additional conditions are not applicable in this case, hence he shall be treated as resident but not ordinary resident.

e. **"Income from foreign sources":** means income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India) and which is not deemed to accrue or arise in India.

f. **<u>Deemed Resident u.s.6(1A)</u>:** An <u>Indian citizen</u> having total income, other than income from foreign sources, exceed Rs.15 lakhs during the relevant previous year shall be deemed to be a resident in India in that previous year, if he is <u>not liable to tax</u> in any other country. However, additional conditions are not applicable in this case, hence he shall be treated as resident but not ordinary resident.

<u>Important:</u> Deemed Resident u.s.6(1A) is only for Indian citizens and not applicable for persons of Indian origin.

g. A person is deemed to be of Indian origin if he, or either of his parents or any of his grandparents, were born in undivided India.

h. Place of stay or the purpose of stay is not relevant. Stay need not be continuous.

i. Time and hour of leaving and arrival is relevant. If clear information is not given then the day he enters India and the day he leaves India should be taken into account.

<u>Problems on foreign nationals</u>:

1. X, a foreign national, comes to India for the first time on April 15, 2021. During the financial years 21-22, 22-23, 23-24, 24-25 and 25-26 he was in India for 130 days, 80 days, 13 days, 210 days and 75 days respectively. Determine his residential status for assessment year 2026-27.

2. Mr.X, an Australian Cricketer has been coming to India for 90 days every year since 2009-10. Determine his residential status for assessment year 2026-27. Would your answer differ if he had come to India for: a) 100 days or b) 110 days every year?

3. During the previous year 25-26, X, a foreign national (not being a person of Indian origin), visits India for 64 days. Determine his residential status for the assessment year 2026-27 on the basis of the following information:

- During 21-22, X is present in India for 365 days.
- During 19-20 and 20-21, X was in India for 40 and 365 days respectively.
- Mrs.X is non-resident in India for the assessment year 2026-27.

4. X is a foreign citizen. During the financial year 25-26, he comes to India for 85 days. Determine his residential status for assessment year 2026-27 on the assumption that during financial years 2011-12 to 24-25 he was present in India as follows:

11-12:	85 days	16-17:	180 days	21-22:	305 days
12-13:	310 days	17-18:	360 days	22-23:	65 days
13-14:	6 days	18-19:	16 days	23-24:	10 days
14-15:	5 days	19-20:	360 days	24-25:	126 days
15-16:	65 days	20-21:	181 days		

Problems based on Indian Citizen or Person of Indian Origin:

5. Mr.R an Indian Citizen left India for the first time on 28.09.2025 for employment in Germany. Determine the residential status of Mr.R for A.Y. 2026-27. b) Will your answer be different if he had gone on a leisure trip?

INDIAN CITIZEN AS A CREW MEMBER OF A FOREIGN BOUND SHIP:

In case of foreign bound ships where the destination of the voyage is outside India, there is uncertainty regarding the manner and the basis of determining the period of stay in India for an Indian citizen, being a crew member.

According to Rule 126, in case of an individual, being a citizen of India and a member of the crew of a ship, the period or periods of stay in India shall, in respect of an eligible voyage, not include the following period:

Period commencing from		Period ending on
the date entered into the Continuous Discharge Certificate in respect of joining the ship by the said individual for the eligible voyage	***AND***	the date entered into the Continuous Discharge Certificate in respect of signing off by that individual from the ship in respect of such voyage.

MEANING OF CERTAIN TERMS:

a. CONTINUOUS DISCHARGE CERTIFICATE:

This term has the meaning assigned to it in the Merchant Shipping (Continuous Discharge Certificate-cum Seafarer's Identity Document) Rules, 2001 made under the Merchant Shipping Act, 1958.

b. ELIGIBLE VOYAGE:

A voyage undertaken by a ship engaged in the carriage of passengers or freight in international traffic where:

- **i.** For the voyage having originated from any port in India, has as its destination any port outside India; and
- **ii.** For the voyage having originated from any port outside India, has as its destination any port in India.

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6. Mr.X an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in carriage of passengers in international traffic departing from Chennai port on 6th June, 2025. From the following details for the previous year 2025-26, determine the residential status of Mr.X for A.Y.2026-27, assuming that his stay in India in the last 4 previous years (preceding P.Y.2025-26) is 400 days and last seven previous years (preceding P.Y.2025-26) is 750 days.

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

Answer:

No. of days during the previous year 2025-26	365
Less: No. of days to be excluded from 6.6.2025 to 9.12.2025	187
Therefore, no. of days of stay in India	178

Basic condition one: Stay for at least 182 days during the previous year: Not satisfied
Basic condition two: Does not apply for an Indian citizen who works as a crew member of a Ship.

Hence, assesse Mr.X is a non-resident for A.Y.2026-27.

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7. During the last four years preceding the financial year 2025-26, Mr.D, a citizen of India, was present in India for 430 days. During the last seven previous years preceding the previous year 2025-26, he was present in India for 830 days.

Mr.D is a member of the crew of a Dubai bound Indian ship, carrying passengers in the international waters, which left Kochi port in Kerala on 12th August, 2025.

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

Particulars	**Date**
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr.D	12th August, 2025
Date entered into the Continuous Discharge Certificate in respect of singing off the ship by Mr.D	21st January, 2026

In May, 2025 he had gone out of India to Singapore and Malaysia on a private tour for a continuous period of 29 days. Determine residential status of Mr.D for the previous year 2025-26.

Answer:

No. of days during the previous year 2025-26	365
Less: No. of days to be excluded from 12.8.2025 to 21.01.2026	163
	202
Less: Private tour to Singapore and Malaysia (did not stay in India)	29
Therefore, no. of days of stay in India	173

Basic condition one: Stay for at least 182 days during the previous year: Not satisfied
Basic condition two: Does not apply for an Indian citizen who works as a crew member of a Ship.
Hence assesse Mr.X is a non-resident for A.Y.2026-27.

8. Mr.G was born in Lahore in 1946. He has been staying in England since 1978. He came to visit India on 4.10.2025 and returns on 30.3.2026. Determine his residential status for A.Y.26-27 assuming that his taxable income other than income from foreign sources does not exceed Rs.15 lakhs during the previous year 2025-26.

9. Mr.G was born in England in 1966. His father was born in America in 1936. Mr.G's grandfather was born in Lahore in 1916. Will Mr.G be a resident in India if he visits India for 180 days during the previous year 25-26 assuming that his taxable income other than income from foreign sources does not exceed Rs.15 lakhs.

10. Mr.R, a citizen of India, has been carrying on a profession in Dubai (UAE), where he is not liable to pay any income tax. His taxable Indian income for the previous year 2025-26 is Rs.12,00,000 and he also earned Rs.5,00,000 from exercising the profession in Dubai. The profession is set up in India. Besides, the professional income, he has earned Rs.10,00,000 in Dubai. Determine his residential status, if during the previous year 2025-26 he has:

- **a.** visited India for 110 days
- **b.** not visited India
- **c.** visited India for 190 days and assume additional conditions are satisfied
- **d.** visited India for 122 days and in the four preceding previous years immediately preceding the previous year 2025-26, he was in India for 300 days
- **e.** visited India for 122 days and in the four preceding previous years immediately preceding the previous year 2025-26, he was in India for 400 days

11. Mr.R, a citizen of India, is carrying on profession in Singapore which is set up in India. He visited India during the previous year 2025-26 for 145 days. Determine his residential status if he has earned the following incomes during the p. y. 2025-26:

- a. Taxable Indian income – Rs.8,00,000
- b. Income from profession in Singapore – Rs.10,00,000
- c. Other income earned in Singapore – Rs.9,00,000
- d. R is liable to pay tax in Singapore.
- e. Assume Mr.R had stayed in India for 412 days during 4 preceding previous years

12. Brett Lee, an Australian Cricketer has been coming to India for 100 days in every financial year. This has been in practice for the past 10 financial years. Determine his residential status for the assessment year 2026-27.

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

What would be your answer if Srinath had visited India for 120 days instead of 100 days every year, including previous year 2025-26?

Assume Srinath is liable to pay income tax in Australia.

13. Mr.S, an individual and Indian citizen living abroad (Dubai), a tax haven, since year 2008 and never came to India for a single day since then, earned the following incomes during p. y. 2025-26:

Particulars	Amount (Rs.)
Income accrued and arised in Dubai not taxable in Dubai (being tax haven)	20,00,000
Income accrued and arised in India	5,00,000
Income deemed to accrue and arise in India	8,00,000
Income arising in Dubai from a profession set up in India	10,00,000

a) Determine the residential status of Mr.S and taxable income for the previous year 2025-26 (assuming no other income arised during the previous year).

b) What would be your answer if income arising in Dubai from a profession set up in India is Rs.2 lakhs instead of Rs.10 lakhs?

c) What would be your answer, if Mr.S born in Dubai and his parents were born in undivided India?

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14. Mr.J (an Indian citizen) left India for employment to country X on 5th June, 2017. He regularly visited India and stayed for 60 days in every previous year since then. However, in financial year 2025-26, he did not come to India at all. He owns a commercial building in Delhi which is let out. He has also set up a retail store in India which is controlled by his brother from India. He provides the following information to you regarding his income for the financial year 2025-26:

Income from commercial building in Delhi – Rs.12,00,000 (computed)
Income from retail store – Rs.4,50,000 (computed)

Country X does not tax any individual on their income as there is no personal income-tax regime there. Determine the residential status of Mr.J for the Assessment Year 2026-27.

Will your answer change if he is a citizen of Country X?

<u>Residential Status of a Hindu Undivided Family:</u>

- If control and management of affairs is ***<u>wholly or partly</u>*** situated in India: Resident
- If control and management of affairs is ***<u>wholly</u>*** situated outside India: Non-resident

Note: Ordinary resident or not-ordinary resident depends upon the stay of “Karta”
(i.e. additional conditions mentioned above).

Residential status of HUF:

15. X, an individual, is a resident but not ordinary resident in India for the A.Y.2026-27 (previous year 2025-26). During the previous year 2025-26, the affairs of X (HUF), a Hindu undivided family whose karta is X since 1980, are partly managed from Chennai and partly from Singapore. Determine the residential status of X (HUF) for the assessment year 2026-27.

16. The business of a HUF is transacted from Australia and all the policy decisions are taken there. Mr.E, the karta of the HUF, who was born in Kolkata, visits India during the P.Y.2025-26 after 15 years. He comes to India on 01.04.2025 and leaves for Australia on 1.12.2025. Determine the residential status of Mr.E and the HUF for A.Y.2026-27.

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17. A.P. & Sons HUF is controlled by Mr.A, the Karta of the HUF. Mr.A (an Indian citizen) stays in country T and regularly visits India. During the F.Y. 2025-26, he visited India for 190 days and managed the affairs of the HUF.

During the immediately preceding 5 years, he visited India for 70 days each year and prior to that he was in India for 185 days in every year. Residential status of A.P. & Sons HUF for the A.Y. 2026-27 is:

(a) ROR because Karta of the HUF is a resident and ordinarily resident.

(b) Non-resident because Karta of the HUF is a non-resident.

(c) Non-resident because control and management of its affairs is partly managed from outside India.

(d) Resident because control and management of its affairs is partly managed from India and not ordinarily resident because the status of the Karta is resident but not ordinary resident.

Residential status of PARTNERSHIP FIRM, LLP:

- If control and management of affairs is wholly or partly situated in India: Resident
- If control and management of affairs is wholly situated outside India: Non-resident

Residential status of a COMPANY:

Domestic company: Always resident irrespective of place of control and management

Foreign company: A foreign company would be resident in India in any previous year, if its place of effective management (POEM), in that year, is in India.

Note: A partnership firm, or a company can never be "ordinary" or "not ordinary resident".

Additional Problems:

18. If Anirudh, a citizen of India, has stayed in India in the P.Y. 2025-26 for 181 days, and he is non-resident in 9 out of 10 years immediately preceding the current previous year and he has stayed in India for 365 days in all in the 4 years immediately preceding the current previous year and 420 days in all in the 7 years immediately preceding the current previous year. His taxable income other than income from foreign sources does not exceed Rs.15 lakhs during the previous year 2025-26. His residential status for the A.Y. 2026-27 would be:-

(a) Resident and ordinarily resident *(b) Resident but not ordinarily resident*
(c) Non-resident *(d) Deemed resident but not ordinarily resident*

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19. Mr.Square, an Indian citizen, currently resides in Dubai. He came to India on a visit and his total stay in India during the F.Y. 2025-26 was 135 days. He is not liable to pay any tax in Dubai. Following is his details of stay in India in the preceding previous years:

Financial Year	Days of stay in India
2024-25	100
2023-24	125
2022-23	106
2021-22	83
2020-21	78
2019-20	37
2018-19	40

What shall be his residential status for the P.Y. 2025-26 if his income (other than income from foreign sources) is Rs.10 lakhs?

(a) Resident but Not Ordinary Resident (RNOR) *(b) Resident and Ordinary Resident*
(c) Non-resident *(d) Deemed Resident but not ordinarily resident*

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20. Who among the following will qualify as non-resident for the previous year 2025-26?

Mr.Joey, an Italian designer came on visit to India to explore Indian handloom on 03.09.2025 and left on 15.12.2025. For past four years, he visited India for fashion shows and stayed in India for 100 days each year.

Mr.Sanjay born and settled in Canada, visits India each year for three months to meet his parents and grandparents, born in India in 1946, living in Mumbai. His Indian income is Rs.15,20,000.

Mr.Chang, a Korean scientist left India to his home country for fixed employment there. He stayed in India for study and research in medicines from 01.01.2021 till 01.07.2025.

Choose the correct answer:
(a) Mr.Joey and Mr.Chang *(b) Mr.Sanjay*
(c) Mr.Sanjay and Mr.Chang *(d) Mr.Chang*

CHAPTER – 5 INCIDENCE OF TAXATION

	ROR	RNOR	NR
• Income earned and received in India	Taxable	Taxable	Taxable
• Income earned in India but received outside India	Taxable	Taxable	Taxable
• Income earned outside India but received in India	Taxable	Taxable	Taxable
• Income earned and received outside India	Taxable	Not taxable	Not taxable
• Income earned outside India from a business controlled from India or from a profession set-up in India	Taxable	Taxable	Not taxable
• Past untaxed profits brought into India	Not taxable	Not taxable	Not Taxable

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Interest or Royalty or Fees for technical services received by a NON-RESIDENT: Is it taxable?

If paid by Government of India to a non-resident:	Always deemed to accrue or arise in India, hence taxable
If paid by any other person to a non-resident:	Such interest or royalty or fees shall be deemed to accrue or arise in India only if the loan borrowed or patents or services are utilized for the purpose of business in India

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1. X furnishes the following particulars of his income earned during the previous year:

Interest on German Development bonds (40% is received in India) Rs.60,000
Income from agriculture in Nepal, received there but later Rs.50,000 is remitted to India Rs.1,81,000
Income from property in Canada received outside India Rs.86,000
Income from business in Australia controlled from Delhi (Rs.15,000 is received in India) Rs.65,000
Dividend paid by a foreign company but received in India on 3.8.2025 Rs.46,500
Past untaxed profit of 24-25 brought to India in 25-26 Rs.10,00,000
Profits from a business in Chennai and managed from outside India Rs.27,000
Profits on sale of a building in India but received in Sri Lanka Rs.14,00,000
Pension from a former employer in India, received in Bangladesh Rs.86,000 (computed)
Gift in foreign currency from a friend received in India Rs.80,000

Compute gross total income of X, if he is:
a) Ordinary resident;
b) Not ordinary resident;
c) Non-resident

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2. From the following particulars of income furnished by Mr.A pertaining to the year ended 31.03.2026, compute total income for the assessment year 2026-27, if he is:

i. Resident and ordinary resident;
ii. Resident but not ordinary resident;
iii. Non-resident

a. Short term capital gain on sale of shares in Indian Company received in Germany Rs.15,000
b. Dividend from a Japanese Company received in Japan Rs.10,000
c. Income from property in London deposited in a bank in London, later on remitted to India through approved banking channels Rs.75,000
d. Dividend from TCS Ltd., an Indian Company Rs.6,000
e. Agricultural income from lands in Gujarat Rs.25,000

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3. Mr.Ramesh & Mr.Suresh are brothers and they earned the following incomes during the financial year 2025-26. Mr.Ramesh settled in Canada in the year 2001 and Mr.Suresh settled in Delhi. Compute the total income for the A.Y. 2026-27 assuming that both have exercised the option of shifting out of the default tax regime u.s.115BAC:–

Particulars	**Mr.Ramesh**	**Mr.Suresh**
Interest on Canada Development Bonds (only 50% of interest received in India)	35,000	40,000
Profit from a business in Nagpur, but managed directly from London	1,00,000	1,40,000
Short term capital gain on sale of shares of an Indian company received in India	60,000	90,000
Fees for technical services rendered in India, but received in Canada	1,00,000	nil
Income from a business in Chennai	80,000	70,000
Dividend from British company received in London	28,000	20,000
Interest on savings bank deposit in UCO Bank, Delhi	7,000	12,000
Agricultural income from a land situated in A.P.	55,000	45,000
Rent received from house property at Bhopal	1,00,000	60,000
Life insurance premium paid	nil	30,000

4. Mr.David, a Government employee serving in the Ministry of External Affairs, left India for the first time on 31.03.2025 due to his transfer to High Commission of Canada. He did not visit India any time during the P.Y. 2025-26. He has received the following incomes for the year 2025-26:

Salary (computed)	Rs.40,00,000
Foreign Allowance (not included above)	Rs.4,00,000
Interest on fixed deposit from bank in India (gross)	Rs.1,00,000
Income from agriculture in Nepal	Rs.2,00,000
Income from house property in Nepal (computed)	Rs.2,50,000

Compute his gross total income for A.Y.2026-27. Ignore the provisions of deemed resident u.s.6(1A).

Note: Salary paid by GOI to an Indian citizen who is a non-resident for services rendered outside India is deemed to accrue or arise in India, hence taxable in India.

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5. State whether the following transactions attract income-tax in India in the hands of recipients:

a. Salary paid by Central Government to Mr.John, a citizen of India Rs.65,00,000 (computed) for the services rendered outside India.

b. Interest on moneys borrowed from outside India Rs.5,00,000 paid to a non-resident for the purpose of business within India say, at Chennai.

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

d. Legal charges of Rs.5,00,000 paid to a lawyer of United Kingdom who visited India to represent a case at the Delhi High Court.

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

a. Salary paid to Mr.David, a citizen of India Rs.45,00,000 (computed) by the Central Government for the services rendered in Canada

b. Legal charges of Rs.7,50,000 paid to Mr.Johnson, a lawyer of London, who visited India to represent a case at the Supreme Court

c. Royalty paid to Rajeev, a non-resident by Mr.Mukesh, a resident for a business carried on in Sri Lanka.

d. Interest paid Rs.1,00,000, on money borrowed from Mr.France (a non-resident), by Mr.B, a non-resident, for the business at Bangalore.

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7. Mr.P (aged 35 years) is an Australian citizen who is settled in Australia and visits India for 125 days in every financial year since past 11 years. During the FY 2025-26, he visited India for a total period of 200 days. The purpose of his visit was to meet his family members who are settled in India and also for managing his business in Sri Lanka through his office in Chennai, India.

During the P.Y. 2025-26, he has the following incomes:

(a) Income from business in Australia controlled from Australia – Rs.20,00,000

(b) Income from business in Sri Lanka controlled from Chennai – Rs.16,00,000

(c) Short-term capital gains on sale of shares of an Indian company received in Australia – Rs.50,000. The shares were sold online from Australia.

(d) Income from agricultural land in Australia, received there and then brought to India – Rs.2,00,000

Find out the residential status of Mr.P and compute his total income for Assessment Year 2026-27.

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8. Mr.Tilak aged 35 years, furnishes the following information regarding his income for the assessment year 2025-26. Compute the total income if he is: **(i) ROR** **(ii) RNOR**

a. Remuneration of Rs.50,000 for service rendered in Malaysia, credited to his bank account in Malaysia and immediately remitted to his bank account in India.

b. Profits from a business in England controlled from Bombay Rs.3,00,000 (out of which Rs.25,000 is received in India).

c. Amount brought to India out of past untaxed profits earned in Singapore Rs.1,00,000

d. Capital gain on sale of land in India but received in Malaysia Rs.2,00,000

e. Income from agriculture at Nepal of Rs.18,000, received there and then brought to India

f. Interest on saving bank deposit in State Bank of India of Rs.12,000.

g. He paid Rs.50,000 towards principal payment of loan taken for construction of his self-occupied house in India.

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9. Mrs.Sarika, an Indian citizen, is in employment with an overseas company located in UAE. She is not liable to tax in UAE. During the P.Y.2025-26, she comes to India for 121 days. She was in India for 50 days, 100 days, 76 days and 145 days in the financial years 2021-22, 2022-23, 2023-24 and 2024-25 respectively. Her annual income for the previous year 2025-26 is as follows:

• Salary accrued or arisen in UAE	Rs.15,00,000
• Income accrued and arisen in India	Rs.2,00,000
• Income deemed to be accrued and arisen in India	Rs.7,00,000
• Income arising and received in UAE, from a business set up in India	Rs.5,00,000
• Life Insurance premium paid by cheque in India	Rs.1,00,000

Mrs.Sarika has opted out of the default tax regime u.s.115BAC. From the information given above:

a) You are required to determine the residential status and total income of Mrs.Sarika for the A.Y.2026-27.

b) What would be your answer if income arising and received in UAE, from a business set up in India is Rs.10,00,000 instead of Rs.5,00,000?

c) In continuation to point (b), what would be your answer if Mrs.Sarika comes to India in P.Y. 2024-25 for 45 days instead of 145 days.

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10. Ms.Rita, an Indian citizen and an MBA from Harvard University, was employed in AFL LLP of country A since June, 2018. She came to India on 15.11.2025 and joined as CEO of Autofit Ltd. Ms.Rita was in India before she left for overseas education in May, 2014 and was subsequently employed outside India and never visited India thereafter. There is no income tax in country A.

She has earned interest income of Rs.2,40,000 (net) in country A and salary income from AFL LLP of Rs.15,00,000 up to the date of her return to India in the financial year 2025-26.

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

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

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11. Swetha, a citizen of India, is a chartered accountant. She is a working partner in Swetha and Varun Associates, which was set up in Chennai, India. She visits foreign country A quite often and provides accounting services to corporates there in her individual capacity. In country A, she is not subject to any income tax. The details of her income for the financial year 2025-26 is as follows:

a) Remuneration from her CA firm in India (amount received in India) – Rs.16 lakhs (deductible while computing the income of the firm).

b) Income received from providing accounting services in country A (received in a bank account in country A) – Rs.5 lakhs.

c) Dividend (from companies incorporated in country A and received in a bank account in country A) – Rs.8 lakhs.

d) Income from a business in country A which was set up in country A but is controlled from Chennai, India (received in country A) – Rs.7 lakhs.

Ascertain her residential status (briefly explaining relevant provisions) along with the taxability of income for the assessment year 2026-27 in the following independent situations:

(i) She did not visit India during the F.Y. 2025-26.

(ii) She visits and stays in India for 200 days every year since 12 preceding previous years including F.Y. 2025-26.

(iii) She did not visit India during the previous year 2025-26 and her income from profession in India is 4 lakhs for the financial year 2025-26, instead of Rs.16 lakhs.

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12. Mr.Sanjay has following incomes during the previous year 2025-26:

- Interest on England Development Bonds (1/3 received in India) Rs.60,000.
- Interest received from a non-resident Rs.5,000 against a loan given to him to run a business in India.
- Royalty received from Akhil, a resident, for technical services given to run a business outside India Rs.20,000.
- Income from business in Sri Lanka Rs.25,000 out of which Rs.15,000 were received in India. The business is controlled from India.

Compute taxable income of Mr.Sanjay for the assessment year 2026-27 if he is a

(a) Not ordinarily resident
(b) Non-resident

Problem for practice:

13. Compute total income in the hands of an individual aged 35 years, being a resident and ordinary resident, resident but not ordinary resident, and non-resident for A.Y. 2026-27 assuming that he has exercised the option of shifting out of the default tax regime u.s.115BAC:–

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

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		Ordinary Resident	Not ordinary resident	Non-resident
1.	Income earned outside India; but 40% is received in India	60,000	24,000	24,000
	Income earned outside India and received outside India	1,81,000	nil	nil
	Income earned outside India and received outside India	86,000	nil	nil
	Income earned outside India from a business controlled from India; Rs.15,000 is received in India	65,000	65,000	15,000
	Income earned outside India but received in India	46,500	46,500	46,500
	Past untaxed foreign income	not taxable	not taxable	not taxable
	Income earned in India	27,000	27,000	27,000
	Income earned in India	14,00,000	14,00,000	14,00,000
	Income earned in India	86,000	86,000	86,000
	Income received in India	80,000	80,000	80,000
	Gross total income	**20,31,500**	**17,28,500**	**16,78,500**

		Ordinary Resident	Not ordinary resident	Non-resident
2.	Income earned in India	15,000	15,000	15,000
	Income earned and received outside India	10,000	nil	nil
	Income earned and received outside India	75,000	nil	nil
	Dividend from domestic company	6,000	6,000	6,000
	Agricultural income in India	exempt	exempt	exempt
	Total Income	**1,06,000**	**21,000**	**21,000**

		Ramesh (non-resident)	Suresh (ordinary resident)
3.	Income earned outside India but partly received in India	17,500	40,000
	Income from a business in India	1,00,000	1,40,000
	Income earned in India	60,000	90,000
	Fees for services rendered in India	1,00,000	nil
	Income earned in India	80,000	70,000
	Income earned and received outside India	nil	20,000
	Interest on savings a/c in India	7,000	12,000
	Agricultural income in India	exempt	exempt
	Income from house property in India	70,000	42,000
	Gross total income	4,34,500	4,14,000
	Less: Section 80C (life insc prm paid)	nil	30,000
	Less: Section 80TTA (int on savings a/c)	7,000	10,000
	Total Income	**4,27,500**	**3,74,000**

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4. Mr.David is a non-resident for A.Y. 2026-27 as he did not visit India during the previous year 2025-26.

	Non-resident
Salary paid by Govt of India is deemed to accrue or arise in India	40,00,000
Foreign allowance	exempt u.s.10(7) – refer "Salaries"
Income earned in India	1,00,000
Income earned outside India	Not taxable (assumed to be received outside India)
Income earned outside India	Not taxable (assumed to be received outside India)
Total Income	**41,00,000**

5.

a. Salary paid to Mr.John by Central Government for services rendered outside India is deemed to accrue or arise in India and hence taxable in the hands of Mr.John

b. Interest paid on money borrowed for the purpose of business in India is deemed to accrue or arise in India and hence taxable in the hands of non-resident.

c. Royalty paid to a non-resident for the purpose of a business outside India is NOT deemed to accrue or arise in India, not taxable

d. Legal charges received to represent a case at the Delhi High Court is deemed to accrue or arise in India and hence taxable.

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6. Salary paid by Govt of India to Mr.David, an Indian Citizen for services rendered outside India is deemed to accrue or arise in India and therefore taxable in the hands of David.

Legal charges received to represent a case at the Supreme Court is deemed to accrue or arise in India and hence taxable.

Royalty paid to a non-resident for the purpose of a business outside India is NOT deemed to accrue or arise in India, not taxable

Interest paid to a non-resident (Mr.France) on money borrowed for the purpose of business in India is deemed to accrue or arise in India and hence taxable in the hands of recipient.

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7. Mr.S is a non-resident for A.Y. 2026-27 as he did not visit India during the previous year 2025-26.

	Non-resident
Salary paid by Govt of India is deemed to accrue or arise in India	50,00,000
Foreign allowance	exempt u.s.10(7) – refer "Salaries"
Income earned & received outside India	Not taxable
Income earned in India	45,000
Total Income	**50,45,000**

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8. Done in class

9. Done in class

10. During the previous year 25-26, Mr.P had stayed in India for 200 days. Hence he is a resident. He had also stayed in India for 875 days during 7 years immediately preceding the relevant previous year 25-26. He is also a resident for 2 years out of 10 years preceding the relevant previous year 25-26. Mr.P is therefore, a resident and ordinary resident for A.Y. 26-27.

<u>Total Income of Mr.P for AY 26-27:</u>

Income from business in Australia controlled from Australia	Rs.20,00,000
Income from business in Srilanka controlled from Chennai	Rs.16,00,000
Short term capital gain on sale of shares of Indian Company	Rs.50,000
Income from agricultural land in Australia	Rs.2,00,000
Total Income	**Rs.38,50,000**

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11. Refer material for answer

12.

	ROR	**RNOR**
Income earned in Malaysia and received in Malaysia and brought to India	50,000	not taxable
Profit from business in England controlled from Bombay.	3,00,000	3,00,000
Past untaxed profits brought to India	not taxable	not taxable
Capital gain on sale of land in India but received in Malaysia	2,00,000	2,00,000
Income earned in Nepal and received in Nepal	18,000	not taxable
Interest on savings bank deposit	12,000	12,000
Gross Total Income	5,80,000	5,12,000
Less: Section 80C (house loan principal repayment)	50,000	50,000
Less: Section 80TTA (interest on savings a/c)	10,000	10,000
Total Income	**5,20,000**	**4,52,000**

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13. A resident is a person who has stayed in India for 182 days or more during the relevant previous year. The above condition is not satisfied.

Assessee is an Indian citizen:

Taxable Indian Income during the previous year 25-26:

Income accrued and arisen in India	Rs.2,00,000
Income deemed to be accrued and arisen in India	Rs.7,00,000
Income arising and received in UAE, from a business set up in India	Rs.5,00,000
	Rs.14,00,000
Less: Section 80C	Rs.1,00,000
	Rs.13,00,000

Since taxable Indian income does not exceed Rs.15 lacs during the previous year; she is a non-resident for Assessment Year 2026-27.

Taxable income:

Income accrued and arisen in India	Rs.2,00,000
Income deemed to be accrued and arisen in India	Rs.7,00,000
Gross Total Income	Rs.9,00,000
Less: Section 80C	Rs.1,00,000
Total Income (OTR)	Rs.8,00,000

Case B)

Taxable Indian Income during the previous year 25-26:

Income accrued and arisen in India	Rs.2,00,000
Income deemed to be accrued and arisen in India	Rs.7,00,000
Income arising and received in UAE, from a business set up in India	Rs.10,00,000
	Rs.19,00,000
Less: Section 80C	Rs.1,00,000
	Rs.18,00,000

Since taxable Indian income exceeds Rs.15 lacs during the previous year; a person shall be a resident; if he had stayed in India for 120 days or more during the relevant previous year and 365 days or more during 4 preceding previous years.

She stayed in India for 121 days during the previous year and 371 days during 4 preceding previous years; hence she is a resident. However, additional conditions are not required in this case; she is a resident but not ordinary resident for AY 26-27.

Taxable Income:

Income accrued and arisen in India	Rs.2,00,000
Income deemed to be accrued and arisen in India	Rs.7,00,000
Income arising and received in UAE, from a business set up in India	Rs.10,00,000
	Rs.19,00,000
Less: Section 80C	Rs.1,00,000
Total Income	Rs.18,00,000

Case C:

Stayed in India for 121 days during the previous year and 271 days during 4 preceding previous years. The above condition is not met.

Deemed Resident u.s.6(1A): Assessee is an Indian citizen and taxable Indian income exceeds Rs.15 lacs during the previous year. She is not liable to pay tax in UAE. Hence she is a deemed resident. However, additional conditions are not required in this case, she is a deemed resident but not ordinary resident for AY 26-27.

Taxable income:

Income accrued and arisen in India	Rs.2,00,000
Income deemed to be accrued and arisen in India	Rs.7,00,000
Income arising and received in UAE, from a business set up in India	Rs.10,00,000
	Rs.19,00,000
Less: Section 80C	Rs.1,00,000
Total Income	Rs.18,00,000

14. Assessee is an Indian citizen. She came to India on 15.11.2025. She had stayed in India for 137 days (16+31+31+28+31).

Taxable Indian Income for the previous year 25-26:

Salary income (computed)	Rs.13,50,000
Dividend from shares	Rs.3,00,000
	Rs.16,50,000

Though she stayed in India for 120 days or more during the previous year 25-26, she had not stayed in India for 365 days or more during 4 years immediately preceding the relevant previous year 25-26.

Deemed Resident u.s.6(1A): Assessee is an Indian citizen and taxable Indian income exceeds Rs.15 lacs during the previous year. She is not liable to pay tax in Country A. Hence she is a deemed resident. However, additional conditions are not required in this case, she is a deemed resident but not ordinary resident for AY 26-27.

Taxable Income for AY 26-27:

Interest income in country A	not taxable
Salary income from AFL LLP	not taxable
Salary income earned in India	Rs.13,50,000
Dividend from shares in India	Rs.3,00,000
	Rs.16,50,000

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15. Her taxable income other than income from foreign sources during the previous year 25-26:

Remuneration from CA firm	16,00,000
Income from business in country A controlled from Chennai	7,00,000
	23,00,000

i) She did not visit India during the financial year 2025-26:

Since she is not liable to pay tax in Country A, she is a deemed resident but not ordinary resident for AY 26-27. Her taxable income is:

Remuneration from CA firm	16,00,000
Income from business in country A controlled from Chennai	7,00,000
	23,00,000

ii) She visits India for 200 days during the previous year 25-26:

Resident and Ordinary Resident. (Additional conditions are also satisfied)

Taxable Income:

Remuneration from CA firm	16,00,000
Income received from providing accounting services	5,00,000
Income from business in country A controlled from Chennai	7,00,000
Dividend earned and received outside India	8,00,000
	36,00,000

iii) Her taxable income other than income from foreign sources during the previous year 25-26:

Remuneration from CA firm	4,00,000
Income from business in country A controlled from Chennai	7,00,000
	11,00,000

She did not visit India during the financial year 2025-26:

Non-resident for AY 26-27.

Remuneration from CA firm	4,00,000
Taxable Income	**4,00,000**

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16. ***(i)*** Dividend received from a foreign company outside India would not be deemed to accrue or arise in India even if shares of such company derive their value substantially from assets in India. Hence not taxable in the hands of Mr.Mahesh. (Out of syllabus) (as per CA Inst)

(ii) Interest on deposit made with an Indian company is taxable in India. Amount (16 lacs x 12% x 7/12) Rs.1,12,000. Hence taxable in the hands of Mr.Shivansh.

(iii) Royalty is in respect of a new product developed in India by using the patent rights. Such royalty is deemed to accrue or arise in India, hence taxable. Taxable amount Rs.8,25,000.

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17. Done in class

18.

	RNOR	**NR**
Income earned outside India but 1/3rd is received in India	20,000	20,000
Interest on loan to run a business in India is deemed to accrue or arise in India	5,000	5,000
Royalty for technical services to run a business outside India	nil	nil
Income earned outside India from a business controlled from India	25,000	15,000
Total Income	**50,000**	**40,000**

19.

	ROR	**RNOR**	**NR**
Interest on UK development bonds	10,000	5,000	5,000
Income from a business in Chennai	20,000	20,000	20,000
STCG on sale of shares of Indian companies	20,000	20,000	20,000
Dividend from British company	5,000	nil	nil
LTCG at Germany (50%) received in India	40,000	20,000	20,000
Income from business outside India but controlled from Delhi	70,000	70,000	40,000
Profit from business in Delhi	15,000	15,000	15,000
Income earned and received outside India	50,000	nil	nil
Interest on debentures	12,000	12,000	12,000
Fees earned in India	8,000	8,000	8,000
Profit from business in Mumbai	26,000	26,000	26,000
Income earned and received outside India	16,000	nil	nil
Past untaxed foreign income	nil	nil	nil
Income earned and received outside India	18,000	nil	nil
Income from profn in Kenya set up in India	5,000	5,000	nil
Gift on the occasion of wedding	nil	nil	nil
Income earned in India	12,000	12,000	12,000
Income earned and received outside India	20,000	nil	nil
Dividend from Indian company	5,000	5,000	5,000
Agricultural income	exempt	exempt	exempt
Gross Total Income	3,52,000	2,18,000	1,83,000
Less: Section 80TTA (int on savings)	10,000	10,000	10,000
Total Income	**3,42,000**	**2,08,000**	**1,73,000**

CHAPTER – 6 INCOME UNDER THE HEAD "SALARIES"

1. Salary:
- Salary falls due on the last day of each month; or
- Salary falls due on the first day of next month

2. Dearness Allowance
- forming part of salary
- not forming part of salary

3. Commission:
- Fixed % commission on sales achieved by the employee
- Commission other than sales commission

4. Advance Salary:
- Taxable on "receipt" basis

5. Arrears of Salary:
- Taxable on "due" basis. If not taxed on 'due' basis then it is taxed on 'receipt' basis

6. Allowances:
- Can be only in the form of monetary payment
- Fixed in nature

<u>Different forms of allowances:</u>
- Exemption based on actual expenditure (e.g. HRA)
- Exemption not based on actual expenditure (e.g. education allowance)
- Fully taxable allowances (e.g. lunch allowance)

i) <u>Exemption based on actual expenditure:</u>

a) <u>House Rent Allowance:</u>
- 40% of salary (50% in case of metros)
- Actual HRA received
- Rent paid (-) 10% of salary

whichever is less is exempt from tax

note: Salary = Basic + Dearness allowance (forming) + Sales commission

note: If the employee lives in his own house or in a house without paying any rent then H.R.A. received is fully taxable.

note: Exemption is not available under the default tax regime.

b) <u>Travelling / Conveyance / Uniform / Helper Allowance:</u>

- Official Purpose: Exempt

ii) <u>Exemption of allowances not based on actual expenditure:</u>

a) <u>Entertainment Allowance for Government employees:</u>

- Maximum limit: Rs.5,000
- Actual amount received
- 20% of Basic

whichever is less is allowed as deduction u.s.16(ii)

note: Deduction is not based on actual expenditure.
note: No deduction for non-Government employees

b) <u>Children's education allowance:</u>
Amount exempt is Rs.100 per month per child subject to a maximum of two children.

c) <u>Children's hostel allowance:</u>
Amount exempt is Rs.300 per month per child subject to a maximum of two children.

d) <u>Tribal area allowance:</u>
Amount exempt is Rs.200 per month.

e) <u>Transport allowance (allowance for commuting between residence to office and back):</u>

For disabled employees:	Amount exempt is Rs.3,200 p.m. (both tax regimes)
For others:	Fully taxable

f) <u>Transport Allowance granted to employees</u> working in any transport system to meet his personal expenses while on duty: Amount exempt: 70% of allowance received or Rs.10,000 p.m. whichever is less.

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iii) <u>Fully taxable allowances:</u> All other allowances like medical, telephone, transport, city compensatory allowance, special, lunch, tiffin, marriage, servant, gas-electricity-water, overtime, are fully taxable without any exemption.

note: Allowances paid by the Government of India to an Indian citizen for rendering service outside India is fully exempt from tax. **Section 10 (7).**

<u>Problems on Basics:</u>

1. **Discuss the head of income under which the following receipts are assessed to tax.**
   a. Salary received by a working partner
   b. Pension received by the family members after the death of employee
   c. Salary received by MP/MLA

2. **Mr.X draws Rs.1,00,000 p.m. as salary up to 31.08.2025.** From 1.9.2025, his salary was increased to Rs.1,20,000 p.m. Calculate his salary for the previous year 25-26 if it falls due on:

   a) last day of each month; b) first day of next month

3. **Mr.A receives Rs.7,20,000 p.a. as net salary.** Employer had deducted Rs.36,000 as employees contribution to provident fund, Rs.42,000 as income tax deducted at source and Rs.2,000 as professional tax. During the year, employer had deducted Rs.40,000 towards the recovery of house building advance taken by Mr.A. **What will be his actual salary earned?**

4. X joins the service in the grade of 30,000--4,000--42,000--5,000--72,000 on 1.6.2019. **Compute his basic salary for the previous year 2025-26.**

<u>Problems On House Rent Allowance:</u>

5. **X, who resides in Delhi, gets Rs.3,00,000 p.a. as basic salary.** He receives Rs.50,000 p.a. as house rent allowance. Rent paid by him is Rs.40,000 p.a. Find out the taxable amount of HRA.

6. X, a resident of Bangalore, receives Rs.8,00,000 p.a. as basic, Rs.1,20,000 p.a. as dearness allowance (forming part of salary) and 10% commission on sales made by him (sales made by X during the previous year is Rs.8,00,000) and Rs.7,500 p.m. as house rent allowance. He, however, pays Rs.8,000 p.m. as house rent. **Determine the quantum of house rent allowance exempt from tax.**

7. Mr.Mohit is employed with XY Ltd., on a basic of Rs.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 Rs.6,000 p.m. which was increased to Rs.7,000 p.m. with effect from 01.01.2026. He also got an increment of Rs.1,000 p.m. in his basic salary with effect from 1.02.2026.

   Rent paid by him during the previous year 2025-26 is as under:

April and May 2025	-	Nil, as he stayed with his parents
June to October, 2025	-	Rs.6,000 p.m. for an accommodation in Bangalore
November, 2025 to March, 2026	-	Rs.8,000 p.m. for an accommodation in Chennai

   Compute his gross salary for assessment year 2026-27, assuming that he exercises the option of shifting out of the default tax regime provided u.s.115BAC(1A).

<u>Problems On Allowances:</u>

8. X, a Government employee, gets Rs.4,00,000 p.a. as basic pay. In addition, he receives Rs.72,000 as entertainment allowance. His actual expenditure on entertainment for official purposes, however, exceeds Rs.72,000. Calculate taxable amount of entertainment allowance. **What would be your answer if he is a non-government employee.**

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9. **Mr.X of ABC Pvt. Ltd. received the following during the F. Y. 25-26: Compute his Income from Salary under the optional tax regime.**

   Basic Rs.80,000 p.m.; D.A. (forming part of salary) Rs.20,000 p.m.; Bonus one month salary including D.A.; Entertainment Allowance Rs.4,000 p.m.; Education allowance for his 3 children Rs.75 p.m. per child; Medical allowance Rs.1,000 p.m.; Transport Allowance Rs.2,000 p.m.; Lunch allowance Rs.3,000 p.m. Telephone allowance Rs.1,500 p.m. Salary arrears relating to previous year 2022-23 Rs.48,000 was received in September 2025 (this amount was not taxed earlier).

10. X, a pilot in Indigo Airlines received Rs.25,000 p.m. as transport allowance to meet his personal expenses while on duty. Calculate the taxable amount of allowance received.

11. Mr.A, an Indian citizen and a non-resident, is posted in the Indian High Commission at Nairobi during the previous year 2025-26. His emoluments consist of basic pay of Rs.4,00,000 per month and overseas allowance of Rs.50,000 p.m. Besides, he is entitled to & fro journey (air-fare) to India and also use Government's car at Nairobi. **Compute his Income from Salary under OTR.**

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

    a. Transport allowance Rs.1,800 p.m.
    b. Tribal area allowance Rs.500 p.m.
    c. Medical allowance of Rs.1,500 p.m.

    Compute his taxable allowances. He has opted out of default tax regime.

13. Mr.A employed in PINE Ltd., received basic pay of Rs.35,000 per month till January 31st 2026, Rs.40,000 per month from February 2026. He received salary for the month of April 2026 in advance on 31st March 2026. He also received an arrear salary for the month of March 2025 on the same day (i.e. 31st March 2026). Discuss the taxability of both advance and arrear salary in the hands of Mr.A and the previous year in which it is taxable. Assume salary falls due on the last day of each month.

    <u>Solution:</u>
    Advance salary is taxable in the year of receipt ('receipt' basis). Hence salary of April 2026 received on 31st March 2026 is taxable during the previous year 2025-26. Taxable amount Rs.40,000.

    Salary Arrears is taxable in the year in which it is due ('due' basis). Salary for March 2025, though received on 31st March, 2026 is treated as income of the previous year 24-25. Taxable amount Rs.35,000.

PERQUISITES

- Benefits attached to a job
- May be in cash (monetary) or in kind (non-monetary)

Classification of Perks:

- Tax free perks;
- Taxable perks
  - ✓ Perks taxable for both specified and non-specified employees
  - ✓ Perks taxable for specified employees only.

Classification --- I: Tax-free perks (or) Exempted perks

- Medical bills reimbursed
- Medical insurance premium paid by employer
- Telephone bills reimbursed
- Use of employer's laptops and computers
- Free refreshments during office hours
- Free lunch provided during office hours up to a maximum of Rs.50 per meal
- Leave travel concession
- Interest-free loans or concessional loans taken for medical treatment
- Interest-free loans or concessional loans where the loan amount does not exceed Rs.20,000.
- Gift in kind if the value of the gift does not exceed Rs.5,000
- Privilege passes granted by Indian Railways to its employees
- Perks provided by Government of India to its employees posted abroad u.s.10 (7)
- Free education facility in a school owned/maintained by the employer for employee's children
- Tax paid by the employer on non-monetary perquisites

Specified employee:

- A Director-employee (full-time or part-time)
- An employee who owns 20% equity shares in the employer-company; (i.e. having substantial interest)
- An employee whose monetary emoluments exceed Rs.50,000 after deductions u.s.16.

Classification --- II: Perks taxable for both specified and non-specified employees:

a. Rent-free accommodation
b. Any obligation of employee met by the employer
c. Fringe benefits

Classification --- II: a) Rent free accommodation:

Unfurnished accommodation
Furnished accommodation
Accommodation provided at concessional rent

For Government employees:
The taxable value of RFA in the case of a Government employee is as per Government rules.

For Non-Government employees:
The taxable value of rent-free accommodation for other employees (semi-Government or non-Government employees) is determined as under:

Population of the City	House owned by employer	House leased by employer
Less than 15 lakhs	5% of salary	10% of salary or lease rent (w.e.l) is taxable
More than 15 lakhs but less than 40 lakhs	7.5% of salary	As above
More than 40 lakhs	10% of salary	As above

Salary: Basic + D.A. (forming) + Commission (any) + Bonus + Fees + All taxable allowances to the extent taxable

Accommodation provided in a REMOTE AREA or in an OFFSHORE INSTALLATION is exempt.

Accommodation provided in a HOTEL on account of TRANSFER of an employee from one place to another place:

- fully exempt if the period of stay does not exceed 15 days
- if accommodation is provided for a period exceeding 15 days then the taxable value will be 24% of salary for such period or actual hotel charges (whichever is less)

Rent free accommodation with furniture being provided:
If the employer owns the furniture then 10% of cost of furniture is taxable
Actual hire charges will be taxable if the furniture is hired by the employer.

note: Written down value of the furniture is not relevant.
note: "Furniture" includes radio sets, television sets, refrigerators, air-conditioners and other household appliances.

Classification --- II: **b) Any obligation of employee met by the employer:**

- Servant engaged by employee but salary paid or reimbursed by employer
- Gas, electricity, water bills of employee but paid or reimbursed by employer
- Education expenditure of the employee's children paid or reimbursed by employer
- Car owned by employee but expenses met by employer
- Professional tax paid by employer on behalf of employee

Classification --- II: **c) Fringe benefits:**

- Interest-free loans or loans at concessional rate of interest
- Use of moveable assets belonging to the employer
- Transfer of moveable assets belonging to the employer
- Gift from employer
- Credit card facility
- Club facility
- Travelling, touring, accommodation facility provided to the employee

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Fringe Benefit 1: **Interest-free loans or loans at concessional rate of interest**

If the lending rate of the employer is less than the SBI rate, the difference would be taxable. Interest will be calculated on the OUTSTANDING BALANCE AT THE END OF EACH MONTH.

note: The above provision does not apply if the:

- loan is taken for medical treatment in respect of diseases specified in rule 3A; or
- loan amount does not exceed Rs.20,000 in aggregate (petty loans).

Fringe Benefit 2: **Use of moveable assets by the employee belonging to the employer**

Computers and laptops:	Exempt
Any other asset:	10% p.a. of cost is taxable

Fringe Benefit 3: **Transfer of moveable assets by the employer to his employee**

Computers & its related electronic items:	Cost (-) depreciation @ 50% on w.d.v. method
Cars:	Cost (-) depreciation @ 20% on w.d.v. method
Any other asset:	Cost (-) depreciation @ 10% on straight line method.

note: Depreciation is to be calculated on basis of "completed year".
note: Amount if any recovered from the employee shall have to be adjusted.
note: Transfer of assets (other than computer & car) which have been used by the employer for more than ten years are exempt from tax.

Fringe Benefit 4: **Free Gift:**

a. Received in cash:	Fully taxable	
b. Received in kind:	If the value of gift is less than Rs.5,000	: Fully exempt
	If the value of gift exceeds Rs.5,000	: Fully taxable

Fringe Benefit 5: **Credit card facility:**

a. Official use: Exempt
b. Private use: Fully taxable

Fringe Benefit 6: **Club facility:**

a. Official use: Exempt
b. Private use: Fully taxable

Facility on sports or health club will be fully exempt

Fringe Benefit 7: **Travelling, touring and accommodation facility:**

a. Official tour: Exempt from tax
b. Personal purpose: Fully taxable

Classification --- III: **Perks taxable for specified employees only**

- Servant facility
- Gas, Electricity, Water facility
- Education facility
- Car facility

Gas, Electricity or Water facility:

- From employer's own source: Manufacturing cost per unit is taxable
- If purchased from outside agency: Fully taxable

note: If gas, electricity or water bills are in the name of employee and if they are paid by employer then it is taxable for both specified and non-specified employees.

Education Facility:

Particulars	School owned/maintained by Employer	Any other school
• For children:	Fully exempt if cost of education does not exceed Rs.1,000 p.m. Fully taxable if cost of education exceeds Rs.1,000 p.m.	Fully taxable
• Any household member:	Fully taxable	Fully taxable
• Taxable for:	Specified employee only	Both

Note: Scholarships given to meet the cost of education is fully exempt from tax u.s.10 (16)

Servant facility:

- Any servant (gardener, sweeper, watchman, cook) provided by employer to his employee is fully taxable in the hands of a specified employee.

- But if these servants are employed by employee and if they are paid or reimbursed by employer then it is taxable for both specified and non-specified employees.

Provision of medical facilities:

a) Medical allowance: Fully taxable
b) Medical facility in a hospital maintained by employer: Exempt
c) Hospitals recognized by I.T. authorities (e.g. Public Hospitals): Exempt from tax
d) Medical reimbursement for treatment in a Private Hospital: Fully taxable
e) Medical insurance premium paid on the health of employees: Exempt from tax

f) Medical expenses incurred outside India:
   a. Treatment expenses: Exempt to the extent permitted by RBI
   b. Stay expenses: Exempt to the extent permitted by RBI
   c. Travel expenses: Exempt if Gross Total Income does not exceed Rs.2 lakhs.

"Family" means the individual, spouse, children, dependant parents and dependent brothers and sisters of the individual.

Leave Travel Concession:

LTC is exempt to the extent the amount is spent on travel to any place in India.
This exemption is available twice in a block of 4 calendar years (current block is 2022 to 2025).
Exemption is available to the extent of economy fare by air.
If the journey is performed by rail then first-class AC fare is exempt from tax.
Exemption is available in respect of shortest route.

Deductions from Gross Salary:

Standard deduction u/s.16(ia):

A deduction of Rs.50,000 or the amount of salary, whichever is less (Optional Tax Regime)
A deduction of Rs.75,000 or the amount of salary, whichever is less (Default Tax Regime)

Entertainment allowance u/s.16 (ii):

This deduction is available only for Government employees. E.A. received is first included in gross salary and then allowed as deduction. Deduction is not available under Default Tax Regime.

Professional tax or employment tax under section 16 (iii):

Professional tax paid by employee is allowed as deduction u.s.16 (iii). If it is paid by employer on behalf of employee then it is taxed as perk and the same is allowed as deduction. Not available under DTR.

Provision relating to provident fund:

Particulars	**Statutory PF**	**Recognised PF**	**Unrecognised PF**
Employers contribution	Exempt	Above 12% of salary is taxable	Exempt
Interest on provident fund	Exempt	Above 9.5% of contribution is taxable	Exempt
Employees contribution	Qualifies for deduction u.s.80C	Qualifies for deduction u.s.80C	Does not qualify for deduction
Lumpsum received after retirement	Exempt	Exempt	**(***)**

Salary means basic + D.A. (forming) + Sales Commission

(***) Employers contribution and interest thereon is taxable under the head salary.

Interest on employee's contribution is taxable under the head "Income from other sources".

Problems On Rent-free Accommodation:

14. X an employee of ABC (P) Ltd., posted at Chennai (population > 40 lakhs), draws Rs.8,00,000 p.a. as basic, Rs.5,00,000 p.a. as dearness allowance (forming) and Rs.3,00,000 p.a. as commission. Besides, the company provides a rent-free unfurnished accommodation in Chennai. The house is owned by the company. **Determine the taxable value of the perk.**

15. X, a Director-employee of a private company, draws Rs.80,000 p.m. as basic. D.A. (forming) Rs.82,000 p.a.; Bonus 30% of basic; Commission Rs.3,000 p.m.; Transport allowance Rs.2,000 p.m. for commuting between office and residence; Tribal area allowance Rs.12,400 and rent free house (lease rent paid by the employer Rs.15,000 p.m.). The company recovers Rs.2,000 p.m. from his salary for providing accommodation facility. **Compute Income from salary under OTR/DTR.**

16. Mr.A is working as a General Manager of a company. Particulars are given below:
Basic Rs.60,000 p.m.; Bonus Rs.40,000 p.a.; Conveyance allowance (70% official use) Rs.2,000 p.m.; Medical allowance Rs.2,000 p.m. He has been provided with a rent free house in a city whose population exceeds 15 lakhs but does not exceed 40 lakhs. Compute the taxable value of RFA if the house is owned by the employer. What would be your answer if the house is taken on lease by the employer at Rs.10,000 p.m.

17. **Mr.R furnishes the following:** Basic salary Rs.12,000 p.m.; Dearness allowance (40% of which forms part of salary for retirement benefits) Rs.1,000 p.m.; Lunch allowance Rs.200 p.m.; Medical allowance Rs.500 p.m.; City compensatory allowance Rs.300 p.m.; Children education allowance Rs.230 p.m. per child for 2 children.
He is provided with a rent-free accommodation in Delhi. The cost of the furniture is Rs.1,00,000 and two air-conditioners, which have been taken on hire by the employer, have also been provided in the accommodation. The hire charges of each air conditioner is Rs.2,000 p.a. **Compute the value of the rent-free accommodation if the accommodation is provided by:**

- **a.** The Government and the value of the accommodation as per Govt. Rules is Rs.1,500 p.m.
- **b.** Canara Bank and the accommodation has been taken on lease by the Bank at Rs.10,000 p.m.
- **c.** XYZ Ltd. and the accommodation has been taken on rent by the company at Rs.10,000 p.m.

18. Mr.S was provided an accommodation in a hotel by his employer for 22 days before providing him a rent free accommodation. The hotel charges paid Rs.33,000 of which Rs.5,000 was recovered from the employee. Salary for the purpose of accommodation for the period of 22 days is Rs.66,000. Compute the taxable perquisite of accommodation.

Interest free loan or loans at concessional rate of interest.

19. X Ltd. has advanced an interest free loan of Rs.5,00,000 to Mr.G for purchase of car on 01.09.2025. Mr.G has been regularly repaying the loan in instalments of Rs.20,000 p.m. at the end of each month. Compute the value of perquisite on account of interest assuming the interest charged by SBI is 10% p.a. What will be your answer if Mr.G repays loan on 1st of next month instead of end of each month.

Free Gas, Electricity and Water:

20. **Find out the value of the perquisite in respect of gas in the cases given below:**

X is employed by a gas supply company to whom free gas (manufacturing cost Rs.10,000) is supplied by the employer.
Y is employed by A Ltd. which supplies free gas to Y. Gas bills are issued in the name of A ltd. Rs.15,000.
Z is employed by B Ltd. which supplies free gas to Z. Gas bills are issued in the name of Z Rs.18,000.

Assuming that X, Y and Z are "specified employees" and gas is used only for household consumption; find out the value of the perquisite.

Use of moveable assets by the employee belonging to the employer:

21. **Find out the taxable value of the perk in the following cases:**

X is given a laptop by the employer-company for using it for office and private purpose (ownership is not transferred). Cost of the laptop to the employer Rs.50,000.

On 1.10.2025, the company gives its music system to Y for domestic use. Ownership is not transferred. Cost of music system to the employer is Rs.85,000.

Free use of employer's LED TV from 1.4.2025. Cost to the employer Rs.1,00,000

On 1.09.2025, the company purchases a fridge for Rs.90,000 for the kitchen of X. Ownership is not transferred.

Sale of assets by the employer to his employee:

22. On 10.3.2026, a Company sells imported furniture to X for Rs.90,000 (the furniture was purchased by the company on 30.6.2021 for Rs.4,10,000 and since then it was used for business purposes).

On 01.06.2025, a Company purchases a music system for Rs.35,000 and the same is sold on the same day to X for Rs.20,000.

On 10.3.2026, the employer sells a computer to X for Rs.6,000 (it was purchased for Rs.60,000 on 10.4.2023, and up till its transfer to X, it was used by the employer for business purpose).

On 10.3.2026, the employer sells a Car for Rs.2,00,000 (it was purchased by the company for business purposes on 10.4.2022 for Rs.6,00,000).

Problem on Servant facility

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

i. For Mr.X, who engaged a domestic servant for Rs.4,000 per month, his employer reimbursed the entire salary paid to the domestic servant *i.e.* Rs.4,000 per month.

ii. For Mr.Y, he was provided with a domestic servant @ Rs.4,000 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.

Problem on Leave Travel Concession:

24. Mr.R went to Simla on a holiday on 15.05.2025 with his wife and three children (one son – age 6 years; twin daughters – age 3 years). They went by aeroplane (economy class) and the total cost of tickets met by his employer was Rs.58,000 (Rs.43,000 for adults and Rs.15,000 for the three minor children). **Compute the taxable amount of LTC.**

Will the answer be different if, among his three children, the twins are 6 years and son 3 years old?

Deductions from Gross Salary:

25. Mr.G receives the following emoluments during the previous year ending 31.03.2026:
Basic pay Rs.4,00,000; Dearness Allowance Rs.15,000; Commission Rs.10,000; Entertainment Allowance Rs.4,000; Medical expenses reimbursed for treatment in a public hospital Rs.25,000; Professional tax paid Rs.3,000 (Rs.2,000 was paid by his employer). **Determine Income from Salary for A.Y.2026-27 if Mr.G is a State Government employee under OTR.**

Problem on medical facilities:

26. Compute the taxable value of the perquisite in respect of medical facilities received by Mr.G from his employer during the previous year 2025-26:

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

Problem on shares allotted to employees under ESOP:

27. AB Co. Ltd allotted 1000 sweat equity shares to Mr.R in June 2025. The shares were allotted at Rs.600 per share as against the fair market value of Rs.900 per share on the date of exercise of option by Mr.R. 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 Mr.R?
ii. In the case of subsequent sale of those shares by Mr.R, what would be the cost of acquisition of those shares?

Problems on car facility:

28. X is provided with 2 cars to be used for official and personal work and the following information is available from the companies' records:

	18 h.p. car	**12 h.p. car**
Cost of the car	Rs.24,00,000	Rs.4,00,000
Running and maintenance	Rs.1,30,000	Rs.36,000
Salary of driver	Rs.2,40,000	Rs.1,20,000

29. X has been provided with the benefit of a car by his employer. Compute the perquisite value of the car for the assessment year 2026-27 in the following situations assuming X is a specified employee.

a. X has been provided with a car (12 hp) owned by the employer, cost of the car is Rs.12,00,000. The expenditure incurred by the company on maintenance of the car are – petrol Rs.90,000; driver's salary Rs.84,000 and maintenance Rs.10,000. The car can be used by X partly for official and partly for private purposes.

b. Assume in situation (a) that the car is used only for private purposes.

c. A car (18 hp) is owned by the employer (cost of the car being Rs.25,00,000). X an employee, can use it partly for official purposes and partly for private purposes. Expenses for private purposes are, however, incurred by X.

d. Assume in situation (c) that the car can be used only for private purposes.

e. X owns a car (1400 cc). He uses it partly for official purposes and partly for private purposes. During the previous year 25-26, he incurs a sum of Rs.50,000 on running and maintenance of car. Besides, he has engaged a driver (salary Rs.84,000). The employer reimburses the entire expenditure of Rs.1,34,000. Log book of the car is not maintained.

f. Assume in situation (e) that the log book of the car is maintained and 90% of the expenditure is for official use and 10% for private use.

g. A car (1700 cc) is owned by the employer. All expenses (Rs.56,000) are incurred by the employer. The employer maintains log book of the car. X, an employee, uses the car only for official purposes. The employer gives a certificate that the car is used only for official purposes.

<u>Problems in computation of Salary Income:</u>

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

a. A company owned accommodation is provided to him in Delhi (population > 40 lakhs). Furniture costing Rs.2,40,000 was provided on 01.08.2025.

b. A personal loan of Rs.5,00,000 on 01.07.2025 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding. (Assume SBI rate of interest to be 12.75% p.a.)

c. His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for Rs.60,000 on 01.05.2022. The motor cycle was finally sold to him on 01.08.2025 for Rs.30,000.

d. Professional tax paid by Mr.X is Rs.2,000. Compute income from salary of Mr.X for A.Y. 2026-27 assuming Mr.X has opted for optional tax regime.

CAR facility:

Particulars	Car owned by employee but running &maintenance met by employer	Car owned by employer but running &maintenance met by employee	Car owned by employer and running & maintenance also met by employer
Official purposes	Exempt from tax	Exempt from tax	Exempt from tax
Private purpose	Fully taxable (R & M expenses)	Fully taxable (10% of cost or Hire charges)	Fully taxable (R&M expenses and 10% of cost)
Both purposes	<u>If log-book is not maintained:</u> Actual expenditure (-) 1,800 p.m. or 2,400 p.m. <u>If log- book is maintained:</u> Apply the ratio	Small car: 600 p.m. Big car: 900 p.m. (taxable amount)	Small car: 1,800 p.m. Big car: 2,400 p.m. (taxable amount)
	Rs.900 p.m. exempt for driver if engaged by employee	Rs.900 p.m. taxable for driver if provided by employer	Rs.900 p.m. taxable for driver if provided by employer

Note: Cubic Capacity of the car up to 16 h.p. (small car). More than 16 h.p. (big car)

Note: If more than one car is provided then according to the choice of the employee, one car will be treated as if used for both office and private use and the rest of the cars will be treated as if used for private purposes only. In other words, one car will enjoy concessional rate (Rs.1,800 p.m./Rs.2,400 p.m.) and other cars will be fully taxed.

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

a. Accommodation taken on lease by X Ltd., for Rs.15,000 p.m. Rs.5,000 p.m. is recovered from the salary of Mr.Y.

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

c. A 12 hp car which is owned by X Ltd., and given to Mr.Y to be used both for official and personal purposes. All running expenses are fully met by the employer. He is also provided with a chauffeur.

d. A gift voucher of Rs.10,000 on his birthday.

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

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32. Mr.X, is working with True Care Hospitals (P) Ltd. He gives the list of perquisites provided by the employer to him for the entire financial year 2025-26:

His son had undergone a medical treatment in True Care Hospitals (P) Ltd. free of cost. The hospital would have charged a sum of Rs.60,000 for a similar treatment to unrelated patients.

Domestic servant was provided at the residence of X. Salary of domestic servant is Rs.1,500 per month. The servant was engaged by him and the salary is reimbursed by the company. In case, the company has employed the domestic servant, what is the value of perquisite?

Free education was provided to his two children A and B in a school maintained and owned by the company. The cost of such education for A is computed at Rs.900 per month and for B at Rs.1,200 per month. No amount was recovered by the company for such education facility from X.

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

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

Telephone provided at the residence of Mr.X and the bill aggregating to Rs.25,000 paid by the employer.

Housing loan @ 6% p.a. Amount outstanding on 01.04.2025 is Rs.6 lakhs. Mr.X pays Rs.12,000 p.m. towards principal, on 5th of each month. SBI rate of interest is 10% p.a.

State the taxability of the above said perquisites and compute the total value of taxable perquisites.

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33. Mr.Vignesh, Finance Manager, of KLM Ltd., Mumbai, furnishes the following particulars for the financial year 2025-26:

a. Basic salary Rs.46,000 per month.

b. Value of medical facility in a hospital maintained by the company Rs.7,000.

c. Rent free accommodation owned by the company.

d. Housing loan of Rs.6,00,000 given on 01.04.2025 at the interest rate of 6% p.a. (No repayment made during the year). The rate of interest charged by the State Bank of India as on 01.04.2025 in respect of housing loan is 10% p.a.

e. Gifts in kind made by the company on the occasion of his wedding anniversary Rs.4,750.

f. A wooden table and 4 chairs were provided to Mr.Vignesh at his residence (dining table). This was purchased on 1.05.2022 for Rs.60,000 and sold to Mr.Vignesh on 01.08.2025 for Rs.30,000.

g. Personal purchases through credit card provided by the company amounting to Rs.10,000 was paid by the company. No amount was recovered from Mr.Vignesh.

h. An ambassador car which was purchased by the company on 16.07.2022 for Rs.2,50,000 was sold to the assesse on 14.07.2025 for Rs.80,000.

Compute salary income of Mr.Vignesh for A.Y. 2026-27. He has opted for Optional tax regime.

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

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
Professional tax (of this, 50% paid by the employer)	4,000
Health insurance premium paid by the employer	8,000
Gift voucher given by the employer on his birthday	10,000
Life insurance premium of Mr.N paid by employer	26,000
Laptop provided for use at home. Actual cost of laptop (children of the assesse are also using the laptop)	45,000
Employer company owns a Maruti 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 employer.
Annual credit card fees paid by employer (Credit card is not exclusively used for official purposes, details of usage are not available) 7,000

You are required to compute the income chargeable under the head Salaries for the A.Y. 2026-27 if he pays tax under default tax regime.

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35. Ms.Nandini, a resident individual, aged 48 years, is an assistant manager of Dye Hard Ltd. She was appointed on 10th June, 2023 at a salary of Rs.32,000 per month. During the previous year 2025-26, she received the following amounts from her employer.

Dearness allowance (10% of basic pay which forms part of salary for retirement benefits).

Bonus for the previous year 2024-25 amounting to Rs.32,000 was received on 1st October, 2025.

Fixed medical allowance of Rs.20,000 for meeting medical expenditure.

She was also reimbursed the medical bill of her father-in-law dependent on her Rs.3,000.

Ms.Nandini was provided:

- a laptop both for official and personal use. Laptop was acquired by the company on 1st June, 2025 at Rs.50,000.

- a domestic servant at a monthly salary of Rs.1,000 which was reimbursed by her employer.

Dye Hard Ltd. allotted 500 equity shares in the month of December 2025 @ Rs.150 per share against the fair market value of Rs.250 per share on the date of exercise of option by Ms.Nandini. The fair market value was computed in accordance with the method prescribed under the Act.

Professional tax Rs.2,500 (out of which Rs.1,800 was paid by the employer).

Compute the total Income of Ms.Nandini for the assessment year 2026-27. (Assume that Ms.Nandini pays tax on the receipt basis). She wishes to pay tax as per optional tax regime.

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

Basic salary up to 31.10.2025 Rs.50,000 p.m.
Basic salary from 01.11.2025 Rs.60,000 p.m.
Note: Salary is due and paid on the last day of every month.

Dearness allowance (not considered for retirement benefits) @ 40% of basic salary.

Bonus equal to one-month salary. Paid in October 2025 on basic salary plus dearness allowance applicable for that month.
Contribution of employer towards RPF account of the employee @ 16% of basic salary.

Professional tax paid Rs.2,500 of which Rs.2,000 was paid by the employer.

Facility of laptop and computer was provided to Mr.B for both official and personal use. Cost of laptop Rs.45,000 and computer Rs.35,000 were acquired by the company on 01.12.2025.

Motor car owned by the employer (cubic capacity of engine exceeds 1.6 litres) provided to the employee from 01.11.2025 meant for both official and personal use. Repair and running expenses of Rs.45,000 from 01.11.2025 to 31.03.2026, were fully met by the employer. The motor car was self-driven by the employee.

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 Rs.30,000 for adults and Rs.45,000 for three children. Mr.B is eligible for availing exemption this year to the extent it is permissible in law.

Compute the salary income (optional tax scheme) in the hands of Mr.B for the A.Y. 2026-27.

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37. From the following details, compute salary chargeable to tax (old tax regime) for A.Y. 2026-27:

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

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

a. Facility of laptop costing Rs.50,000.

b. Company reimbursed the medical treatment bill of his brother of Rs.25,000, who is dependent on him. Treatment undertaken in a private hospital.

c. The monthly salary of Rs.1,000 of a house keeper is reimbursed by the company.

d. A gift voucher of Rs.10,000 on the occasion of his marriage anniversary.

e. Conveyance allowance of Rs.1,000 per month is given by the company towards actual reimbursement for official duty.

f. He is provided personal accident policy for which premium of Rs.5,000 is paid by the company.

g. He is getting telephone allowance @ Rs.500 p.m.

h. Company pays medical insurance premium of his family of Rs.4,000.

38. Mr.B is a sales manager in PQR Ltd. During F.Y. 2025-26 he has received the following towards his salary and allowances/perquisites;

Basic pay Rs.85,000 p.m. up to December 2025 and thereafter an increase of Rs.2,000 p.m.
Dearness allowance 40% of basic pay forming part of retirement benefits.
Bonus 1 month basic pay based on the salary drawn during January month every year.

He contributes 14% of his basic pay & DA towards his recognized provident fund and his employer company contributes the same amount.

Travelling allowance of ₹ 5,000 per month towards on duty tours.
Entertainment allowance ₹ 3,000 per month.
Children education allowance of ₹ 600 per month per child for his 2 sons and 1 daughter.

Accommodation owned by PQR Ltd. was provided to him in Hyderabad for the whole year and furniture of ₹ 2,00,000 was provided from 1st October, 2025.

Reimbursement of medical expenses on his treatment in private hospital - ₹ 15,000, medical allowance ₹ 1,500 per month. Company has paid premium on medical policy purchased on his health ₹ 12,500.

You are required to:

Compute the income chargeable to tax under the head "Income from Salary" under:

a) Optional tax regime; and
b) Default tax regime

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39. Mr.X receives the following emoluments during the previous year:
Basic pay Rs.12,00,000; Commission Rs.6,00,000; Entertainment allowance Rs.60,000. X, contributes Rs.1,50,000 towards provident fund (employer makes matching contribution). Interest credited in the provident fund account @ 10.5% is Rs.42,000. **Compute his salary income if:**

- **a.** X is a Government employee and the provident fund is SPF.
- **b.** X is an employee of ABC Ltd. and the provident fund is RPF.
- **c.** X is an employee of PQR Pvt Ltd. and the provident fund is URPF.

CHAPTER – 7 SALARIES – PART II

PROVIDENT FUND:

Lump sum received after retirement:

Statutory Provident Fund:	Exempt from tax
Recognized Provident Fund:	Exempt from tax
Unrecognized Provident Fund:	Employer's contribution and interest thereon is taxable under "salaries" Interest on employee's contribution is taxable under the head "other sources"

GRATUITY:

Gratuity received by a Government employee is fully exempt from tax.

Gratuity received by a non-Government employee:

a. **Employees covered by Payment of Gratuity Act, 1972:**

- Maximum limit Rs.20,00,000
- Actual amount received
- 15/26 (x) last drawn salary (x) every completed year of service (rounded off)

whichever is less is exempt from tax

note: Salary = Basic + D.A. (any)

b. **Employees not covered by Payment of Gratuity Act, 1972:**

- Maximum limit Rs.20,00,000
- Actual amount received
- 1/2 (x) Average Salary (x) every completed year of service (ignore fraction)

whichever is less is exempt from tax

note: Salary = Basic + D.A. (forming) + Sales Commission

note: Average salary means: $\frac{\text{Last ten months salary excluding the month of retirement}}{10}$

note: If gratuity is received from more than one employer then the maximum limit of Rs.20,00,000 will be reduced to the extent of exemption previously availed.

LEAVE SALARY OR LEAVE ENCASHMENT:

Leave salary received while in service is fully taxable for both Government and non-Government employees

Leave salary received after retirement by a:

a) Government employee: Exempt from tax

b) Non-Government employee:

- Maximum limit: Rs.25,00,000
- Actual amount received:
- 10 months' average salary:
- Leave at the credit of employee (x) Average salary

whichever is less is exempt from tax

note: Salary = Basic + D.A. (forming) + Sales Commission
note: Any fraction of a year is to be ignored
note: **LEAVE SHOULD NOT EXCEED ONE MONTH FOR EVERY COMPLETED YEAR OF SERVICE.**

PENSION:

Uncommuted Pension (monthly pension):

Uncommuted pension is fully taxable for both Government and non-Government employees.

Commuted Pension (lump sum pension):

For Government employees: Fully exempt from tax

For non-Government employees:

a. If he receives gratuity also: One-third of full value of commuted pension is exempt.
b. If he does not receive gratuity: One-half of full value of commuted pension is exempt.

VRS COMPENSATION:

• Maximum limit:	Rs.5,00,000
• Compensation received:	Rs.xxx
• Last drawn salary (x) 3 (x) No. of years of service (ignore fraction)	Rs.xxx
• Last drawn salary (x) No. of months of service left	Rs.xxx

whichever is less is exempt from tax

Note: Salary means Basic + D.A. (forming) + Sales commission

RETRENCHMENT COMPENSATION:

a. Received in accordance with any scheme, which is approved by the Central Government, fully exempt from tax.

b. If received under any other scheme:

▪ Maximum limit	Rs.5,00,000
▪ Actual amount received	xxx
▪ Amount determined under the Industrial Disputes Act, 1947	xxx

(whichever is less is exempt from tax)

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

Basic pay @ Rs.16,000 per month for 9 months	Rs.1,44,000
D.A. (50% forms part of retirement benefits) Rs.8,000 p.m. for 9 months	Rs.72,000
Lumpsum payment received from the unrecognised provident fund	Rs.6,00,000.

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

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2. X, an employee of the Central Government, receives Rs.6,00,000 as gratuity at the time of his retirement on 11.10.2025 under the New Pension Code. Is gratuity fully exempt from tax?

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

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

Compute his taxable gratuity assuming:
(a) He is non-government employee and covered by the Payment of Gratuity Act 1972.
(b) He is non-government employee and ***not*** covered by Payment of Gratuity Act 1972.
(c) He is a Government employee.

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4. Mr.S, an Accounts Manager, has retired from JK Ltd. on 15.01.2026 after rendering services for 30 years and 7 months. His salary is Rs.25,000 p.m. up to 30.09.2025 and Rs.27,000 p.m. thereafter. He also gets Rs.2,000 p.m. as D.A. (55% of it is part of salary for computing retirement benefits). He is not covered by the Payment of Gratuity Act, 1972. He has received Rs.8,00,000 as gratuity from the employer company. Calculate taxable gratuity.

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5. X, is working with two companies. He retires from A Co. in 2017 and receives Rs.6,92,000 as gratuity out of which Rs.3,00,000 was exempt. He also retires from B Co. in December 2025 after 28 years and 8 months of service and receives Rs.2,90,000 as death-cum-retirement gratuity.

His average basic from B Co. for the preceding 10 months ended on November 30, 2025 is Rs.18,200 p.m. He has received Rs.1,000 p.m. as D.A. (80% forming) and 6% commission on turnover achieved by him. Turnover achieved by him during 10 months ending on November 30, 2025 is Rs.2,00,000. Compute the amount of gratuity exempt from tax.

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6. R is the Sales Manager. He is paid salary @ Rs.8,000 p.m. from 1.4.2025. D.A. Rs.4,000 p.m. (50% forming). He retires on 10.02.2026. He is paid 2% commission on sales. Sales effected by him during the preceding 10 months ended on 31.01.2026 amounted to Rs.4,00,000. He is entitled for 1.5 months earned leave for every year of service, ignoring part of the year. He retires after 20 years and 7 months. He has availed 18 months leave while in service. The leave encashment is allowed @ Rs.8,000 p.m. Compute taxable amount of leave salary.

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

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

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8. Mr.Sagar retired on 1.10.2025 is receiving a pension of Rs.5,000 p.m. On 1.2.2026, he commuted 60% of his pension and received Rs.3,24,000 as commuted pension. Compute the taxable amount of pension in the following cases assuming:

- He is a Government employee
- He is a non-government employee who did not get gratuity
- He is a non-government employee who got gratuity at the time of retirement.

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9. Mr.A retired on 1.4.2025 from B Co. Ltd. He was entitled to a pension of Rs.20,000 p.m. At the time of retirement he got 75% of the pension commuted and received Rs.6,75,000 as commuted pension.

Compute the taxable portion of the commuted pension if:

a) he is also entitled to gratuity
b) he is not entitled to gratuity.

10. Mr.Dutta received voluntary retirement compensation of Rs.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 Rs.20,000 p.m.; Dearness allowance (which forms part of pay) Rs.5,000 p.m. Compute his taxable voluntary retirement compensation, assuming that he does not claim any relief u.s.89.

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11. X, an employee of a private sector transport company, based at Nagpur and covered by POG Act, retires on 31.12.2025 after service of 33 years and 7 months. At the time of retirement his employer pays Rs.2,26,538 as gratuity and Rs.3,50,000 as accumulated balance of recognised provident fund. He is also entitled for a pension of Rs.3,000 p.m. He gets 70% of pension commuted for Rs.84,000 on 1.2.2026.

Basic Rs.81,000 (9000 x 9); bonus Rs.3,600; medical allowance Rs.22,000; house rent allowance Rs.3,600 (400 x 9) rent paid by him Rs.13,200 (1,100 x 12); employer's contribution to R.P.F. Rs.11,000.

As per the terms of employment, X and his family members can use deluxe buses operated by the employer (value of the facility enjoyed by X and family during the previous year is Rs.12,000). He has paid Rs.2,000 as professional tax. Compute his salary income under OTR.

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12. Mr.M was retrenched from service of ABC Limited. He received retrenchment compensation amounting to Rs.8,75,000. Amount of compensation determined under the Industrial Disputes Act, 1947 is Rs.4,80,000. The scheme of retrenchment is not approved by the Central Government. Compute the taxable retrenchment compensation.

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13. Mr.Swaraj has provided the following particulars for the year ended 31.03.2026:

He retired on 31.12.2025 at the age of 60, after putting in 25 years and 9 months of service, from a private company at Delhi.

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

On retirement, he was paid a gratuity of Rs.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.

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 Rs.3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.

He is receiving Rs.5,000 p.m. as pension. On 1.2.2026, he commuted 60% of his pension and received Rs.3,00,000 as commuted pension.

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

You are requested to compute his income from salary under DTR for A.Y. 2026-27.

Items	Under the DTR	Under the OTR
Allowances:		
HRA	Fully taxable	Exemption available
Education allowance	Fully taxable	Exemption available
Hostel allowance	Fully taxable	Exemption available
Tribal area allowance	Fully taxable	Exemption available
Transport allowance (disabled employees)	Exemption available	Exemption available
Travelling / conveyance all	Exemption available	Exemption available
Uniform allowance	Exemption available	Exemption available
Helper allowance	Exemption available	Exemption available
Deductions:		
Standard deduction	Allowed	Allowed
Entertainment allowance	Not allowed	Allowed
Professional tax	Not allowed	Allowed
Section 10(7)	Available	Available
Perquisites		
Leave travel concession	Fully taxable	Exemption available
Lunch facility	Fully taxable	Exemption available
Refreshments	Exemption available	Exemption available
Medical facilities	Exemption available	Exemption available
Telephone bills reimbursed	Exemption available	Exemption available
Free of computers/laptops	Exemption available	Exemption available
Loan for medical treatment	Exemption available	Exemption available
Loans up to Rs.20,000	Exemption available	Exemption available
Gift in kind < Rs.5,000	Exemption available	Exemption available
Education facility up to Rs.1,000	Exemption available	Exemption available
Sports or health club facility	Exemption available	Exemption available
Health insurance premium	Exemption available	Exemption available
Accident insurance premium	Exemption available	Exemption available
Provident fund		
Employer contn to RPF	Exemption available	Exemption available
Interest on RPF balance	Exemption available	Exemption available
Salaries – Part II		
Lump sum received from PF account	Exemption available	Exemption available
Gratuity	Exemption available	Exemption available
Leave encashment	Exemption available	Exemption available
Commuted Pension	Exemption available	Exemption available
VRS compensation	Exemption available	Exemption available
Retrenchment compensation	Exemption available	Exemption available

CHAPTER – 8 INCOME FROM HOUSE PROPERTY

1. Conditions for chargeability – Section 22:

- The assessee should be the owner of the house (owner includes deemed owner)
- There should be a building or land connected with building
- The building should not be occupied by the assessee for his own business

2. Self-occupied property -- format:

Annual Value	Nil
Less: Deductions under section 24	
Interest on borrowed capital	xxx

Loss from self occupied property	(xxx)
	-----

note: The maximum amount deductible on account of interest on loan is Rs.30,000.

note: However, if the loan is borrowed on or after 1.4.1999 for PURCHASE or CONSTRUCTION and the house is purchased or constructed within 5 years from the end of the relevant previous year during which the loan was borrowed then Rs.2,00,000 (instead of Rs.30,000) shall be allowed as deduction.

note: The above deduction is not available under the default tax regime.

3. Let-out property -- format:

Gross Annual Value	xxx
Less: Municipal taxes	xxx

Net Annual Value	xxx
Less: Deductions under section 24:	
Standard deduction u.s.24(a)	xxx
Interest on borrowed capital u.s.24(b)	xxx

Income from let out property	xxx

Determination of Gross Annual Value:

1. **Municipal Valuation** (rental value fixed by municipal authorities)
2. **Fair Rent** (rent of a similar property in the neighborhood)
3. **Rent receivable** (rent charged by the owner)
4. **Standard Rent** (rent fixed under the Rent Control Act)

note: If 1, 2 and 3 are given then Gross Annual Value is the highest among the three.

<u>If Standard Rent is also given then:</u>

Step 1: Find out the maximum of 1, 2 and 3.
Step 2: Find out the maximum of 3 and 4.
Step 3: Gross Annual Value is the least of the two calculated above.

<u>Unrealised Rent:</u> A default made by the tenant in the payment of rent is unrealised rent.

<u>Conditions to be satisfied (Rule 4):</u>

a. The tenancy is bona-fide (claim is genuine);
b. Reasonable steps should be taken by the assessee making the tenant vacate the property;
c. The defaulting tenant should not occupy any other property of the assessee;
d. The assessee has taken legal steps for its recovery.

note: RECOVERY OF URR. (to the extent it was allowed earlier) is treated as income of the year in which it is recovered. Such recovery is taxed under this head irrespective of the fact whether the assessee owns the house or not. Any amount spent on such recovery is ignored. Standard deduction is allowed @ 30%. **Section 25A**

note: RENTAL ARREARS received by the assessee shall be taxed after allowing standard deduction of 30% under the head "Income from house property". **Section 25A**

	<u>Unrealised rent recovered</u>	***<u>Arrears of rent received</u>***
a.	Taxable in the year in which the loss is recovered	Taxable in the year in which the arrears is received
b.	Taxable (under IFHP) whether the assessee owns the house or not	Taxable (under IFHP) whether the assessee owns the house or not
c.	Standard deduction @ 30% is allowed	Standard deduction @ 30% is allowed

<u>Where a let-out house remains vacant for some part of the previous year</u>

Step 1: Compute gross annual value as if the house is let out for whole year.
Step 2: Reduce vacancy loss from the gross annual value computed in step 1.

<u>Municipal taxes:</u> Municipal taxes (including water tax and sewage tax) ***<u>actually paid</u>*** by the owner during the previous year is allowed as deduction. Municipal tax paid by the tenant is not allowed as deduction.

DEDUCTIONS UNDER SECTION 24:

1. **STANDARD DEDUCTION u.s.24(a):** Compulsory deduction allowed @ 30% of net annual value.

2. **INTEREST ON BORROWED CAPITAL u.s.24(b):**

   a. Any interest paid or ***payable*** on loan borrowed for the purpose of purchase, construction, reconstruction, renewal, repairs of house property is allowed as deduction.

   b. The maximum amount of deduction allowed is Rs.2,00,000 in case of a self occupied property (in certain cases Rs.30,000). No such limit is fixed for a let out property.

   c. Any interest paid out of India without TDS. shall not be allowed as deduction.

   d. Interest paid may relate to: i) post-construction period; or ii) pre-construction period.

      i. Interest paid during the post construction period is fully allowed as deduction in the respective years.

      ii. Interest paid up to the date of completion or up to the date of repayment of loan (whichever is earlier) is pre-construction interest. Such interest is allowed in **FIVE** equal installments from the year of completion.

note: If date of completion of construction is earlier then pre-construction period is restricted to 31st March of the preceding year.

note: If date of repayment of loan is earlier then pre-construction period is up to the date of repayment.

   e. Interest paid on delay in payment of original interest due (penalty) is not deductible.

   f. Where a fresh loan has been taken to repay the original loan, interest paid on the second loan is also allowable as deduction.

   g. Interest on loan borrowed from a friend or a relative is allowed as deduction u.s.24. However, principal repayment of loans borrowed from friend or relative does not qualify for deduction u.s.80 C.

<u>PARTLY SELF-OCCUPIED AND PARTLY-LET OUT:</u>

Case A: <u>Where a house is let for some part of the year and self-occupied for the remaining part of the year.</u>

<u>"ANNUAL VALUE" IS COMPUTED AS IF THE HOUSE IS LET OUT FOR THE WHOLE YEAR.</u>
for eg: X owns a house. Municipal valuation Rs.60,000 p.a.; Fair rent Rs.72,000 p.a.; The house is let out for Rs.7,000 p.m. for 8 months and for the remaining period it remained self-occupied. What will be the gross annual value of the property? What would be the answer if the house is let for Rs.10,000 p.m. instead of Rs.7,000?

A. Municipal valuation Rs.60,000 p.a.
Fair rent Rs.72,000 p.a.
Rent received Rs.56,000 (7,000 x 8) (ignore self-occupied period)

Gross Annual Value in this case would be Rs.72,000 (i.e. whichever is higher)

B. In the second case GAV. would be Rs.80,000 (i.e. higher of 60,000; 72,000 and Rs.80,000)

Case B: Where a house consists of more than one unit:

Each unit is treated separately. (i.e. a self-occupied unit like a separate self-occupied property and a let-out unit similar to a separate let-out property).

<u>OTHER PROVISIONS:</u>

a. **<u>Composite Rent:</u>**
Where the landlord receives rent for other amenities in addition to house rent then such a rent is known as composite rent. In such a situation, house rent is to be separated from the total (composite) rent and is assessed to tax under the head "IFHP". Rent received for providing other amenities shall be assessed under the head "IFOS".

b. **<u>Deemed to be let out property – Annual value of two houses can be 'NIL':</u>**
Where the assessee owns more than two houses for self-occupation, then annual value of any two houses according to his choice shall be NIL and the remaining properties shall be deemed as let out.

c. **<u>Property owned by co-owners:</u>**
Where a house owned by joint owners is self-occupied by each of the co-owner, the annual value of the property will be nil and each co-owner shall be entitled to a deduction of Rs.30,000 or Rs.2,00,000 as the case may be on account of interest on borrowed capital.

Where the house owned by co-owners is let out, the income shall be computed as if the property is owned by one owner and thereafter the income so computed shall be divided amongst each co-owner as per their respective share.

Problems:

1. **In the following cases, state the head of income under which the receipt is to be assessed and comment.**

   a. Mr.X lets out his property to Mr.Y. Mr.Y sublets it. How is sub-letting receipt to be assessed in the hands of Mr.Y.

   b. Mr.Y has built a house on a leasehold land. He has let out the property and claims the rental income to be assessed under the head "Income from other sources". Is he correct?

   c. Mr.Z occupies his property for his own business. Can he claim depreciation?

   d. Income from a vacant land is taxable under the head ………………………….

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2. **X owns a house.** It is self-occupied. Municipal valuation is Rs.2,00,000, whereas Fair rent is Rs.3,00,000 and Standard rent under the Rent Control Act is Rs.2,75,000. The following expenses are incurred by Mr.X: Repairs Rs.20,000; Municipal tax Rs.7,000; Insurance Rs.2,000.

   Interest on borrowed capital to construct the property Rs.2,25,000; Interest on capital borrowed by mortgaging the property for daughter's marriage Rs.50,000 (in either case capital is borrowed after April 1, 1999). Income of X from Salary (before standard deduction) Rs.12,00,000. Find out his net income both under optional tax regime and default tax regime.

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3. **Choose the correct answer with reference to the provisions of the Income-tax Act, 1961:**
   The ceiling limit of deduction under section 24 in respect of interest on loan taken on 01.04.2009 for repairs of a self-occupied house is:

   a. Rs.30,000 per annum
   b. Rs.2,00,000 per annum
   c. No limit
   d. 30% of NAV

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4. **Mr.R owns six houses in Chennai, details of which are as follows, compute GAV.**

Particulars	**I**	**II**	**III**	**IV**	**V**	**VI**
Municipal valuation	20,000	24,000	56,000	42,000	48,000	45,000
Fair rental value	24,000	24,000	40,000	42,000	50,000	50,000
Rent received or receivable	18,000	36,000	48,000	36,000	54,000	56,000
Standard rent	**	42,000	50,000	30,000	**	48,000

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5. Compute Gross Annual Value in the following cases:

	A	B	C	D
Municipal value	60,000	60,000	60,000	1,12,000
Fair rent	68,000	68,000	68,000	1,17,000
Actual rent (before adjusting unrealised rent)	66,000	66,000	72,000	1,20,000
Standard rent	62,000	62,000	70,000	1,15,000
Unrealised rent (conditions of Rule 4 satisfied)	2,000	6,000	5,000	50,000

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6. Compute Gross Annual Value in the following cases:

	A	B	C	D
Municipal value	60,000	60,000	60,000	1,12,000
Fair rent	68,000	68,000	68,000	1,17,000
Actual rent (per annum)	60,000	66,000	72,000	1,20,000
Standard rent	62,000	62,000	70,000	1,15,000
Vacancy period (in months)	1	2	3	4

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7. Compute Gross Annual Value in the following cases:

	A	B	C	D
Municipal value	1,40,000	1,40,000	1,40,000	1,40,000
Fair rent	1,45,000	1,45,000	1,45,000	1,45,000
Actual rent (before adjusting urr.)	1,68,000	1,68,000	1,68,000	1,68,000
Standard rent	1,42,000	1,42,000	1,50,000	1,42,000
Unrealized rent (Rule 4 satisfied)	14,000	42,000	42,000	70,000
Vacancy period (in months)	1	1	1	3

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8. X owns 3 houses in Delhi, details of which are as under: Compute net annual value.

Particulars	**House I**	**House II**	**House III**
Municipal value	1,20,000	72,000	60,000
Fair rent	1,50,000	75,000	75,000
Rent per unit p.a.	70,000	84,000	21,000
Standard rent	1,30,000	80,000	72,000
No. of residential units	2	1	3
Municipal taxes	Rs.12,000 (due but not paid)	Rs.8,000 for last year paid in this year & Rs.9,000 of current year is due	Rs.60,000 (includes Rs.45,000 which relates to last three years paid now)

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9. Mr.A has a property whose municipal valuation is Rs.1,30,000 p.a. The fair rent is Rs.1,10,000 p.a. and the standard rent fixed by the Rent Control Act is Rs.1,20,000 p.a. The property was let out for a rent of Rs.11,000 p.m. throughout the previous year. Unrealised rent was Rs.11,000 and all the conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @ 10% of municipal valuation. Interest on borrowed capital was Rs.40,000 for the year. **Compute income from house property.**

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10. Mr.G has a property whose municipal valuation is Rs.2,50,000 p.a. The fair rent is Rs.2,00,000 p.a. and the standard rent under the Rent Control Act is Rs.2,10,000 p.a. The property was let out for a rent of Rs.20,000 p.m. However, the tenant vacated the property on 31.01.2026. Unrealised rent was Rs.20,000 and all the conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @ 8% of municipal valuation. Interest on borrowed capital was Rs.65,000 for the year. **Compute income from house property.**

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11. For the assessment year 26-27, X submits the following information:

	House I	**House II**
Municipal valuation	1,80,000	3,60,000
Fair rent	2,00,000	5,40,000
Standard rent	1,50,000	3,00,000
Actual Rent	2,40,000	6,00,000
Municipal taxes – paid	20,000	30,000
Municipal taxes – outstanding	10,000	15,000
Interest on money borrowed – paid	60,000	20,000
Interest on money borrowed – outstanding	1,00,000	60,000
Housing loan principal repaid to bank	50,000	30,000
Nature of occupation	Let out for residence	Let out for business

Compute Income from house property.

<u>Property held by co-owners:</u>

12. Ganesh and Rajesh are co-owners of a self-occupied property. They own 50% share each. The interest paid by each co-owner during the previous year on loan (taken for acquisition of property during the year 2005) is Rs.2,05,000. The amount of allowable deduction in respect of each co-owner under the optional tax regime is:

a) Rs.2,05,000
b) Rs.1,02,500
c) Rs.2,00,000
d) Rs.1,00,000

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13. Mr.Raman is a co-owner of a house property alongwith his brother:

Municipal value of the property	Rs.1,60,000
Fair rent	Rs.1,50,000
Standard Rent	Rs.1,70,000
Rent received	Rs.15,000 p.m.

The loan for the construction of this property is jointly taken and the interest charged by the bank is Rs.25,000 has been paid. Interest on the unpaid interest is Rs.450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is Rs.5,000. The municipal taxes of Rs.5,100 have been paid by the tenant.

Compute income from house property in the hands of Mr.Raman for the A.Y. 2026-27.

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14. Two brothers Arun and Bimal are co-owners of a house property with equal share. The house was constructed during the financial year 1998-99. The property consists of eight identical units and is situated at Cochin.

During the financial year 2025-26, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of Rs.12,000 per month per unit. The municipal value of the house property is Rs.9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. One of the let out properties remained vacant for 4 months.

The other expenses were as follows:
Repairs Rs.40,000; Insurance paid Rs.15,000; Interest payable on loan Rs.3,00,000

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

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

Compute total income of two brothers for A.Y. 2026-27 assuming they have opted out of default tax regime. What will be the total income if they pay tax under the default tax regime.

Problems on Interest computation on borrowed capital:

15. Identify pre-construction period from the following information given below:

Date of borrowing	Date of completion	Date of repayment
a. 1.4.2023	1.4.2024	1.4.2038
b. 1.4.2022	1.4.2024	1.4.2038
c. 1.4.2019	31.8.2022	1.4.2038
d. 1.4.2020	31.10.2022	1.4.2038
e. 1.8.2021	1.12.2023	1.4.2038

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16. Mr.R took a loan of Rs.15 lakhs @ 12% p.a. on 1.7.2023 for constructing a house. The construction of the house was completed on 19.10.2025. Compute for A.Y. 2026-27 the amount of interest deductible in computing the income from house property if the house is: (i) let out; (ii) self-occupied.

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17. The assessee took a loan of Rs.6,00,000 on 1.4.2022 from a bank for construction of a house on a land he owns in Chennai. The loan carries an interest @ 10% p.a. The construction is completed on 15.6.2024. The entire loan is outstanding as on 31.03.2026. Compute interest allowable for the previous year 2025-26.

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18. Poorna has one house property at Bangalore. She stays with her family in the house. The rent of similar property in the neighborhood is Rs.25,000 p.m. The municipal valuation is Rs.2,80,000 p.a. Municipal taxes paid is Rs.8,000.

The house construction began in April 2019 with a loan of Rs.20,00,000 taken from SBI Housing Finance Ltd. @ 9% p.a. on 01.04.2019. The construction was completed on 30.11.2021. The accumulated interest up to 31.3.2021 is Rs.3,60,000. On 31.03.2026, Poorna paid Rs.2,40,000 which included Rs.1,80,000 as interest. There was no principal repayment prior to this date. Compute income from house property for A.Y. 2026-27 assuming that she has exercised the option of shifting out of the default tax regime.

Problems on Deemed to be let out property

19. Mr.R has three houses for self-occupation. What would be the tax treatment for A.Y. 26-27 in respect of income from house property?

- **(a)** One house, at the option of Mr.R, would be treated as self-occupied. The other two houses would be deemed to be let out.
- **(b)** Two houses, at the option of Mr.R, would be treated as self-occupied. The other house would be deemed to be let out.
- **(c)** One house, at the option of Assessing Officer, would be treated as self-occupied. The other two houses would be deemed to be let out.
- **(d)** Two houses, at the option of Assessing Officer, would be treated as self-occupied. The other house would be deemed to be let out.

20. 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 Rs.30 lakh @ 10% p.a. on 1.4.2024. He has not repaid any amount so far. In respect of house at Delhi, he has taken a loan of Rs.5 lakh @ 11% p.a. on 1.10.2024 towards repairs. Compute the deduction which would be available to him u.s.24(b) for A.Y.2026-27 in respect of interest payable on such loan if he exercises the option of shifting out of the default tax regime.

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

Particulars	**House I**	**House II**	**House III**
Municipal valuation p.a.	Rs.3,00,000	Rs.3,60,000	Rs.3,30,000
Fair rent p.a.	Rs.3,75,000	Rs.2,75,000	Rs.3,80,000
Standard rent p.a.	Rs.3,50,000	Rs.3,70,000	Rs.3,75,000
Date of completion/purchase	31.3.2001	31.3.2003	01.4.2017
Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year	nil	55,000	nil
Interest for current year on money borrowed in April, 2018 for purchase of property	nil	nil	1,75,000

Compute Income from house property and suggest which houses should be opted to be assessed as self-occupied so that his tax liability is minimum.

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22. Mr.Vivek, an Indian resident, has four residential properties in India. Two of them are in Delhi, of which one is self-occupied and second is let out for monthly rent of Rs.1,40,000 to Mr.Sushil, a salaried individual. The other two properties are in Mumbai.

To reduce his tax liability, he gifted one of the residential house properties in Mumbai to his wife, Mrs.Anika and second one to his minor daughter, Ms.Pooja, without adequate consideration in April 2025. Expected monthly rent of self-occupied property in Delhi is Rs.50,000 and expected monthly rent of property in Mumbai is Rs.75,000 each. He paid municipal taxes amounting to Rs.1,20,000 for let out property.

Compute income taxable under the head "IFHP" in the hands of Mr.Vivek?

<u>Problem on recovery of Unrealised rent:</u>

23. Mr.X received Rs.90,000 in May, 2025 towards recovery of unrealized rent, which was deducted from actual rent during the P.Y. 2023-24 for determining annual value. Legal expenses incurred in relation to unrealized rent is Rs.20,000. The amount taxable u.s.25A for A.Y. 2026-27 would be:

a) Rs.70,000 c) Rs.90,000
b) Rs.63,000 d) Rs.49,000

Problem on arrears of rent collected:

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

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

Further, he had let out his property from April, 2021 to February, 2025 to Mr. Satish. In April, 2023, he had increased the rent from Rs.12,000 to Rs.15,000 per month and the same was a subject matter of dispute. In September, 2025, the matter was finally settled and Mr.Anand received Rs.69,000 as arrears of rent for the period April 2023 to February, 2025.

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

Problems on partly self-occupied and partly let-out

25. X owns a property at Chennai (Municipal valuation Rs.1,64,000 p.a.; Fair rent Rs.2,16,000 p.a.; Standard rent Rs.1,80,000 p.a.). The house is let out up to 31.01.2026 (monthly rent being Rs.14,000). From 01.02.2026 the property is self-occupied for own residential purposes.

Expenses incurred by X are: Municipal tax Rs.6,000 (actually paid); Repairs Rs.2,000; Interest on capital borrowed (date of borrowing 10.6.98) for acquiring the property: Rs.1,23,000. **Compute income from house property.**

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26. Smt.Rajalakshmi owns a house property at Adyar in Chennai. The municipal value of the property is Rs.5,00,000, fair rent is Rs.4,20,000 and standard rent is Rs.4,80,000. The property was let-out for Rs.50,000 p.m. up to December 2025. Thereafter, the tenant vacated the property and Smt.Rajalakshmi used the house for self-occupation. Rent for the months of November and December 2025 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied.

She paid municipal taxes @ 12% during the year. She had paid interest of Rs.25,000 during the year for amount borrowed for repairs for the house property. Compute her income from house property for the A.Y. 2026-27.

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27. You are required to compute Income from House Property for assessment year 26-27 of Mrs.R from her house property at T.Nagar in Chennai. The Municipal value of the property is Rs.7,50,000. Fair rent of the property is ₹6,30,000 and Standard rent is ₹7,20,000 per annum. The property was let out for ₹80,000 per month for the period, April 2025 to November 2025.

Thereafter, the tenant vacated the property and Mrs.R used the house for self-occupation. Rent for the months of October and November 2025 could not be realized from the tenant. The tenancy was bonafide but the defaulting tenant was in occupation of another property of the assesse, paying rent regularly. She paid municipal taxes at 12% during the year and paid interest of ₹50,000 during the year for amount borrowed towards repairs of the house property.

Problems on Part of the house is let out and the other part is self-occupied

28. Prem owns a house in Chennai. During the previous year 2025-26, 2/3rd portion of the house was self occupied and 1/3rd portion was let out for residential purposes at a rent of Rs.8,000 p.m. Municipal value of the property is Rs.3,00,000 p.a., fair rent is Rs.2,70,000 p.a. and standard rent is Rs.3,30,000 p.a. He paid municipal taxes @ 10% of municipal value during the previous year.

A loan of Rs.25,00,000 was taken by him during the year 2021 for acquiring the property. Interest on loan paid during the previous year 2025-26 was Rs.1,20,000. Compute IFHP under both tax regimes.

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29. X owns a residential house property. It has two equal residential units-Unit I and Unit 2. While Unit I is self-occupied by X for his residential purpose, Unit 2 is let (rent being Rs.6,000 p.m., rent of 2 months could not be recovered).

Municipal value of the property is Rs.1,30,000 p.a., Standard rent is Rs.1,25,000 p.a. and Fair rent is Rs.1,40,000 p.a. Municipal tax is imposed @ 12% which is paid by X. Other expenses being repairs Rs.9,000; insurance Rs.600; interest on capital borrowed during 1998 for constructing the property Rs.63,000. **Compute his taxable income assuming his income from other sources is Rs.10,00,000.**

Additional Problems:

30. 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 Rs.8,000 p.m. The rented unit was vacant for 2 months during the year. The particulars of the house for the previous year 2025-26 are as under:

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

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31. Mr.Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are Rs.96,000, Rs.1,26,000 and Rs.1,08,000 (per annum), respectively. During the financial year 2025-26, one-third of the portion of the house was let out for residential purpose at a monthly rent of Rs.5,000. The remaining two-third portion was self-occupied. Municipal tax @ 11% of municipal value was paid during the year.

The construction of the house began in June, 2018 and was completed on 31.5.2021. Vikas took a loan of Rs.1,00,000 on 1.7.2018 for the construction of building. He paid interest on loan @ 12% per annum and every month such interest was paid. Compute IFHP. under old tax regime.

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32. Mr.Aditya, is a resident but not ordinarily resident in India for the A.Y. 2026-27. He owns two houses, one in Dubai and the other in Mumbai. The house in Dubai is let out there at a rent of DHS 20,000 p.m. (1 DHS = INR 18). The entire rent is received in India. He paid property tax of DHS 2,500 and sewerage tax DHS 1,500 there, for the financial year 2025-26.

The house in Mumbai is self-occupied. He had taken a loan of Rs.25,00,000 to construct the house on 1st June, 2022 @ 12%. The construction was completed on 31st May, 2024 and he occupied the house on 1st June, 2024. The entire loan is outstanding as on 31st March, 2026. Property tax paid in respect of the second house is Rs.2,400 for the financial year 2025-26. Compute the income chargeable under the head "IFHP" for A.Y.2026-27. DHS = Dirhams

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33. Mr.Nitin completed construction of a residential house on 01.04.2025.
Interest paid on loans borrowed for the purpose of construction during the 30 months prior to completion was 60,000. The house was let out on a monthly rent of 18,000.

Annual corporation tax paid is 35,000. Interest paid during the year is 25,000;
Amount spent on repairs is 6,000 The property was vacant for 4 months.

Annual letting value as per corporation records is Rs.1,50,000. Fire insurance premium paid Rs.3,000. He owns another house in Kerala. In respect of this house, he had received arrears of rent of Rs.36,000 during the year, which had not been charged to tax in the earlier year. **Compute the income from "Income from House Property" for the Assessment Year 26-27.**

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34. Mr.Ramesh constructed a big house (construction completed in previous year 2013-14) with 3 independent units. Unit-1 (50% of floor area) is let out for residential purpose at Rs.15,000 p.m. A sum of Rs.3,000 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Mr.Ramesh is occupied by the tenant. Unit-1 remains vacant for 2 months when it is not put to any use. Unit-2 (25% of the floor area) is used by Mr. Ramesh for the purpose of his business, while Unit 3 (the remaining 25%) is utilized for the purpose of his residence.

Other particulars of the house are as follows:

- Municipal valuation – Rs.1,88,000
- Fair rent – Rs.2,48,000
- Standard rent under the Rent Control Act – Rs.2,28,000
- Municipal taxes – Rs.20,000 and
- Interest on capital borrowed for the construction of the property – Rs.60,000, ground rent Rs.6,000, repairs – Rs.5,000 and fire insurance premium paid – Rs.60,000.

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

Determine taxable income of Mr.Ramesh for the A.Y. 2026-27 if he opts for optional tax regime.

CASE SCENARIOS:

35. For the assessment year 2026-27, Mr.Sonu submits the following information:

Particulars	Building at Chennai (Rs.)	Building at Kochi (Rs.)
Municipal Valuation	35,000	80,000
Standard Rent	36,000	70,000
Fair Rent	31,000	82,000
Rent received	38,000	68,000
Municipal taxes paid by tenant Mr.Ramu for building at Chennai and paid by Mr.Sonu for building at Kochi.	3,000	4,000
Repairs paid by tenant Mr.Ramu for Chennai building and Mr.Sonu paid for Kochi building	500	18,000
Land revenue paid	2,000	16,000
Insurance premium paid	500	2,000
Interest on loan borrowed for payment of municipal tax	200	400
Nature of occupation	Let out for residence	Let out for business
Date of completion of construction	1.4.1998	1.7.2010

Mr.Sonu is constructing one more building in Mumbai. During the previous year, Mr.Raju, a film director, took on rent the building under construction in Mumbai at Rs 5,000 per month for his film shooting. The construction of the said building would be completed by April 2026. Mr.Sonu is a real estate developer and letting out properties is not the business of Mr.Sonu.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. Which of the building's income is chargeable to tax under the head "IFHP" in the hands of Mr.Sonu?
(a) Building at Chennai only
(b) Building at Kochi only
(c) Both buildings at Chennai and Kochi
(d) All the three buildings at Chennai, Kochi and Mumbai

2. Which of the following payments/expenditure is allowable as deduction while computing income under the head "Income from house property" incurred in respect of the building at Chennai and Kochi?
(a) Municipal taxes paid by Mr.Sonu and Mr.Ramu
(b) Municipal tax, land revenue, insurance premium, interest on loan borrowed for payment of Municipal tax paid by Mr.Sonu
(c) Only municipal tax paid by Mr.Sonu
(d) Both municipal tax and repairs paid by Mr.Sonu

3. Under which head of income, the amount received from Mr.Raju would be chargeable to tax?
(a) Income from house property
(b) Profits and gains from business or profession
(c) Income from other sources
(d) Income from house property or Income from other sources, at the option of Mr.Sonu

4. What is the amount chargeable to tax under the head IFHP in the hands of Mr.Sonu for the P.Y. 2025-26?
(a) Rs.72,800 (c) Rs.81,200
(b) Rs.1,14,800 (d) Rs.70,700

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36. Ananya Gupta, a citizen of India, lives with her family in New York since the year 2002. She visited India from 21st March, 2023 to 28th September, 2025 to take care of her ailing mother. In the last four years, she has been visiting India for 100 days every year to be with her mother. She owns an apartment at New York, which is used as her residence. The expected rent of the house is $ 32,000 p.a. The value of one USD ($) may be taken as Rs.75. Municipal taxes paid in New York in January, 2026 are $ 2,000.

She took ownership and possession of her house in New Delhi on 25th March, 2025, for self-occupation, while she is in India. The municipal valuation is Rs.4,20,000 p.a. and the fair rent is Rs.4,50,000 p.a. She paid property tax of Rs.22,000 to Delhi Municipal Corporation on 21st March, 2026. She had taken a loan of Rs.16 lakhs @ 10% p.a. from IDBI Bank on 1st April, 2021 for constructing this house and the construction got completed on 20th March, 2025. No amount has been paid towards principal repayment so far. The house is vacant for the rest of the year i.e., from October 2025 to March 2026.

She had a house property in Mumbai, which was sold on 28th March, 2025. In respect of this house, she received arrears of rent of Rs.3,00,000 on 4th February, 2026. This amount has not been charged to tax earlier.

She does not have any income under any other source in India during previous year in 2025-26. He wants to opt for the optional tax regime for A.Y. 2026-27.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. What would be the residential status of Ananya Gupta for A.Y.2026-27?
(a) Resident and ordinarily resident c) Resident but not ordinarily resident
(b) Deemed resident but not ordinarily resident d) Non-resident

2. Ms.Ananya Gupta can claim benefit of "Nil" Annual Value under section 23(2) in respect of:-
(a) Her Delhi house
(b) Her New York house, since it is more beneficial; her Delhi house will be deemed to be let out and expected rent would be the annual value.
(c) Her Delhi house alone; her New York house will be deemed to be let out and expected rent would be the annual value.
(d) Both her Delhi house and New York house, since benefit of Nil Annual value u/s 23(2) is available in respect of two house properties.

3. What is the income chargeable under the head "IFHP" of Ananya Gupta for A.Y. 2026-27?
(a) Rs.15,65,000 c) Rs.3,09,600
(b) Rs.1,00,000 d) Rs.10,000

4. Assuming that, for the purpose of this question alone, Ananya Gupta has let out her flat in New York during the six months (April to September) when she is in India, for a sum of $ 6,000 p.m. Such rent was received in a bank account in New York and then remitted to India through approved banking channels. What would be the IFHP chargeable to tax in her hands in India for A.Y. 2026-27?
(a) Rs.10,000 c) Rs.17,85,000
(b) Rs.17,95,000 d) Rs.18,85,000

37. Reenu, a resident individual aged 48 years, owns 2 flats (A and B) in Hyderabad. She lives in flat A and gave flat B to her in-laws for their residential purposes. She does not charge any rent from them.

In the month of April 2025, she entered into an agreement to buy flat C from a builder in the same area as her other flats are situated. In the month of September 2025, she took possession of flat C and started spending her weekends there, after paying a token amount of Rs.11,000 to the builder. However, flat C is still not registered in her name (agreement to sell has been executed). All the three flats are identical in size and other aspects.

She had one more flat D which was let out at a monthly rent of Rs.45,000 to Mr.Shubh during the financial year 2022-23 (from 01.04.2022 to 31.03.2023). Mr.Shubh did not pay rent for 3 months. Reenu sold the flat on 31.03.2025.

Based on the above facts, answer the following multiple choice questions 1 to 3:

1. Which of the following statements is correct as far as the taxability of income from house property is concerned?

(a) Any two flats (of her choice) will be treated as self-occupied whereas the third flat will be treated as deemed to be let out.

(b) One flat (of her choice) will be treated as self-occupied whereas the other two flats will be treated as deemed to be let out.

(c) Flat A will be treated as self-occupied, flat B will be treated as deemed to be let out and flat C will not have any impact on her income as the flat is not yet registered in her name.

(d) All three flats will be treated as self-occupied.

2. Assume Shubh pays the arrear rent to Reenu on 28th June 2025. What shall be the treatment of such rent received if she had to spend Rs.5,000 for such collection?

(a) Rs.1,30,000 shall be taxable in the hands of Reenu as IFOS in the P.Y. 2025-26 as she is not the owner of the flat anymore.

(b) Nothing shall be taxable in the hands of Reenu as she is not the owner of the flat anymore.

(c) Rs.94,500 shall be taxable in the hands of Reenu as IFHP in the P.Y. 2025-26, even if she is not the owner of the flat anymore.

(d) Rs.89,500 shall be taxable in the hands of Reenu as IFHP in the P.Y. 2025-26, even if she is not the owner of the flat anymore.

38. Mr.Sandeep, manager in CTL Pvt. Ltd. at Mumbai, furnishes the following information for the year ended 31st March, 2026:

Basic salary is Rs.55,000 p.m. and is entitled to a commission of Rs.2,500 p.m. A company owned accommodation is provided to him in Mumbai. Furniture costing Rs.2,40,000 was also provided.

He took a personal loan of Rs.3,00,000 on 1st September, 2025 on which the interest @ 7.75% per annum was charged by the company. The entire loan is still outstanding. SBI rate of interest on 1st April, 2025 is 12.75%.

Mr.Sandeep is the owner of a house property in Chennai which he constructed during the financial year 2017-18. The property consists of four identical units. He occupied one unit for his residence and three units were let out at a rent of Rs.20,000 p.m. per unit. The municipal value is Rs.9,00,000 and the municipal tax was paid @ 20% of municipal value. Fair rent and standard rent are Rs.7,50,000 and Rs.8,50,000, respectively. One of the let out units was vacant for six months during the year. Interest on loan taken for construction of the house is Rs.2,00,000.

Compute total income of Mr.Sandeep for A.Y. 2026-27 assuming he has opted OTR.

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39. Ms.Prerna is having a residential house property in Nagpur, of which 1/3rd is self-occupied and 2/3rd is let out for commercial purposes at a monthly rent of Rs.12,000. Fair rent (for let out portion only) was Rs.30,000 p.m., Municipal value for the property was Rs.2,40,000 and standard rent under the Rent Control Act was Rs.3,00,000 for the entire property.

Municipal taxes are 10% of municipal valuation and are paid by her on 30th July, 2025. She took a loan of Rs.45,00,000 for the construction of this house from a scheduled bank on 1.4.2023. She repaid the entire loan along with interest on 30.6.2025. The interest rate for this loan was 10% p.a. The construction was completed on 30th June, 2024. She earns other income of Rs.2,00,000 during the previous year 2025-26. She wishes to opt for default tax regime.

Based on the above information, answer multiple choice question no. 1-3:

1. The Net Annual Value (NAV) of the house property for the A.Y. 2026-27 is:
- (a) Rs.1,28,000
- (b) Rs.1,44,000
- (c) Rs.1,84,000
- (d) Rs.2,00,000

2. Deduction in respect of interest on loan for the P.Y. 2025-26 shall be:
- (a) Rs.2,02,500
- (b) Rs.1,35,000
- (c) Rs.5,62,500
- (d) Rs.1,12,500

3. Compute her total income for the A.Y. 2026-27:
- (a) Rs.1,93,800
- (b) Rs.2,00,000
- (c) Nil
- (d) Rs.2,05,000

CHAPTER – 9 PROFITS & GAINS OF BUSINESS OR PROFESSION

Format to compute business income:

Net Profit as per profit and loss account	xxx
Add: Disallowances (if debited)	xxx
Less: Incomes considered separately (if credited)	xxx
Less: Depreciation as per Income tax rules	xxx
INCOME FROM BUSINESS	**xxx**

Few items of disallowances while computing business income:

- All provisions and reserves (e.g. provision for bad and doubtful debts)
- Income tax including advance tax
- Notional items debited to profit and loss account such as:
  - Salary drawn by the proprietor;
  - Interest charged by the proprietor on his own capital
- All capital expenditure (purchase of an asset) and capital losses (loss on sale of an asset)
- Charities and donations
- All personal expenses of the assessee including drawings
- Fine or Penalty paid for violation or contravention of any law
- Expenditure on CSR activities
- Failure to deduct tax at source on payments made to residents shall be disallowed to the extent of 30% of such expenditure
- Any payment exceeding Rs.10,000 by way of cash or bearer cheque (limit is Rs.35,000 in case of payment to a transport operator plying trucks)
- Any payment made to a relative which is found to be excessive or unreasonable

Few items of Allowances:

- Repairs, fire insurance premium paid on the assets used for business
- Bad debts
- Advertisement expenditure (except advertisement in the souvenir of a political party)
- Printing, postage and stationery, telephone expenses, travelling expenses
- Interest on capital borrowed for the purpose of investment in business

- Audit fees
- Loss of stock-in-trade
- Employer's contribution to recognized provident fund and other approved funds
- Contribution to Research Institutions for the purpose of approved research
- Any tax payable to the Government (e.g. GST, customs duty); bonus or gratuity to employees; interest on loan borrowed from banks; shall be allowed only on **"payment"** basis. Payment should be made before the "due date" of filing return of income.

Section 37(1): General deduction:

An expenditure shall be allowed under section 37(1), provided:

- It is not in the nature of expenditure described under section 30 to 36;
- It is not in the nature of capital expenditure;
- It is not a personal expenditure of the assesse;
- It should have been spent wholly and exclusively for the purpose of business / profession;
- It should not be incurred for any purpose which is an offence or is prohibited by any law
- It is not an expenditure incurred by the assesse on CSR activities

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Depreciation on tangible assets and intangible assets:

i. Asset acquired during the previous year and put to use for less than 180 days:
50% of the normal depreciation is allowed.

ii. Asset acquired during the previous year and put to use for more than 180 days:
Full depreciation is allowed.

Important: Where an asset is purchased by way of cash payment exceeding Rs.10,000; depreciation shall **NOT** be allowed.

Important: An assesse engaged in PGBP is required to deduct tax at source on payments made only if his turnover/sales during the immediately preceding financial year (2024-25) has exceeded Rs.1 crore in case of business (or) gross receipts has exceeded Rs.50 lakhs in case of profession.

Important: "Business income" is computed as per the method of accounting followed by the assessee. (Mercantile system or Cash system). Under 'Mercantile' system, expenditure is allowed on **'due'** basis. However, certain expenses covered by section 43B shall be allowed as deduction only on **'payment'** basis even though assessee follows 'Mercantile' system for accounting the expenditure.

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1. The following items are debited to P and L A/c. of an assessee for the year ended 31.03.2026. State whether these items are admissible or inadmissible while computing income from business.

a. Single payment for an expenditure exceeding Rs.10,000 in cash or bearer cheque
b. Payment of rent exceeding the limit without Tds.
c. Donation to PM Cares Fund
d. Salary includes Rs.2,00,000 paid to his brother which is unreasonable to the extent of Rs.60,000.
e. Purchase of computer for office use through on-line payment
f. Income tax paid
g. Provision for bad and doubtful debts
h. Loss on sale of machinery
i. Contribution to an approved research institute for the purpose of scientific research
j. Expenses on Corporate Social Responsibility activities
k. Fine paid for violation of provisions of any law
l. Household expenses
m. Bonus payable to employees due on 31.03.2026 was not paid before 'due date' of filing IT return

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2. The following is the Profit and Loss Account of Mr.B for the year ended 31.3.2026:

General expenses	30,000	Gross Profit	4,60,000
Fire insurance prm on stock	4,000	Bad debts recovered	
Bad debts	10,000	(allowed earlier by A. O.)	4,000
Donation	15,000	Interest on Income tax refund	7,000
Salaries	1,50,000	Interest on savings account with SBI	6,000
Audit fees	7,500	LIC maturity amount received	50,000
Interest on own capital	24,000		
Income tax	25,000		
Depreciation	20,000		
Household expenses	40,000		
Municipal tax on office building	15,000		
Advertisement	20,000		
Car expenses (50% personal use)	15,000		
Net profit	1,51,500		

- General expenses include Rs.14,000 paid as compensation to an old employee whose services were terminated in the interest of the business and Rs.10,000 by way of help to a poor student.
- Depreciation as per Income-tax rules comes to Rs.29,000.
- Municipal tax was paid on 18.5.2026. Due date of filing return is 31.7.2026.
- Salaries include salary drawn by the proprietor himself Rs.60,000
- **Compute PGBP of Mr.B. Ignore default tax regime.**

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3. The following is the Profit and Loss Account of Mr.C for the year ending 31.3.2026:

Opening stock	3,60,000	Sales	3,29,00,000
Purchases	3,10,00,000	Closing stock	4,50,000
Salaries and wages	11,20,000		
Rent and rates	40,000		
Household expenses	1,18,000		
Commission (tds not deducted)	50,000		
Income tax	42,000		
Advertisement	10,000		
Postage and telegrams	4,000		
Interest on own capital	26,000		
Reserve for future losses	25,000		
Depreciation on machinery	10,000		
Net profit	5,45,000		

- Both opening and closing stock have been consistently valued at 10% below cost price.
- Depreciation according to the Income-tax Rules works out to Rs.5,000.
- Turnover of Mr.C for the preceding financial year 2024-25 was Rs.325 lakhs.
- Expenditure on advertisement was spent in a souvenir published by a political party.
- Compute PGBP of Mr.C ignoring default tax regime.

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4. Following is the profit and loss account of Mr.X for the year ending March 31, 2026:-

Repairs to building	1,81,000	Gross Profit	6,01,000
Paid to IIT, for an approved scientific research programme	1,00,000	Income-tax refund	8,100
Interest	1,10,000	Interest on company deposit	6,400
Travelling	1,34,500		
Net Profit	90,000		

The following additional information is given:

- Repairs to building includes Rs.1,00,000 being cost of building a new room.
- Interest payment includes Rs.50,000 on which TDS has not been deducted and penalty for contravention of GST Rules of Rs.24,000.
- Assume turnover of Mr.X for the P.Y. 24-25 has exceeded Rs.100 lakhs.
- Ignore depreciation.

Compute PGBP of Mr.X for A.Y. 2026-27 both under optional tax and default tax regime.

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5. Mr.D, an Indian Resident aged 38 years, carries on his own business. He has prepared the following Profit and Loss account for the year ending March 31, 2026:-

To Salary	48,000	Gross profit	4,30,400
To Advertisement	24,000	Cash gift on the occasion	
To Sundry expenses	54,500	of marriage	1,20,000
To Fire insurance (Rs.10,000		Interest on debentures	
relates to house property)	30,000	(listed) (net of taxes)	5,400
To Income-tax	27,000		
To Household expenses	42,500		
To Depreciation (allowable)	23,800		
To Contribution to a University			
approved u.s.35(1)(ii)	1,00,000		
To Municipal taxes on h. p.	36,000		
To Printing and stationery	12,000		
To Repairs and maintenance	24,000		
To Net Profit	1,34,000		
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Other information:

a. Mr.D owns a house property which is being used by him for the following purposes:
- 25% of the property for own business
- 25% of the property for self-residence
- 50% let out for residential purpose

b. Rent received from 50% let out portion during the year was Rs.1,65,000.

c. Compute Gross Total Income of Mr.D under optional tax regime.

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6. Mr.R furnishes you the following information:

Income and Expenditure Account for the year ended 31.3.2026

To Medicines consumed	72,42,000	By Fee receipts	78,47,500
To Staff salary	1,65,000	By Rent	27,000
To Hospital consumables	47,500	By Dividend from Indian Co.	9,000
To Rent paid	60,000		
To Administrative expenses	1,23,000		
To Net income	2,46,000		

Rent paid includes the rent for his residential accommodation of Rs.30,000 (paid by cheque).

Medicines consumed include medicines (cost) Rs.10,000 used for R's family.

Hospital equipments (eligible for depreciation @ 15%)

1.04.2025 Opening WDV	Rs.5,00,000
7.12.2025 Acquired (cost)	Rs.2,00,000 (payment through NEFT)

Rent received relates to a property situated at Mysore (Gross Annual Value). The municipal tax of Rs.2,000 paid in December, 2025 has been included in the "administrative expenses".

He received Rs.50,000 p.m. as salary from a Hospital. This has not been included in the "fee receipts" credited to income and expenditure account.

Compute R's gross total income for the year ended 31.3.2026 under the default tax regime.

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7. **X carries on his own business.** An **ANALYSIS** of his profit and loss for the year ending March 31, 2026 reveals the following:

Net Profit is Rs.11,20,000

The following incomes are credited in the profit and loss account:

a. Dividend from domestic companies Rs.22,000 (gross)
b. Interest on debentures Rs.17,500 (gross)
c. Winning from races Rs.15,000 (gross)

It is found that some stocks are omitted to be included in both the opening and closing stocks, the value of which are – opening stock: Rs.8,000 and closing stock Rs.12,000

Rs.1,00,000 debited to P&L account being contribution to a University approved and notified u.s.35(1)(ii) for the purpose of scientific research.

Salary includes Rs.8,00,000 paid to his brother which is unreasonable to the extent of Rs.60,000.

Advertisement expenses include 15 gift packets of dry fruits costing Rs.2,000 per packet presented to important customers.

Total expenses on car is Rs.78,000. The car is used both for business and personal purposes. $3/4^{th}$ is for business purposes.

Miscellaneous expenses included Rs.30,000 paid to A & Co., a goods transport operator, in cash on January 31, 2026 for distribution of the company's product to the warehouses.

Depreciation debited in the books is Rs.55,000. Depreciation allowable as per IT rules Rs.50,000

Drawings Rs.10,000 debited in the books.

Investment in NSC Rs.15,000 debited in the books.

Compute the total income of Mr.X for the A.Y. 2026-27 under optional tax regime.

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8. Ms.Purvi, aged 55 years, is a CA. in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2026 reads as follows:

Expenditure	(₹)	Income	(₹)	(₹)
Salary to staff	45,50,000	Fees earned:		
Stipend to articled assistants	1,37,000	Audit	77,88,000	
		Taxation services	5,40,300	
Incentive to articled assistants	13,000	Consultancy	2,70,000	85,98,300
Office rent	12,24,000	Dividend on shares from Indian companies (Gross)		10,524
Printing and stationery	12,22,000	Income from UTI		7,600
Meeting, seminar and conference	31,600	Honorarium received from various institutions for valuation of answer papers		15,800
Purchase of car (for office use)	80,000			
Repair, maintenance and petrol of car	4,000	Rent received from residential flat let out		85,600
Travelling expenses	5,25,000			
Municipal tax paid in respect of h.p.	3,000			
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 (LED TV) received from clients during the course of profession is ₹ 1,00,000.

iii. Incentives to articled assistants represent amount paid to two articled assistants for passing CA Intermediate Examination at first attempt.

iv. Repairs & maintenance of car include ₹ 2,000 for the period from 1.10.2025 to 30.09.2026.

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 (official tour) of Rs.3,00,000 which was within RBI norms.

9. Mr.Rajiv aged 50 years, a resident individual and practicing Chartered Accountant furnishes you the **RECEIPTS AND PAYMENTS ACCOUNT** for the financial year 2025-26.

Receipts and Payments Account

Receipts	₹	Payments	₹
Opening balance (1.4.2025) Cash on hand and at bank	12,000	Staff salary, bonus and stipend to articled clerks	41,50,000
Fee from professional services (gross)	79,38,000	Other administrative expenses	11,48,000
		Office rent	30,000
Rent	60,000	Housing loan repaid to SBI (includes interest of ₹ 88,000)	1,88,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000		
		Life insurance premium	24,000
		Motor car (acquired in Jan. 2026) (payment through a/c payee cheque)	4,25,000
		Medical insurance premium	18,000
		Books bought (annual publications) (payment through debit card)	20,000
		Computer acquired on 1.11.2025 (for professional use) (credit card)	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000
		Motor car maintenance	10,000
		Closing balance (31.3.2026) Cash on hand and at bank	25,000
	62,60,000		**62,60,000**

1. He occupies 50% of the building for own residence and let out the balance for residential use on a monthly rent of ₹ 5,000. The building was constructed during the year 1997-98

2. Motor car was put to use both for official and personal purpose. One–fifth of the motor car use is for personal purpose.

3. No car loan interest was paid during the year

4. The written down value of assets as on 1.4.2025 are given below:

Furniture & fittings	₹ 60,000
Plant & Machinery (air-conditioners, photocopies, etc)	₹ 80,000
Computers	₹ 50,000

Note: Mr.Rajiv follows regularly the ***cash system of accounting***. Compute the total income of Mr.Rajiv for the assessment year 2026-27 assuming that he has shifted out of the default tax regime.

BUSINESS OR PROFESSION – A DISCUSSION ON IMPORTANT SECTIONS

SECTION 44 AA: COMPULSORY MAINTENANCE OF BOOKS OF ACCOUNTS

1. ***Who are required to maintain books of accounts?***
   Professionals notified by CBDT and others on fulfillment of certain conditions

2. ***Professionals notified by CBDT?***
   Specified Professionals include: Legal, medical, engineering or architectural profession, or accountancy or technical consultancy or interior decoration or any other profession notified by CBDT (notified profession includes: authorized representative, film artist, company secretary and information technology)

3. ***When are Professionals required to maintain books as per Rule 6F?***
   Books are required to be maintained as per Rule 6F:
   If GROSS RECEIPTS from such profession exceed Rs.1,50,000 in ***all the three years*** immediately preceding the previous year (OR) is likely to exceed Rs.1,50,000 during the current previous year if the profession is newly setup.

4. ***What are the books that are prescribed under Rule 6F?***

   Books that are prescribed under Rule 6F are:
   - Cash book;
   - Journal (if books are maintained on mercantile basis);
   - Ledger;
   - Carbon copies of bills issued for an amount exceeding Rs.25;
   - Original bills / vouchers in respect of an expenditure exceeding Rs.50

   In case where a person is carrying on medical profession: In addition to the above books he has to maintain
   - a daily case register and
   - an inventory register

5. ***When other assessees (business) are required to maintain books?***
   Where **TURNOVER or GROSS RECEIPTS** exceeds Rs.10,00,000 in ANY **one year out of the three years** immediately preceding the previous year; or is likely to exceed Rs.10,00,000 during the current previous year in case of newly setup business; **(OR)**

   Where **INCOME** FROM SUCH BUSINESS exceeds Rs.1,20,000 in ANY **one year out of the three years** immediately preceding the previous year; or is likely to exceed Rs.1,20,000 during the current previous year in case of newly setup business.

   Important: However, in the case of **Individuals and HUF**, the above "turnover" limit is Rs.25,00,000 and "income" limit is Rs.2,50,000.

6. ***Books that are required to be maintained by others?***
   "SUCH BOOKS OF ACCOUNT AND DOCUMENTS" as would enable the A.O. to compute the total income of the assessee.

7. ***Penalty for failure to maintain books of account:*** *Rs.25,000*

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

Financial year 2022-23	Rs.1,15,000
Financial year 2023-24	Rs.1,80,000
Financial year 2024-25	Rs.2,10,000

What is his obligation regarding maintenance of books of accounts for assessment year 2026-27 (financial year 2025-26) under section 44AA of Income-tax Act, 1961?

SECTION 44 AB: COMPULSORY TAX AUDIT

1. ***When is Tax Audit Compulsory?***

An assessee carrying on Business: If his total sales, turnover or gross receipts from such business during the previous year exceed **Rs.1 crore**.

If cash receipts does not exceed 5% of total receipts and if cash payments does not exceed 5% of total payments then audit is compulsory only if turnover exceeds **Rs.10 crores** during the year.

An assessee carrying on Profession: If his gross receipts from such profession exceed **Rs.50,00,000** during the previous year.

Assessee covered u.s.44AD or 44ADA: Where a person who is covered u.s.44AD or u.s.44ADA, but claims that income from such business or profession is lower than the presumptive rate and his total income exceeds basic exemption.

Assessee covered u.s.44AE, etc.: Where a person who is covered by Section 44 AE and claims that income from such business is lower than the presumptive rate.

2. ***Time limit for completion of audit and filing of audit report.***
Audit shall be completed and audit report shall be filed on or before the **"specified date"** which shall be the date one month prior to the "due date" of filing return of income. "Due date" for filing return of income shall be 31st October and hence "**specified date"** shall be 30th September.

3. ***What is required to be furnished?***
Tax Audit Report has to be furnished duly signed and verified by a C.A.
Form 3CA and 3CD for assesses subject to audit under any other law (e.g. companies)
Form 3CB and 3CD for assesses not subject to audit under any other law (e.g. individuals, firms)

4. ***Penalty for failure to get books of account audited:***
½% of turnover/sales (or) Rs.1,50,000 (whichever is less)

PRESUMPTIVE INCOME SCHEME:

SECTION 44 AD: **INCOME ON PRESUMPTIVE BASIS IN THE CASE OF A RESIDENT-ASSESSEE ENGAGED IN ANY BUSINESS:**

1. ***Eligibility:***
Individuals, HUF and Firms having a gross turnover not exceeding Rs.2 crores (Rs.200 lakhs).

Amendment: Turnover **>** Rs.200 lakhs and up to Rs.300 lakhs can also opt for this scheme provided CASH receipts does not exceed 5% of total turnover/receipts.

2. ***How is income estimated:***
Income is computed @ 8% of turnover or a higher percentage as claimed by the assesse.

Income is computed @ 6% of turnover if the gross receipts or turnover is received by way of account payee cheque (or by account payee bank draft or by use of ECS) during the previous year or before due date of filing return of income.

3. ***Advantages of this scheme:***
No need to maintain books of accounts
No need for tax audit
Advance tax (whole amount – one instalment) should be paid on or before 15th March.

4. ***Eligibility of further deductions:***
No deductions u.s.30 to 38 can be claimed. All expenses including depreciation are deemed to have been allowed. Salary and interest paid to partners shall **not** be allowed. However, bfd business losses from earlier assessment years can be set-off.

5. ***Is it possible to declare income lower than presumptive rate:***

Yes, assessee can declare income at a rate lower than the presumptive rate provided, the assessee maintains books of account and gets them audited if total income exceeds basic exemption.

6. ***Important condition:***

An assessee who declares income as per section 44AD for any previous year has to offer income as such for five consecutive years. If this condition is violated, the assessee shall not be eligible for this scheme for next 5 Assessment Years.

<u>Example:</u> For the assessment years 2022-23, 2023-24 and 2024-25, the assessee claims the benefit of presumptive income u/s.44AD. For A.Y.2025-26, he offers a lower income. In this case, he will not be eligible to claim the benefit of this section for the next five assessment years starting from A.Y.2026-27. Such assessee, if his total income is above the basic exemption, shall maintain books and get them audited.

7. ***Due dates for filing I.T. return:***

If the assessee opts for presumptive scheme then audit is not required, therefore 31st July will be the due date.

If the assessee does not opt for presumptive scheme then audit is required and therefore 31st October.

8. ***Who cannot avail this scheme?***

- A person carrying on any profession notified u.s.44AA
- A person earning income in the nature of commission or brokerage
- A person carrying on any agency business
- A person engaged in plying of goods carriages
- LLPs & Company-assessee
- Person claiming deduction u.s.10AA

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1. Mr.N engaged in the business of automobiles has a turnover of Rs.1,50,00,000 from such business during the previous year 25-26.

- Is Mr.N eligible for presumptive income scheme u.s.44AD?
- Compute the profits from the business, if he opts for Section 44 AD. (Assume cash receipts)
- In case the total turnover is received by way of account payee cheque or through ECS during the previous year, what shall be the income?
- Mr.N wants to know by what date he is required to pay advance tax.
- What will be his due date for filing his income tax return?

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2. Mr.R engaged in the business of textiles has a turnover of Rs.300 lakhs from such business during the previous year 25-26. Is Mr.R eligible for presumptive income scheme u.s.44AD if his total turnover includes cash receipts of:

a) Rs.10 lakhs; or
b) Rs.40 lakhs

3. Mr.Praveen engaged in retail trade, reports a turnover of Rs.2,98,50,000 for the financial year 2025-26. Amount received in cash during the P.Y. 2025-26 is Rs.14,00,000 and balance through prescribed electronic modes on or before 31st July, 2026. His income from the said business as per books of account is computed at Rs.15,00,000. Retail trade is the only source of his income. A.Y. 25-26 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u.s.44AD.

- Is Mr.Praveen eligible to opt for presumptive income scheme for the AY 2026-27?
- If so, determine his income from retail trade as per the applicable presumptive provision.
- In case he does not opt for presumptive income scheme, what are his obligations.
- What is the due date for filing his return of income under both the options?

4. Zing Zang is an individual, manufacturing a product. He has turnover of Rs.98,50,000 which is inclusive of amount of Rs.25 lakhs received through electronic clearing system. The accounts are not properly maintained and you have advised him to pay tax u.s.44AD of the Act. On how much income he will pay tax for A.Y.2026-27: (A) Rs.7,88,000 (B) Rs.7,38,000 (c) Manufacturers not allowed u.s.44AD (D) Rs.5,91,000.

5. Mr.A, engaged in retail business, has made a turnover of Rs.1,75,00,000 during the previous year 2025-26. Out of the total turnover, amount received by cash till the due date of filing tax return is Rs.1,00,00,000 and amount received through electronic clearing system till the due date of filing tax return is Rs.50,00,000. Compute his income as per section 44AD of the Income-tax Act.

6. Real Builders (a partnership firm) admitted income u.s.44AD up to the assessment year 2025-26 resorted to determination of income as per regular provisions by getting the books of account audited for the assessment year 2026-27. The assessee firm cannot revert to presumptive provisions contained in section 44AD up to the assessment year ……………………………..

(A) 2031-32 (B) 2032-33 (C) Indefinitely (D) 2027-28

7. AB & Co. a partnership firm engaged in the manufacturing business has a gross receipt of Rs.59,00,000 from such business. The partnership deed provides for payment of salary of Rs.20,000 p.m. to each of the partners i.e. A & B. The firm uses machinery for the purpose of its business and the WDV of the machinery as on 01.04.2025 is Rs.2,00,000. The machinery is eligible for depreciation @ 15%. Compute the profits from the business for the A.Y.2026-27, if the firm opts for the scheme u.s.44AD and has received the following amount by account payee cheques:

a. Rs.25,00,000 till 31.03.2026
b. Rs.6,00,000 between 01.04.2026 and 31.07.2026
c. Rs.5,00,000 after 31.07.2026

SECTION 44 ADA: **PRESUMPTIVE INCOME SCHEME FOR RESIDENT PERSONS ENGAGED IN SPECIFIED PROFESSION:**

1. ***Eligibility:*** Professionals notified (individual or firms but not LLP) u.s.44AA having gross receipts not exceeding Rs.50 lakhs.

   Amendment: Gross receipts **>** Rs.50 lakhs and up to Rs.75 lakhs can also opt for this scheme provided CASH receipts does not exceed 5% of gross receipts.

2. ***Presumptive income:*** 50% of gross receipts or a higher % as claimed in the tax return by the assessee

3. ***Advantages of this scheme:*** Not required to maintain books of accounts
   Audit not required
   Advance tax (whole amount – one instalment) should be paid on or before 15th March

4. ***Eligibility of further deductions:*** No deductions u.s.30 to 38 can be claimed. All expenses including depreciation are deemed to have been allowed. Salary and interest paid to partners shall **not** be allowed.

5. ***Is it possible to declare income lower than presumptive rate:*** Yes, assessee can declare income at a rate lower than the presumptive rate provided, the assessee maintains books of accounts and gets them audited if total income exceeds basic exemption limit.

1. Mr.Kamlesh is a cardiac specialist. For the previous year 2025-26 his gross receipts from profession was Rs.36,40,000. He does not maintain any books of account. Mr.Kamlesh wants to declare income as per the presumptive income scheme u.s.44ADA. Also state the due date for payment of advance tax and due date for filing his return of income.

2. Mr.R is a practicing Chartered Accountant has a gross receipt of Rs.70 lakhs from such profession during the previous year 25-26. Is Mr.R eligible for presumptive income scheme u.s.44ADA if his gross receipts includes cash receipts of Rs.3 lakhs only.

SECTION 44 AE: BUSINESS OF PLYING, HIRING OR LEASING OF GOODS CARRIAGES

1. *Eligible for this scheme:* An assesse (resident or non-resident) who **owns** not more than 10 trucks at any time during the previous year. Assessee can be an Individual, Huf, Firm or a Company.

2. *How is income computed:*

A. **Heavy goods vehicle:**
Rs.1,000 per ton per month or part of a month

B. **Other than heavy goods vehicle:**
Rs.7,500 p.m. or part of a month

Important: Heavy Goods Vehicle means the gross vehicle weight of which exceeds 12,000 kilograms

3. *Eligibility of further deductions:* No further deductions are allowed. All expenses including depreciation are deemed to have been allowed. However, salary and interest paid by a firm to its partners shall be allowed subject to limits u.s.40(b).

4. *Is it possible to declare income at a lower rate:* Yes the assessee can declare income at a rate lower than the presumptive income provided, the assessee maintains books of accounts and gets them audited.

1. Mr.X commenced the business of operating goods vehicles on 1.4.2025. He purchased the following vehicles during the P.Y.2025-26. Compute his income u.s.44AE for A.Y.2026-27.

Gross Vehicle Weight (in kilograms)	Number	Date of purchase
7,000	2	10.04.2025
6,500	1	15.03.2026
10,000	3	16.07.2025
11,000	1	02.01.2026
15,000	2	29.08.2025
15,000	1	23.02.2026

Would your answer change if the goods vehicles purchased in April, 2025 were put to use only in July, 2025?

2. Mr.Prakash is in the business of operating goods vehicles. As on 01.04.2025, he had the following vehicles:

Vehicle	Gross vehicle weight (in kgs)	Date of purchase	Put to use during f. y. 2025-26
A	8500	02.04.2024	yes
B	13000	15.05.2024	yes
C	12000	04.08.2024	no (as under repairs)

During P.Y. 2025-26, he purchased the following vehicles:

Vehicle	Gross vehicle weight (in kgs)	Date of purchase	Put to use during f. y. 2025-26
D	11000	30.04.2025	10.05.2025
E	15000	15.05.2025	18.05.2025

Compute his income under section 44AE for A.Y.2026-27.

SECTION 40 (b): REMUNERATION AND INTEREST TO PARTNERS:

1. Maximum remuneration allowed u/s.40 (b) is as follows:

On first Rs.6,00,000 of book profit: 90% of book profit or Rs.3,00,000 (weh.)
On the balance of book profit: 60% of book profit

"BOOK-PROFIT" is computed after considering all admissible expenses, depreciation including unabsorbed depreciation (if any) and interest on capital to the extent allowed but before adjusting remuneration.

Remuneration (salary, bonus, commission) should be paid only to working partner.
Remuneration should be authorized by the partnership deed.

2. Interest on capital to partners will be allowed subject to a maximum of 12% p.a.
Interest can be paid to any partner but should be authorized by the partnership deed.

Salary received by partners & interest on capital (to the extent allowed in the hands of the firm) shall be taxed in the hands of the partners under the head "PGBP".

The firm pays tax on its total income and therefore, share of profit received by each partner is **EXEMPT** from tax u.s.10(2A).

1. The profit and loss account of ABC & Co. (a firm of chartered accountants & LLP) for the year ended 31st March, 2026 is given below:

Expenses	2,00,000	Receipts from clients and audit fees	13,36,000
Depreciation	60,000	Dividend from companies	45,000
Remuneration to partners			
Partner X	5,00,000		
Partner Y	3,00,000		
Interest to partners			
Partner X @ 15%	60,000		
Partner Y @ 15%	45,000		
Net profit	2,16,000		

<u>Other information:</u>

a) Depreciation as per IT Rules is Rs.52,000.
b) Payment to partners (remuneration and interest) are authorized by the deed
c) Other incomes of the partners: X: Rs.12,00,000 and Y: Rs.8,00,000

Compute total income of the firm and its partners clearly showing the tax treatment of partner's salary, interest on capital and share of profit received in their hands.

2. Salary received by a working partner (fully allowed in the hands of the firm) is taxable in the hands of the partner under the head ………………………

3. Share of profit received by a partner is exempt u.s………………. of the IT Act.

4. In case of loss suffered by a partnership firm, amount of deduction admissible for remuneration of working partners is:

A. Rs.3,00,000 B. Rs.75,000 C. Rs.1,00,000 D. Rs.1,50,000

5. A firm has paid Rs.8,50,000 as remuneration to its partners for the previous year 2025-26, in accordance with its partnership deed and it has a book profit of Rs.10,00,000. What is the remuneration allowable as deduction?

6. Rao and Jain, a partnership firm consisting of two partners, reports a net profit of Rs.17,00,000 before deduction of the following items:

a. Salary of Rs.40,000 each per month payable to working partners of the firm (as authorized by the deed of partnership)
b. Depreciation on plant and machinery computed under section 32: Rs.1,50,000
c. Interest on capital @ 15% p.a. (as per the deed of partnership). The amount of capital eligible for interest Rs.5,00,000.

Compute book-profit u.s.40(b) and allowable working partner salary for the A.Y. 2026-27.

SECTION 40A(3): PAYMENT EXCEEDING Rs.10,000 BY WAY OF CASH

Any payment exceeding Rs.10,000 by way of cash or bearer cheque or crossed cheque will be fully disallowed. Payment should be made only by an account payee cheque or by an account payee bank draft or use of ECS through a bank account or through other prescribed electronic modes.

Payment exceeding Rs.10,000 in aggregate in a day made to a person against an expenditure shall also be disallowed.

The limit of Rs.10,000 has been increased to Rs.35,000 in the case of payment made to transport operators for plying, hiring or leasing goods carriages.

Deduction allowed on 'due' basis in one year for which cash payment is made in a subsequent year:
Any payment by ***cash*** exceeding Rs.10,000 for which deduction was already allowed on "**due basis"**, the payment so made in any subsequent year shall be **deemed as income** in the year in which such payment is made.

Cases where payment can exceed Rs.10,000 by way of cash: Rule 6DD Exceptions

1. Payment made to Banks, LIC
2. Payment made to Government which is required to be made in legal tender
3. Payment to a person in a village not served by any bank
4. ~~Payment made on a day where banks were closed either on account of holiday or strike (removed)~~
5. Payment made for purchase of agricultural or forest produce or produce of animal husbandry or dairy or poultry farming or fish or fish products to the cultivator, grower or producer.
6. Payment is made for the purchase of products manufactured without the aid of power in a cottage industry, to the producer of such products;
7. Payment by book entry (adjustment in accounts)
8. Payment of terminal or retirement benefits (e.g. gratuity) provided such payment < Rs.50,000
9. Where the payment is made by way of salary to an employee after tds and when such employee is temporarily posted for a continuous period of 15 days or more in a place other than his normal place of duty or on a ship; and does not maintain any bank account at such place or ship.
10. Payment is made by an authorized dealer or a money changer against purchase of foreign currency.

Note: *Section 40A (3) is attracted when:*	bill amount exceeds Rs.10,000 and payment also exceeds Rs.10,000 at a time.
Other prescribed electronic modes:	*Credit card, debit card, net banking, IMPS (Immediate Payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Fund Transfer) and BHIM (Bharat Interface for Money) Aadhar Pay*

1. An assessee has incurred an expenditure of Rs.14,000 for purchase of raw material from Mr.B. He makes separate payments of Rs.3,000; Rs.5,000 and Rs.6,000 all by cash in a single day. Advice whether the above are admissible.

2. A bill is raised for an expenditure of Rs.32,000.

Cash payment is made as follows:

1.11.2025	5,000
2.11.2025	5,000
3.11.2025	5,000
4.11.2025	5,000
5.11.2025	12,000

What will be the amount of disallowance u.s.40A (3)?

3. Bill raised for Rs.65,000 by a transporter for hiring of trucks for carriage of goods. Payments made to him in cash as under: What would be the amount of disallowance?

1.12.2025	38,000
2.12.2025	12,000
3.12.2025	15,000

4. When a cash payment of Rs.15,000 is made on 10.05.2025 towards purchase of raw material effected in the earlier year, i.e., on 5.2.2025, the amount liable for disallowance would be…………

a. Nil
b. 100% of payment
c. 20% of such payment
d. 30% of such payment

5. Patel, a textile dealer, purchases goods worth Rs.65,000 from Anand and made the payments:

i. Rs.12,000 by account payee cheque on 5.6.2025
ii. Rs.8,000 by cash on 16.08.2025
iii. Rs.15,000 by bearer cheque on 7.11.2025; and
iv. Rs.30,000 by ECS on 21.03.2026.

The amount of expenditure not allowable as per provisions of section 40A(3) would be …………

6. The following are details of Mr.X, state whether the following payments are admissible or not?

- Purchase of oil seeds of Rs.15,000 in cash from a farmer on a banking day
- X purchases goods in cash for Rs.14,000 from R, a villager and makes payment to R in his village where no banking facility is available.
- Purchase of stock amounting to Rs.27,000 due for payment on the day when the banks were closed due to floods during September, 2025. Payment was made in cash.
- Payment of Rs.12,000 and Rs.13,000 in cash on 03.12.2025 and 10.12.2025 respectively for purchase of crabs, lobster & squid to Mr.R, a fisherman and Mr.K, a middleman for these products respectively.
- On 15.08.2025 Rs.50,000 cash paid (a bank holiday)

7. U/s.40A(3) which of the following payment for an expenditure incurred would not be admissible as deduction from business income:-

a. Rs.15,000 paid in cash to a transporter
b. Rs.5,000 paid in cash to a dealer in the morning and Rs.5,000 paid in cash to the same dealer in the evening
c. Rs.40,000 sent through NEFT to the bank account of the dealer for goods purchased
d. Rs.19,000 paid through bearer cheque to the dealer for goods purchased

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SECTION 35 D: AMORTISATION OF PRELIMINARY EXPENSES:

To whom allowed: Indian companies and resident non-corporate assessees

Purpose: Expenses incurred for establishment of business concerns;
Expenses in connection with expansion of an existing business

Meaning: Expenditure in connection with preparation of feasibility report, project report, conducting market survey, engineering services, legal charges for drafting and printing of memorandum and articles of association, registration fees, expenses incurred on issue of shares or debentures, underwriting commission, brokerage and expenditure on printing and advertising of prospectus.

Amount of deduction: FIVE equal installments

Amount that qualifies for deduction:

A. Non-corporate assessee: Actual preliminary expenses **(or)** 5% of cost of project whichever is less will qualify

B. Indian Company:	Actual preliminary expenses **(or)** 5% of (cost of project or capital employed) at the option of the assessee (whichever is less will qualify)

"Cost of project" means cost of fixed assets as on the last day of the previous year in which the business commences.

"Capital employed" means the aggregate of share capital, debentures and long term borrowings as on the last day of the previous year in which the business commences.

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

Preparation of project report	Rs.1,00,000
Market survey expenses	Rs.1,00,000
Legal and other charges for issue of additional capital required for the new unit	Rs.1,00,000
Cost of the project	Rs.30,00,000
Capital employed in the new unit	Rs.40,00,000

What is the deduction admissible to the company under section 35D.

2. X Ltd. is incorporated in Bangalore on September 6, 2025. It commences production on March 15, 2026. The following expenses are incurred by the company before commencement of business:

- expenses on incorporation, issue of shares, etc. Rs.92,000
- preparation of feasibility report, project report and market survey expenses Rs.1,40,000

Determine the amount of deduction under section 35D with the help of the following:

Cost of fixed assets	Rs.55,00,000
Share capital	Rs.40,00,000
Debentures	Rs.12,00,000
Long-term borrowing from a financial institution	Rs.8,00,000

SECTION 40 (a) (ia): Payment to residents without tds:

Any payment made to a **RESIDENT** shall be disallowed to the extent of **30%** of the expenditure if:

DEFAULT ONE: **Failure to deduct tax at source before the end of the previous year; or**

DEFAULT TWO: **Tax has been deducted at source before the end of the previous year but not remitted to Government before the due date of filing ROI.**

Note: Once the expenditure gets disallowed, the same shall be allowed as deduction only in the year in which the tax is paid to the Government.

Note: No disallowance shall be made if the following conditions are satisfied:
a. The ***resident payee*** has taken into account such receipts in computing his total income;
b. The ***resident payee*** has paid tax due on such income;
c. The ***resident payee*** has filed his return of income within the due date; and
d. The ***payer (assessee)*** furnishes a certificate to this effect from a Chartered Accountant.

Note: For an ***Individual-assessee***, tds provisions shall apply only in a case where the turnover has exceeded Rs.100 lakhs during the *immediately preceding previous year.*

However, Section 192 (tds on salaries) requires deduction of tax at source from salary even if the turnover has not exceeded Rs.100 lakhs in the immediately preceding previous year.

1. State whether disallowance u/s.40(a)(ia) is attracted in the following cases:

- X Ltd pays a sum of Rs.7,20,000 as rent of office building during the previous year 2025-26. No tax is deducted at source.
- K Ltd pays salary Rs.15,00,000 to an employee after deduction of tax at source. However, tax was not deposited by K Ltd with the Government before 31.10.2026.
- A consultancy fees of Rs.80,000 is credited by Y Ltd to the account of payee on 01.10.2025 without deduction of tax at source. Tax is not deducted up to 31.03.2026. Tax is deducted on 05.04.2026 and deposited on 05.05.2026.
- Interest of Rs.80,000 on company deposit is credited by Z Ltd to the account of payee on 10.12.2025. Tax is deducted on the same day. Tax is deposited with the Government through internet banking on 10.08.2026. Due date of filing return of income is 31.10.2026.
- Varun Ltd paid fees for technical services of Rs.6 lakhs, omitted to deduct tax at source and such omission continued till the 'due date' for filing the return of income specified in Section 139(1). The amount of expenditure liable for disallowance would be ……………………..

- Andhra Traders a partnership firm paid Rs.80,000 as contract charges to AKP & Co (firm). No tax was deducted at source for the above said payment. The amount liable for disallowance u.s.40(a)(ia) for the A.Y.2026-27 is………………………..

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

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

b. Rs.15,00,000 was paid as salary to a resident individual without deduction of tax at source;

c. Commission of Rs.26,000 was paid to Mr.Vidyasagar, a resident, on 2.7.2025 without deduction of tax at source.

Briefly discuss whether any disallowance arises under the provisions of section 40(a)(ia) 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?

SECTION 43CA: SALE OF IMMOVABLE PROPERTY FOR INADEQUATE CONSIDERATION

Land or Building held as stock in trade:
Where the actual sale price of land or building is less than the stamp duty value (guideline value), SDV shall be deemed to be the full value of the consideration.

Note: If SDV exceeds **110%** of actual sale price, then stamp duty value shall be taken as the full value of consideration. Gap cannot be more than 10%. If gap is > 10% then SDV shall be taken as full value of consideration.

	Situation 1	***Situation 2***	***Situation 3***
Stamp duty value	*25 lacs*	*22 lacs*	*29.4 lacs*
Actual sale price	*20 lacs*	*20 lacs*	*28 lacs*
% of SDV to actual sale price	*125% > 110%*	*110% = 110%*	*105% < 110%*
Full value of consideration	*SDV*	*Actual sale price*	*Actual sale price*

SDV on the date of agreement and SDV on the date of registration are not same:
Normally, stamp duty value on the date of registration/sale shall be considered. However, stamp duty value as on the date of the agreement ***can be opted*** by the assessee:

if advance or down payment has been received by way of an account payee cheque or account payee bank draft or use of ECS on or before the date of the agreement.

<u>Other prescribed electronic modes:</u>	*Credit card, debit card, net banking, IMPS (Immediate Payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Fund Transfer) and BHIM (Bharat Interface for Money) Aadhar Pay*

1. R Ltd. a developer of real estate, sold a residential house property to Mr.S for Rs.40,00,000 on 15.11.2025, whereas its stamp duty value is Rs.48,00,000. The cost of the residential property is Rs.36,00,000. Compute the business income of R Ltd.

2. 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 Rs.90 lakh on 1.1.2026, when the stamp duty value was Rs.150 lakh.

The agreement was, however, entered into on 1.9.2025 when the stamp duty value was Rs.140 lakh. Mr.Hari had received a down payment of Rs.15 lakh by A/c payee bank draft from Rajesh on the date of agreement. Discuss the tax implications in the hands of Hari assuming that Mr.Hari had purchased the building for Rs.75 lakh on 12th July, 2024.

<u>SECTION 43 B:</u> <u>DEDUCTION ONLY ON "PAYMENT" BASIS</u>

Irrespective of the method of accounting, the following items of expenditure shall be allowed as deduction only on **"<u>PAYMENT</u>"** basis.

a) Any sum payable to Government by way of tax, duty, cess or fee; or
b) Bonus or commission or gratuity or leave salary payable to employees; or
c) Employer's contribution towards provident fund; or
d) Interest on loans borrowed from any bank or a co-operative bank or a public financial institution or from any notified class of NBFCs.
e) Any sum payable to Indian Railways for the use of Railway assets.
f) Amount payable to micro or small enterprise ***(amendment)***

Note: Payment should be made before the "due date" of filing return of income. If payment is made after the "due date", then deduction shall be allowed only in the <u>year of payment</u>.

Note: Any amount due by way of interest on loan, is subsequently converted by the bank, etc. into a fresh loan, the interest so converted shall not be deemed as 'actual payment' and no deduction is allowed.

Note: Any amount due by way of interest is converted into <u>debentures or any other instrument by which the liability to pay is deferred to a future date, such conversion shall not be deemed as 'actual payment' and no deduction is allowed.</u>

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1. Saraswathi Ltd made provision of Rs.12 lakhs for bonus payable for the year ended 31.03.2026. It paid Rs.7 lakhs on 31.07.2026; Rs.3 lakhs on 31.10.2026 and Rs.2 lakhs on 15.12.2026. The amount eligible for deduction u.s.43B would be …………………..

2. Appu Ltd contributed Rs.8,70,000 towards provident fund of its employees. It actually remitted Rs.5,00,000 up to 31st March and Rs.2,50,000 up to the due date for filing the return specified in section 139(1). The amount liable for disallowance would be……………………

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3. 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 and Indian Bank and has not paid interest as detailed hereunder:-

i.	Andhra Pradesh State Financial Corporation (P.Y.2024-25 & 2025-26)	15,00,000
ii.	Indian Bank (P.Y. 2025-26)	30,00,000
		45,00,000

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2025-26, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments.

During the year ended 31.03.2026, Hari paid 5 installments to APSFC and 3 installments to Indian Bank. Hari claimed the entire interest of Rs.45,00,000 as an expenditure while computing the income from business. Discuss whether his claim is valid and if not what is the amount of interest, if any, allowable.

Answer: Conversion of unpaid interest in to a fresh loan cannot be treated as "actual payment" for the purpose of section 43B. Deduction shall be allowed only in the year in which the converted loan is actually paid. Hence the claim made by Mr.Hari is not valid. Deduction shall be allowed to the extent of installments paid by Mr.Hari.

Deduction for A.Y.26-27 is computed as shown below:

APSFC	(15 lacs / 60 x 5)	1,25,000
Indian bank	(30 lacs / 60 x 3)	1,50,000
Amount allowed as deduction		**2,75,000**

Amendment in Section 43B: Payment to MICRO OR SMALL enterprise:

Any sum payable by the assessee to a micro or small enterprise beyond the time specified in section 15 of the Micro, Small and Medium Enterprises Development Act, 2006 would be allowed as deduction only in that previous year in which the payment is actually made.

As per MSMED Act, payment for goods or services should be made to micro or small enterprises: within 45 days (maximum) from the date of acceptance of any goods or services as per written agreement. If there is no such written agreement, the payment shall be made within 15 days.

However, if the sum payable by the assesse to a micro or small enterprise is not paid as per written agreement or within 15 days in case of no agreement, the deduction would be allowed in the previous year in which it is actually paid.

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4. Mr.A purchased goods of Rs.10,000 from A & Co., a micro enterprise on 01.03.2026. As per the written agreement between them, the payment has to be made by 05.04.2026. Mr.A follows mercantile system of accounting. State the previous year in which deduction would be allowed if:

a) If Mr.A paid the sum on 02.04.2026
b) If Mr.A paid the sum on 20.04.2026

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5. Mr.Anil started business of manufacturing tables in February 2026. He follows mercantile system of accounting. He purchased wood from Mr.A, Mr.B and Mr.C. The details of purchases and payment made are as under:

Seller	***Date of Purchase***	***Purchase amount (Rs.)***	***Payment due as per written agreement***	***Date of payment***
Mr.A, a micro enterprise	15.02.2026	Rs.5,00,000	within 30 days from the date of purchase	29.03.2026
Mr.B, a small enterprise	17.03.2026	Rs.7,00,000	No written agreement	15.04.2026
Mr.C, a medium enterprise	25.03.2026	Rs.8,00,000	Within 40 days from the date of purchase	30.11.2026

How much deduction would be available to Mr.Anil in A.Y.2026-27 in respect of purchases made during the previous year 2025-26 while computing business income?

a) Nil
b) Rs.13 lakhs
c) Rs.5 lakhs
d) Rs.12 lakhs

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6. Mr.Raman (assesse), who follows mercantile system of accounting, purchased raw material from M/s.Paul Industries, a micro enterprise, for ₹ 49,000 on 10.03.2026. However, the payment to M/s.Paul Industries was made on 05.04.2026 by cheque. No written agreement for payment existed between M/s.Paul Industries and Mr.Raman.

Another supplier M/s.Kal Industries, a small enterprise, with whom also no written agreement existed for payment, was paid Rs.1,34,000 in cash on 05.04.2026 for purchase of raw material on 31.03.2026. Both M/s.Paul Industries and M/s.Kal Industries follow mercantile system of accounting.

<u>Meaning of Micro and Small enterprise (both manufacturing and services):</u>

<u>Micro Enterprise:</u>

Investment in Plant and Machinery or Equipment ≤Rs.2.5 crore and Turnover ≤Rs.10 crore

<u>Small Enterprise:</u>

Investment in Plant and Machinery or Equipment ≤Rs.25 crore and Turnover ≤Rs.100 crore

SECTION 35 AD: TAX INCENTIVES FOR SPECIFIED BUSINESSES:

1. **List of Specified Business:**

   a) Setting-up and operating a **cold chain facility;**

   b) Setting-up and operating a **warehousing facility for storing agricultural produce;**

   c) Laying and operating **pipeline network** for distribution including storage of:
   i. natural gas; ii. crude; iii. petroleum

   d) **Building and operating,** anywhere in India, **a hospital** with at least 100 beds for patients

   e) **Building and operating**, anywhere in India, a **hotel** of two star or above category

   f) Developing and building a **housing project** under a scheme for **Slum Redevelopment or Rehabilitation** framed by the Central or State Government.

   g) Developing and building a **housing project** under a scheme for **affordable housing**.

   h) Production of **fertilizer in India**

   i) Setting up and operating an **Inland Container Depot or a Container Freight Station** notified under the Customs Act, 1962.

   j) **Bee-keeping** and production of honey and beeswax.

   k) Setting up and operating a warehousing facility for **storage of sugar**.

   l) Laying and operating a **slurry pipeline** for the transportation of iron ore

   m) Setting up and operating a **semiconductor wafer fabrication** manufacturing unit.

   n) Developing or maintaining and operating or developing, maintaining and operating a new infrastructure facility.

II. AMOUNT OF DEDUCTION:
100% of **CAPITAL expenditure** shall be allowed as deduction**.**

Expenditure incurred prior to commencement of business:
However, any expenditure incurred **prior to commencement of operation** shall be allowed in the year of commencement of operation provided such expenditure is **capitalized in the books of account** as on the date of commencement of operations.

<u>Note:</u> Deduction u.s.35AD is available only under the optional tax regime.

<u>Note:</u> No deduction for expenditure incurred on LAND, GOODWILL OR FINANCIAL INSTRUMENT.

<u>Note:</u> Any capital expenditure in respect of which payment exceeding Rs.10,000 made by cash/bearer cheque would not be eligible for deduction.

<u>Note:</u> Assessee cannot claim any deduction u.s. 10AA or under chapter VI A under the heading "C.-Deductions in respect of certain incomes" for the year or any other AY.

<u>Note:</u> Loss from a specified business can be set-off only against income from another specified business, irrespective of whether the latter is eligible for deduction u.s.35AD.

<u>Note:</u> Where an assessee builds a star hotel and, subsequently, while CONTINUING TO OWN the hotel, TRANSFERS THE OPERATION thereof to another person (say under an outsourcing arrangement), the assessee shall be deemed to be carrying on the specified business and is eligible for section 35AD benefit.

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1. Mr.R constructed a building and started operating a hotel of 3 star category w.e.f. 01.04.2025. Mr.R incurred the following expenditure in this connection:

a. Capital expenditure (including cost of land Rs.50 lakhs) incurred during December, 2024 to March 2025 which were capitalized in the books of account as on 31.03.2025 Rs.1,10,00,000

b. Capital expenditure incurred during the previous year 2025-26 (it includes Rs.20 lakhs paid for goodwill) Rs.1,40,00,000.

Compute the deduction available u.s. 35AD for A.Y. 2026-27 if Mr.R has opted for optional tax regime.

<u>Answer:</u>

<u>Amount of deduction u.s.35AD for A.Y. 26-27 is computed as follows:</u>

A.	Expenditure incurred prior to commencement of operations and capitalized in books of account excluding land	Rs.60 lakhs
B.	Capital expenditure incurred during the previous year 2025-26 excluding payment for goodwill	<u>Rs.120 lakhs</u>
	Amount of deduction u.s.35AD	**<u>Rs.180 lakhs</u>**

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2. Mr.Suraj, a proprietor, commenced operations of the business of a new 3-star hotel in Chennai on April 1, 2025. He incurred capital expenditure of Rs.50 lakhs during the period January 2025 to March 2025 exclusively for the above business and capitalized the same in his books of account as on 01.04.2025.

Further, during the previous year 2025-26, he incurred a capital expenditure of Rs.2 crore (out of which Rs.1.50 crore was for acquisition of land) exclusively for the above business.

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

The profits from the business of running this hotel (before claiming deduction u.s.35AD) for the A.Y. 2026-27 is Rs.25 lakhs.

Assume that he also has another existing business of running a 4-star hotel in Coimbatore, which commenced operations fifteen years back, the profits from which are Rs.120 lakhs for A.Y. 2026-27. Also, assume that expenditure incurred were paid by net banking.

<u>Answer:</u>

<u>Computation of profits and gains of business or profession for A.Y.2026-27:</u>

A.	Profit from existing business of running a 4-star hotel in Coimbatore		120 lakhs
B.	<u>New three-star hotel in Chennai:</u>		
	Profit before claiming deduction u.s.35AD	25 lakhs	
	Less: Deduction u.s.35AD (see note below)	<u>100 lakhs</u>	<u>75 lakhs</u>
	PGBP		**<u>45 lakhs</u>**

<u>Note:</u>

<u>Deduction u.s.35AD in respect of the new hotel:</u>

Expenditure incurred prior to commencement of business and capitalized in the books of account	50 lakhs
Capital expenditure incurred during the previous year 25-26 excluding land	<u>50 lakhs</u>
Amount of deduction u.s.35AD for A.Y.2026-27	**<u>100 lakhs</u>**

SECTION 35: EXPENDITURE ON SCIENTIFIC RESEARCH:

Scientific research may be carried on:

a. by the assessee himself in his business (in-house research); or
b. by making payment to outside agencies engaged in scientific research work

A. Revenue expenditure related to the business of the assessee (in-house research):

For all assessees:	**100%** of such expenditure shall be allowed as deduction under both the tax regimes.

Revenue expenditure incurred BEFORE COMMENCEMENT OF BUSINESS on:

a. salary to employees excluding perquisites; and
b. purchase of raw materials used in scientific research

shall be fully allowed as deduction but not exceeding three years immediately preceding the date of commencement of business. Deduction is allowed to the extent these are approved by the prescribed authority.

B. Capital Expenditure related to the business of the assessee (in-house research):

For all assessees:	**100%** of such expenditure (excluding land) shall be allowed as deduction under both tax regimes. Since entire cost is allowed as deduction, depreciation is not allowed.

Capital expenditure (excluding land) incurred BEFORE COMMENCEMENT OF BUSINESS shall be fully allowed as deduction but not exceeding three years immediately preceding the date of commencement of business.

C. Contribution to RESEARCH ASSOCIATIONS (available only under optional tax regime)

Contribution made to	Type of research	% of deduction
Research Association	Scientific Research	100
National Laboratory, University or IIT.	Programmes in scientific research	100
Company (registered in India and having research as its main object)	Scientific research	100
Research Association	Social science or Statistical research	100

Note: The Research carried on by the Institution need not be related to the business of the assessee.

Note: Deduction is not available under the default tax regime.

1. Mr.A furnishes the following particulars for the previous year 2025-26. Compute the deduction allowable under section 35 for A.Y.2026-27, while computing his income under the head "business or profession", if:

(i) He is paying tax under default tax regime u.s.115BAC
(ii) He has exercised the option of shifting out of the default tax regime.

a. Amount paid to notified approved Indian Institute of Science, Bangalore, for Scientific Research Rs.1,00,000

b. Amount paid to IIT, Delhi for an approved scientific research programme Rs.2,50,000

c. Amount paid to X Ltd., a company registered in India which has as its main object of scientific research, as is approved by the prescribed authority Rs.4,00,000

d. Expenditure incurred on in-house research and development facility as approved by the prescribed authority related to his business:

- Revenue expenditure on scientific research Rs.3,00,000
- Capital expenditure (including cost of acquisition of land Rs.5,00,000)on scientific research Rs.7,50,000

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2. Mr.X has contributed the following amounts to various research institutions. The research carried on by the institutions are not related to the business of the assesse (Mr.X). Compute the amount of deduction u.s.35 assuming he has opted for optional tax regime.

a. Mr.X pays Rs.80,000 to the Indian Agricultural Research Institute, being an approved research institution for the purpose of carrying out scientific research in natural science.

b. He also pays Rs.70,000 to the IIM, Ahmedabad, being an approved institute for the purpose of carrying out research in social or statistical science.

c. He also pays Rs.46,000 to an approved National Laboratory for carrying out programmes of scientific research.

SALE OF AN ASSET PREVIOUSLY USED FOR SCIENTIFIC RESEARCH:

A. Sold without having been used for other purposes:
The sale price to the extent of deduction allowed u.s.35 shall be treated as business income & the sale price in excess of business income shall be treated as capital gains

B. Brought into business use after having been used for research:
The actual cost of such asset shall be taken as nil. Hence, no depreciation is allowed.

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3. Where an asset used for scientific research for more than three years is sold without having been used for other purposes, then the sale proceeds to the extent of the cost of the asset already allowed as deduction u.s.35 in the past shall be treated as:

a. Business income
b. Short-term capital gain
c. Long-term capital gain
d. Exempted income

4. An asset was purchased for Rs.6,00,000 on 17.11.2024 for conducting scientific research and the deduction was claimed under section 35 of the Income-tax Act, 1961. This asset was sold on 05.09.2025 for a consideration of Rs.8,00,000. Discuss the tax treatment.

5. Mr.X acquires an asset in the year 2020-21 for the use for scientific research for ₹ 2,75,000. He claimed deduction under section 35(1)(iv) in the previous year 2020-21. The asset was brought into use for the business of Mr.X in the P.Y.2025-26, after the research was completed. The actual cost of the asset to be included in the block of assets is -

(a) Nil
(b) Market value of the asset on the date of transfer to business
(c) Rs.2,75,000 less notional depreciation u.s.32 up to the date of transfer
(d) Actual cost of the asset i.e., Rs.275000

OTHER SECTIONS IN "PGBP":

Section 35DDA:	Expenditure incurred on VRS
Section 36(1)(iii):	Interest on borrowed capital
Section 36(1)(iiia):	Discount on zero coupon bonds
Section 36(1)(iva):	Employer's contribution to notified pension scheme
Section 36(1)(va):	Employee's contribution to provident fund
Section 36(1)(vii):	Bad debts
Section 36(1)(ix):	Family planning expenditure
Section 36(1)(xv):	Securities transaction tax
Section 36(1)(xvi):	Commodities transaction tax
Section 37(1):	General deduction
Section 40(a)(i):	Payment to a non-resident without tds
Section 40(a)(v):	Tax on non-monetary perks paid by employer
Section 41:	Profits chargeable to tax (Deemed income)

<u>Section 35DDA:</u> **<u>EXPENDITURE INCURRED ON VRS:</u>**

Any expenditure in respect of the above, such expenditure is deductible in **FIVE** equal installments from the year in which the **PAYMENT** is made.

<u>Section 36(1)(iii):</u> **<u>INTEREST ON BORROWED CAPITAL</u>**

<u>Interest on capital borrowed for acquiring a capital asset:</u> Interest paid up to the date the asset is first put to use shall be **<u>capitalized</u>** and added to the cost of the asset. Interest paid after the asset is put to use is an admissible expenditure.

<u>Section 36 (1) (iva):</u> **<u>EMPLOYER'S CONTRIBUTION TO NOTIFIED PENSION SCHEME:</u>**

Amount of deduction:	14% of salary of employees
<u>Note:</u>	Excess contribution made by the employer shall be disallowed while computing business income u.s.40A(9)
<u>Note:</u>	Salary = Basic + dearness allowance (forming)

<u>Section 36 (1) (va):</u> **<u>EMPLOYEES' CONTRIBUTION TO PROVIDENT FUND:</u>**

Amount recovered towards PF.	First treated as **INCOME** in the hands of the employer
At the time of deposit by the employer before "due date":	The same shall be **allowed as deduction** while computing PGBP.

For this purpose **"due date"** means the date by which the employer is required to deposit such contribution under the Provident Fund Act. ***(15 days from the end of the month)***

<u>Section 36 (1) (vii):</u> **<u>BAD DEBTS:</u>**

The following conditions are to be satisfied for claiming deduction:

a. There must be a debt
b. The debt must be incidental to the business of the assessee
c. The debt must have been ***taken into account while computing the income*** of the assessee.
d. Debt must be ***written off*** in the books of account of the assessee

Note: It is not necessary for the assessee to establish that the debt, has become irrecoverable. ***SC***
Note: Condition 'c' is not applicable for an assessee engaged in money-lending business.

Section 37(1): GENERAL DEDUCTION

1. The following conditions are to be fulfilled for the allowability of an expenditure: -

- The expenditure should not be covered by any of the sections between 30 to 36;
- Should have been spent wholly and exclusively for the purpose of business;
- Should not be in the nature of personal expenditure of the assesse;
- Should not be in the nature of a capital expenditure

Explanation 1:

- Should not be incurred for any purpose which is an offence or prohibited by law.
  e.g. *Incentives (or freebies) given by pharmaceutical company to doctors is clearly "prohibited by law".*

Explanation 2:

- It is not an expenditure incurred by the assessee on CSR activities (corporate social responsibility) referred to in section 135 of the Companies Act, 2013.

- ***Explanation 3:***
  To compound an offence under any law for the time being in force (compounding fee)

2. No deduction for an expenditure incurred on advertisement in any souvenir, brochure, tract, pamphlet, etc. published by a political party – **Section 37(2B)**

Section 36 (1) (xv): SECURITIES TRANSACTION TAX

STT shall be allowed as deduction like any other business expenditure only if:
a. Securities are held as stock-in-trade; and
b. Profit on sale of such securities is taxed as business income

Section 36 (1) (xvi): COMMODITIES TRANSACTION TAX

Commodities transaction tax (CTT) shall be allowed as deduction while computing income from the business of purchase and sale of commodities in a commodities exchange.

Section 40 (a) (i): PAYMENT MADE TO A NON-RESIDENT WITHOUT TDS

Entire (100%) expenditure shall be disallowed. The same shall be allowed only in the year in which such tax is remitted to the Government.

Section 40 (a) (v): **TAX ON NON-MONETARY PERKS PAID BY EMPLOYER**

Tax treatment:	In the hands of the employer: Expenditure shall be disallowed In the hands of the employee: Tax free perk

Section 36 (1) (ix): **FAMILY PLANNING EXPENDITURE**

To whom available:	Only for company-assessee
Amount of deduction:	Revenue expenditure is fully allowed Capital expenditure is allowed in five equal installments

Section 41: **DEEMED INCOME**

Where any deduction was allowed in respect of a loss or expenditure or trade liability for any year and subsequently during any previous year the assessee or successor of the business:

has obtained any amount in respect of such loss or expenditure or some benefit in respect of such trade liability by way of remission or cessation thereof,

the amount obtained or the value of benefit accrued shall be deemed to be income.

PROBLEMS:

Expenditure on VRS comepensation:

1. X Co. Ltd paid Rs.120 lakhs as compensation as per approved Voluntary Retirement Scheme (VRS) during the financial year 2025-26. How much is deductible under section 35DDA for the assessment year 2026-27?

Interest on borrowed capital:

2. X Ltd., purchased a machinery on 01.04.2025 for Rs.10 lakhs by availing a 80% loan facility from Bank. This machinery was put to use on 01.01.2026 into effective production. The interest on loan works out to 10% p.a. Advise X Ltd, on the treatment of interest payments made on this loan.

3. Swan Pvt Ltd acquired machinery for Rs.5,75,000 which included GST of Rs.75,000 eligible for input tax credit. It borrowed Rs.3,00,000 from a bank for purchase of the said machine. Interest on the bank loan up to the date of usage of machine was ascertained as Rs.25,000. The machine was put to use from 15th September, 2025. Assume the rate of depreciation at 15%. The eligible amount of depreciation will be ………………

Employer contribution to Notified Pension Scheme:

4. 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 u.s.36 (1)(iva), if the basic salary of the employees aggregate to Rs.10,00,000. Would disallowance u.s.40A(9) be attracted, and if so, to what extent?

Employee's contribution to Provident Fund:

5. The profit and loss account of Mr.X for the year ending March 31, 2026 is as follows:

Cost of goods sold	75,000	Sale proceeds of goods	2,30,000
Salary to employees	99,000		
Other expenses	10,000		
Net profit	46,000		

The salary of Rs.99,000 comprises Rs.9,000 as employee's contribution towards recognized provident fund. Out of Rs.9,000, Rs.6,000 is credited in the employees' provident fund within "due date" and Rs.3,000 is credited after "due date". Compute net income of X.

6. Employees contribution to EPF of Rs.3 lakhs recovered from their salaries for the month of March 2026 and shown in the balance sheet under the head sundry creditors was remitted on 31.05.2026. Discuss the admissibility.

Bad debts:

7. Malick & Co engaged in trading activity could not recover Rs.5 lakhs from a customer. It claimed the entire amount as bad debt by writing off in the books of account. The aggregate sale made during the year to the party amounts to Rs.30 lakhs. The amount eligible for deduction by way of bad debt is:

a. Nil
b. Rs.3 lakhs
c. Rs.5 lakhs
d. Rs.60,000

General Deduction:

8. **Discuss the admissibility of the following expenses:**

a. Expenditure incurred on Corporate Social Responsibility activities
b. Expenditure on advertisement in a souvenir published by a Political Party
c. Penalty paid for delayed filing of GST returns
d. Interest paid to Government for late payment of GST
e. Printing & stationery, telephone expenses and electricity charges
f. Purchase of computer for office use
g. Household expenses

9. Sakshita Pvt Ltd., has spent a sum of Rs.30 lakhs towards meeting its Corporate Social Responsibility (CSR) obligation. The amount of deduction available while computing the business income is Rs……………….

Securities Transaction Tax

10. State with reasons, whether the following statement is true or false:
For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.

Family Planning Expenditure:

11. When ABC Ltd incurred Rs.10 lakhs in financial year 2025-26 as capital expenditure for the purpose of family planning amongst the employees, the expenditure allowable for the A.Y.2026-27 would be:……………..

Deemed Income:

12. Raju succeeded to the business of his father Ramu consequent to demise of Ramu on 01.02.2026. Raju recovered Rs.30,000 due from a customer which was written off by late Ramu as bad debt and allowed in the A.Y.2023-24. The amount recovered is:

a. Exempt from tax
b. Fully taxable as business income
c. Rs.15,000 being 50% taxable as business income
d. To be set off against current year bad debts

Loss allowed as deduction earlier; now recovered:

13. Mr.X was forced to shut-down his furniture business during 2023 as his accountant absconded with cash of Rs.5 lakhs and was fully allowed in that year. Rs.4 lakhs was received as insurance compensation on 31.03.2026 for the cash theft. Is the amount received subject to tax?

Answer: *Rs.4 lacs received from the insurance company is now taxable as deemed income u.s.41.*

Loss allowed as deduction earlier; now recovered:

14. Sameer sold goods worth Rs.50,000 at credit on 1st April, 2024. However, he has written off Rs.10,000 as bad debts and claimed deduction for the same during the year 2024-25. On 10th October, 2025, the defaulting debtor made payment of Rs.45,000. The taxable amount of bad debts recovered for the year 2025-26 would be:………………

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15. State with reasons, the allowability of the following expenses incurred by Mr.Manav, a wholesale dealer of commodities, while computing PGBP for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided u.s.115BAC(1A):-

a. Construction of school building in compliance with CSR activities amounting to Rs.5,60,000.

b. Purchase of building for the purpose of specified business of setting up and operating a warehousing facility for storage of food grains amounting to Rs.4,50,000.

c. Interest on loan paid to Mr.X (a resident) Rs.50,000 on which tax has not been deducted. The sales for the previous year 2024-25 is Rs.302 lakhs.

d. Commodity transaction tax paid Rs.20,000 on sale of bullion.

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16. Examine, with reasons, the allowability of the following expenses under the income tax act, 1961, while computing income from PGBP for the A.Y. 26-27:

a. Provision made on the basis of actuarial valuation for payment of gratuity ₹5 lakhs. However, no payment on account of gratuity was made before due date of filing return.

b. Tax on non-monetary per provided to an employee ₹20,000

c. Salary payment of ₹10 lakhs to Mr.X outside India by a company without deduction of tax. assuming Mr.X has not paid tax on such salary income.

d. Payment made in cash 30,000 to a transporter in a day for carriage of goods.

ADDITIONAL PROBLEMS:

1. Mr.Bhushan, engaged in manufacture of chemicals, furnishes his Manufacturing, Trading and Profit & Loss Account for the year ended 31st March, 2026 as under:

To Opening stock	3,40,000	By Sales	3,14,00,000
To Purchases	3,00,20,000	By Closing stock	19,00,000
To Manufacturing expenses	10,40,000		
To Gross Profit	19,00,000		
	3,33,00,000		3,33,00,000
To Salary	4,30,000	By Gross Profit	19,00,000
To Bonus	80,000	By Discount	25,000
To Bank term loan interest	90,000	By Agricultural Income	1,50,000
To Factory rent	1,20,000	By Dividend from Indian Companies	75,000
To Office rent	7,20,000		
To Administration expenses	3,30,000		
To Net Profit	3,30,000		
	21,50,000		**21,50,000**

Additional Information:

i. The total turnover of Mr.Bhushan for the financial year 2024-25 was Rs.312 lakhs.

ii. Salary includes Rs.1,80,000 paid to his daughter. The excess payment considering her qualification and experience is ascertained as Rs.40,000.

iii. Factory rent was paid to his brother. Similar portions are let out to others by him for a rent of Rs.96,000 per annum.

iv. No tax was deducted at source from the office rent paid during the year.

v. Purchases include Rs.70,000 paid by cash to an agriculturist for purchase of grains being raw material.

vi. Depreciation allowable u.s.32 of the Income-tax Act, 1961 amounts to Rs.45,000 for assets held as on 01.04.2025. During the year, a machinery costing Rs.5,00,000 was acquired on 01.07.2025 and was put to use from 15.10.2025.

vii. Administration expenses include commission paid to a purchase agent of Rs.12,000 for which no tax was deducted at source.

viii. The following expenses debited above were not paid till 31.03.2026 and up to the 'due date' for filing the return specified in section 139(1):

a. Term loan interest of Rs.35,000;

b. Demurrages to Indian Railways for using their clearing yard beyond stipulated hours (disputed by the assessee), forming part of manufacturing expenses Rs.30,000;

c. Purchases also include goods purchased for Rs.48,000 from A & Co., a micro enterprise on 01.03.2026. As per the written agreement between them, the payment has to be made by 05.04.2026. However, Mr.Bhushan had paid the same on 20.04.2026.

Compute the income of Mr.Bhushan chargeable under the head "Profits and gains of business or profession" for A.Y. 2026-27. Ignore provisions of Default tax regime.

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2. Mr.R is engaged in manufacture of electronic spares which are used in computers. His aggregate turnover for the year ended 31.03.2026 was Rs.1,71,00,000. His profit as per profit and loss account extracted from the books is Rs.12,45,000. His sale proceeds were realized as under:

	Up to the end of previous year	***From 01.04.2026 and up to the 'due date' of filing return u.s.139(1)***
Sales realized in cash	40,00,000	73,00,000
Sales realized through banking channel	11,00,000	26,00,000

<u>Other information:</u>

Current year depreciation u.s.32 allowable Rs.2,75,000.

Cash payment made exceeding Rs.10,000 per day and the aggregate payment for the year in such manner Rs.4,11,000.

Interest on term loan debited in profit and loss account of the assessee for the year ended 31.03.2026 Rs.1,05,000. Amount actually paid up to 31.03.2026 Rs.15,000 and amount paid from 01.04.2026 and up to the 'due date' for filing the return u.s.139(1) Rs.40,000.

He has brought forward business loss of A.Y. 2022-23 of Rs.1,40,000 and unabsorbed depreciation of Rs.50,000 of A.Y. 2025-26.

Compute his income from business for the assessment year 2026-27 under section 44AD and as per regular provisions. Ignore default tax regime.

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3. Mr.Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 2026:

Trading and Profit and Loss Account for the year ended 31.03.2026

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	By Gross profit b/d	3,03,600
To Salary	60,000	By Income from UTI	2,400
To Rent and rates	36,000		
To Interest on loan	15,000		
To Depreciation	1,05,000		
To Printing and stationery	23,200		
To Postage and telegram	1,640		
To Loss on sale of shares	8,100		
To Other general expenses	7,060		
To Net Profit	50,000		--------------

Additional information:

a. 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	Rs.9,000
Closing stock	Rs.18,000

b. Salary includes Rs.10,000 paid to his brother, which is unreasonable to the extent of Rs.2,000

c. The whole amount of printing and stationery was paid in cash by way of one-time payment.

d. Rent and rates includes GST liability of Rs.3,400 paid on 07.04.2026.

e. The depreciation provided in P&L A/c. was based on the following:
The w.d.v. of plant and machinery is Rs.4,20,000 as on 01.04.2025. A new plant falling under the same block of depreciation was brought on 01.07.2025 for Rs.70,000. Two old plants were sold on 01.10.2025 for Rs.50,000.

f. Other general expenses include Rs.2,000 paid as donation to a Public Charitable Trust.

You are required to compute the profits and gains of Mr.Sivam under presumptive taxation under section 44AD and profits and gains as per the regular provisions of the Act assuming he has exercised the option of shifting out of the default tax regime. Assume that the whole of the turnover is received by account payee cheque or use of electronic clearing system through bank account during the previous year.

4. Mr.Murari, a resident individual, provides consultancy services in the field of accountancy. His income and expenditure account for the year ended 31st March, 2026 is as follows:

Expenditure		Income	
To Salary	73,00,000	By Consultancy fees	78,00,000
To Motor car expenses	58,000	By Share of profit from HUF	25,000
To Depreciation	47,500	By Interest on savings bank deposits	15,000
To Medical expenses	70,000	By Interest on income tax refund	8,000
To Purchase of computer	80,000		
To Bonus	10,000		
To General expenses	55,000		
To Administrative expenses	75,000		
To Excess of income over expenditure	1,52,500		

The following other information relates to the financial year 2025-26:

a. Salary includes a payment of Rs.12,000 p.m. to his brother-in-law who is in-charge of the marketing department. However, in comparison to similar business, the reasonable salary of a marketing supervisor is Rs.10,000 p.m.

b. Written down value of the assets as on 01.04.2025 are as follows:
Motor car (40% used for personal use) Rs.2,00,000
Furniture and fittings Rs.50,000

c. Medical expenses includes:
  a. Family planning expenditure Rs.15,000 incurred for the employees which was revenue in nature.
  b. Medical expenses for his father Rs.35,000 (father's age is 65 years)

d. The computer was purchased on 5th June, 2025 on credit. The total invoice was paid in the following manner:
  a. Rs.18,000 paid in cash as down payment on the date of purchase.
  b. Remaining amount was paid through account payee cheque on 10th August, 2025

e. Bonus due on 31.03.2026 was paid before the due date of filing IT return.

f. General expenses include commission payment of Rs.22,000 to Mr.Sridhar for the promotion of business on 17th November, 2025 without deduction of tax at source.

g. Compute PGBP of the assesse for assessment year 2026-27. Ignore Default tax regime.

h. Assume consultancy fees of previous year 24-25 had exceeded Rs.50 lakhs.

Hint: "relative" means husband, wife, brother or sister or any lineal ascendant or descendant of that individual. Section 2 (41)

5. Mr.Querashi is a businessman. During the year ended 31.03.2026, he was engaged in the business of Hypermarket and Supermarket. He maintains proper books of accounts for both businesses in Mercantile system. Sales from Hypermarket achieved a turnover of Rs.75 lakhs and all receipts were in cash. However, Supermarket business is through online and entire receipts of Rs.50 lakhs during the year were received online in his bank account. The expenses were incurred in the ratio 65:35.

Following additional information is furnished:

	Rs.
To Salary	10,00,000
To Repairs on building	1,81,000
To Interest	1,10,000
To Travelling	1,30,550
To Depreciation	8,12,000
To Net profit	3,93,950

a) In addition to the above, repairs of Rs.1,00,000 was incurred for building a new room which was debited to P &L A/c.

b) Depreciation as per Income-tax Act, 1961 is Rs.7,17,000.

c) Rs.75,000 was paid in cash on 30.09.2025 to Mrs.Ann, accountant for the preparation of the accounts for the year ended 31.03.2025 and adjusted under the head "expenses payable" account.

d) He was forced to shut-down his furniture business in the year 2023 as his accountant absconded with cash Rs.5 lakhs and was fully allowed in that year. Unabsorbed business loss of furniture business is Rs.3 lakhs. Rs.4 lakhs was received as insurance compensation on 31.03.2026 for the cash theft.

Compute the income chargeable under the head "profits and gains of business or profession" of Mr.Querashi under presumptive income scheme under section 44AD and under the normal provisions of the IT Act for A.Y.2026-27.

6. Mr.Vidyasagar, is a partner in Oscar Musicals & Co., a partnership firm. He also runs a wholesale business in medical products. The following details are for the year ended 31.03.2026:

S.I. No	Particulars	₹	₹
i.	a) Interest on capital received from Oscar Musicals & Co., at 15% p.a.		1,50,000
	b) Remuneration received from Oscar Musicals (fully allowed in the hands of the firm)		3,00,000
	c) Share of profit received from the firm		5,00,000
ii.	Interest from bank on fixed deposit (net of tds ₹ 10,000)		90,000
iii.	Income–tax refund received relating to A.Y.2025-26 including interest of ₹ 2,300		34,500
iv.	Net profit from wholesale business		5,60,000
	<u>Amounts debited include the following:</u>		
	Deprecation as per books	34,000	
	Motor car expenses	40,000	
	Municipal taxes for the shop (for two half years; payment for one half year made on 12.11.2025 and for the other on 14.11.2026)	7,000	
	Salary to manager by way of a single cash payment	21,000	
	The WDV of the assets (as on 1.4.2025) used in above wholesale business is as under:		
	Computers	1,20,000	
	Motor car (20% used for personal use)	3,20,000	

Compute the total income of the assessee for the A.Y. 2026-27. The computation should show the proper heads of income. Also compute the WDV of the different blocks of assets as on 31.3.2026.

7. Mr.Kamal, having business of manufacturing of consumer items and other products, gives the following Trading and Profit & Loss Account for the year ended 31.03.2026:

Trading and Profit & Loss Account

Particulars	Rs.	Particulars	Rs.
Opening Stock	5,62,500	Sales	2,33,25,000
Purchases	1,88,62,500	Closing Stock	6,75,000
Freight & Cartage	1,89,000		
Gross profit	43,86,000		
	2,40,00,000		**2,40,00,000**
Bonus to staff	71,250	Gross profit	43,86,000
Rent of premises	80,250	Income-tax refund	30,000
Advertisement	7,500	Warehousing charges	22,50,000
Bad Debts	1,12,500		
Interest on loans	2,51,250		
Depreciation	1,07,250		
Goods and Services tax demand paid	1,62,525		
Miscellaneous expenses	7,88,475		
Net profit of the year	50,85,000		
	66,66,000		**66,66,000**

Income-tax refund includes amount of Rs.4,570 of interest allowed thereon.

Bonus to staff includes an amount of Rs.7,500 relating to P.Y. 2024-25, paid in the month of December 2025.

Advertisement expenses include an amount of Rs.2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.

Miscellaneous expenses include:

(a) amount of Rs.15,000 paid towards penalty for non-fulfillment of delivery conditions of a contract of sale for the reasons beyond control;

(b) amount of Rs.1,00,000 paid to Political Party by cheque.

Goods and Services Tax demand paid includes an amount of Rs.5,300 charged as penalty for delayed filing of returns and Rs.12,750 towards interest for delay in deposit of tax.

Mr.Kamal had purchased a warehouse building of Rs.20 lakhs in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.07.2025 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".

Depreciation under the Income-tax Act, 1961 works out at Rs.65,000.

Interest on loans includes an amount of Rs.80,000 paid to Mr.X, a resident, on which tax was not deducted.

Compute PGBP of Mr.Kamal for the A.Y. 2026-27. Ignore default tax regime.

8. Mr.Shivansh, a resident and ordinarily resident, age 61 years, is engaged in the business of manufacturing of motor parts. He is subject to tax audit under section 44AB of Income Tax Act, 1961. He has provided following information:

Profit & Loss account for the year ended 31st March, 2026

To Administrative expenses	4,30,000	By Gross Profit	58,30,000
To Salaries & wages	20,00,000	By Profit on sale of asset of scientific research	2,00,000
To Interest on loans	7,50,000	By Winning from lottery (net of tds @ 30%)	31,500
To Depreciation	6,17,000		
To Professional fees	2,70,000		
To Rent, rates & tax	2,80,000		
To Travelling & conveyance	1,40,000		
To Net Profit	15,74,500		

Explanatory information:
Opening and closing stock of finished goods were undervalued by 10%. Opening stock of Rs.4,50,000 and Closing stock of Rs.5,58,000 was shown.

Salaries & wages include following items:

(a) Contributed 20% of basic salary to National Pension Scheme referred to section 80CCD regarding salary paid to an employee Mr.Ganesh who has withdrawn basic salary of Rs.3,00,000 and DA is 40% of basic. 50% of DA forms part of salary.

(b) Some of the employees opted for retirement under the voluntary retirement scheme; a sum of Rs.2,40,000 was paid to them on 1st January, 2026.

Interest on loan includes interest paid @ 15% p.a. on loan of Rs.12,00,000 which was taken from SBI on 01.05.2025 for purchase of new electric car of Rs.15,00,000. The car is used for personal purpose.

Depreciation allowable as per Income Tax Rules, 1962 is Rs.4,50,000 but during the calculation of such depreciation following addition was not considered:
Motor car purchased for Rs.3,00,000 for supply of finished goods to dealers on 25.08.2025.

An asset was purchased for Rs.6,00,000 on 17.11.2024 for conducting scientific research and the deduction was claimed under section 35 of the Income-tax Act, 1961. This asset was sold on 05.09.2025 for a consideration of Rs.8,00,000.

You are required to compute business income of the assesse for A.Y. 2026-27. Ignore the provisions of default tax regime.

9. Mr.Jayaprakash, aged about 40 years, is an authorized wholesale distributor of Fertilizers Ltd. dealing with fertilizers and other agricultural products. Given below is his Trading and Profit & Loss account for the previous year 2025-26.

Trading and Profit and Loss Account

To Opening stock	24,21,000	By Sales	3,12,50,100
To Purchases	2,28,00,500	By Closing stock	26,00,100
To Direct expenses	4,12,040		
To Freight inward	2,92,000		
To Gross Profit	79,24,660		--------------
To Salaries and wages	17,12,000	By Gross Profit	79,24,660
To General expenses	3,65,000	By Dividend received (net)	7,20,000
To Rates and taxes	2,20,000	By Interest received on FDs (net of tax)	1,08,000
To GST paid	2,845	By Rent received	7,20,000
To Income-tax paid	3,45,000	By Income-tax refund	18,000
To Interest paid to NBFC	1,20,000		
To Depreciation	1,82,000		
To Net Profit	65,43,815		------------

The following additional information is provided by him:

Closing stock as on 31.03.2026 was undervalued by Rs.45,000.

Rates and taxes include Rs.1,000 paid towards late filing of his IT return for Assessment Year 2024-25 under section 234F of Income-tax Act.

GST paid includes an amount of Rs.1,000 charged as penalty for delayed filing of returns and Rs.1,845 towards interest for delay in deposit of tax.

Salaries include Rs.25,000 paid on single day by way of cash to his accountant.

Interest paid on loan of Rs.10,00,000 taken from a Non-Banking Finance Company. Out of the loan, amount of Rs.2 lakhs was used for personal purpose and the balance was used for business purpose. No TDS was deducted while repaying the loan.

General expenses include advertisement expense of Rs.20,000 paid by cheque towards an advertisement in a souvenir published by local political party.

Depreciation charged is as per Income-tax rules; however, it does not include depreciation on a new Maruti Van purchased on 23rd September 2025 for his business use. The cost of the vehicle is Rs.2,10,000.

Turnover for the year ending 31.03.2025 was Rs.3.08 crores.

10. Mr.Ashish, a resident, aged 43 years, provides professional services in the field of interior decoration. His Income & Expenditure A/c for the year ended 31st March, 2026 is as under:

Expenditure	**Rs.**	**Income**	**Rs.**
To Employees' remuneration	13,66,000	By Consultancy charges (> 5% in cash)	58,80,000
To Administrative expenses	3,14,000	By Interest on PPF Account	60,000
To General expenses	75,000	By Int. on savings bank a/c	20,000
To Electricity expenses	65,000	By Interest on NSC VIII Issue	21,000
To Medical expenses	80,000		
To Purchase of furniture	48,000		
To Depreciation	90,000		
To Net Income	39,43,000		

The following other information relates to financial year 2025-26:

The expenses on Employees' remuneration includes:

(a) Family planning expenditure of Rs.20,000 incurred for the employees which was revenue in nature. The same was paid through account payee cheque.

(b) Payment of salary of Rs.25,000 p.m. to sister-in-law of Mr.Ashish, who was in-charge of the Accounts & Receivables department. However, in comparison to similar work profile, the reasonable salary at market rates is Rs.20,000 p.m.

Amount received by Mr.Ashish as Employees' contribution to EPF for the month of February, 2026 – Rs.10,000 was deposited after the due date under the relevant Act relating to EPF.

Medical expenses of Rs.80,000 as appearing in the Income & Expenditure was expensed for the treatment of his father of Mr.Ashish.

General expenses as appearing in the Income & Expenditure A/c, includes a sum of Rs.25,000 paid to Ms.Anjaleen on 5th January, 2026 as commission for securing work from new clients. This payment was made to her without deduction of tax at source.

Written down value of the depreciable assets as on 1st April, 2025 were as follows:

Professional Books Rs.90,000
Computers Rs.35,000

The new furniture as appearing in the Income & Expenditure A/c was purchased on 31st August, 2025 and was put to use on the same day. The payment was made as under:

a) Rs.18,000 paid in cash at the time of purchase of new furniture on 31.08.2025;
b) Rs.19,000 paid by a/c payee cheque on 05.09.2025 as balance cost of new furniture;
c) Rs.11,000 paid in cash on 31.08.2025 to the transporter as freight charges for the new furniture.

Mr.Ashish purchased a car on 02.04.2023 for Rs.3,35,000 for personal use. However on 30.04.2025 he brought the said car for use in his profession. The fair market value of the car as on 30.04.2025 was Rs.2,50,000.

The Gross Professional Receipts of Mr.Ashish for P.Y. 2024-25 was Rs.52,00,000. You are required to compute income from profession of the assesse for AY. 2026-27. Ignore default tax regime.

11. Mr.Sahil, resident Indian aged 40 years, manufacturer at Chennai, gives the following manufacturing, trading and profit and loss account for the year ended 31.03.2026:

Manufacturing, Trading and Profit and Loss Account for the year ended 31.03.2026

To Opening stock	71,000	By Sales	43,50,000
To Purchase of raw materials	17,20,500	By Closing stock	2,00,000
To Manufacturing wages	5,80,500		
To Gross Profit	21,78,000		
To Administrative charges	2,90,000	By Gross Profit	21,78,000
To SGST penalty paid (it is not compensatory in nature)	7,000	By Dividend	15,000
To GST paid	1,10,000	By Winning from lotteries (net of tds) (tds Rs.4,500)	10,500
To General expenses	55,000	By Profit on sale of shares	45,000
To Miscellaneous expenses	1,50,500		
To Loss on sale of shares	20,000		
To Interest to bank (on machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net profit	13,56,000		-------------

Following are the further information:

a) Administrative charges include Rs.46,000 paid as commission to brother of assesse. The commission amount at the market rate is Rs.36,000.

b) The assesse paid Rs.33,000 in cash to a transport carrier on 26.12.2025. This amount is included in manufacturing expenses (assume that the provisions relating to tds are not applicable)

c) A sum of Rs.4,000 p.m. was paid as salary to a staff throughout the year and this has not been recorded in books of account.

d) Bank term loan interest actually paid up to 31.03.2026 was Rs.20,000 and the balance was paid in November, 2026.

e) Miscellaneous expenses include Rs.10,000 contributed to PM National Relief Fund.

f) Depreciation allowable under the Act to be computed on the basis of following information:

Plant and Machinery (depreciation @ 15%)	
Opening w.d.v. (as on 01.04.2025)	Rs.12,00,000
Additions during the year (used for > 180 days)	Rs.2,00,000
Total additions during the year	Rs.4,00,000
Note: Ignore additional depreciation.	

Compute PGBP. both under regular provisions and under section 44AD of the IT Act.

12. Mr.Ram, a resident individual aged 58 years, is engaged in the manufacturing of textile items. Statement of Profit and Loss shows a net profit (after deprecation but before tax) of ₹ 52,00,000 for the financial year ended 31st March, 2026 after debiting/crediting the following items:

(i) Depreciation as per Income-tax Rules: Rs.28,00,000 including additional deprecation on new plant & machinery ₹ 1,50,000.

(ii) Interest amounting to Rs.2,10,000 for short payment of advance tax as per section 234B relating to the assessment year 2025-26.

(iii) Rs.3,50,000 paid to a contractor for carrying out whitewash work at factory premises. Tax was not deducted at source on this payment and the contractor did not file his return of income for the relevant PY.

(iv) Contribution to Prime Minister National Relief Fund - ₹ 3,00,000 paid by way of cheque.

(v) Expenditure towards advertising charges in a brochure of a political party registered under section 29A of Representation of People Act, 1951 – Rs.40,000 paid by way of cheque.

(vi) Interest on term loans obtained from a co-operative bank not paid before the due date of filing of return of income ₹ 2,60,000.

(vii) Contribution towards pension scheme of employees ₹ 1,50,000. The eligible salary and dearness allowance for the pension scheme referred to under section 80CCD is ₹ 10,00,000.

(viii) Industrial power tariff concession of Rs.2,50,000 received from the Central Government.

(ix) Interest from banks on fixed deposits (gross) ₹ 1,50,000

(x) Cash gift from father ₹ 90,000

<u>Additional Information:</u>

(i) Expenditure pertaining to previous financial year (F.Y. 2024-25) was allowed on due basis, but paid in current financial year in cash on 18.01.2026: Rs.35,000.

(ii) Audit fee for the previous year 2024-25: Rs.75,000. TDS deducted but not deposited in the relevant previous year. However, TDS was deposited on 31.12.2025.

Ram prepares his accounts on mercantile basis. Compute PGBP.

13. Mrs.S.C.Bose (aged 62 years) is a widow of a public sector employee who died during his service in 2012. She earns income from business of running a flower bouquet shop at Kolkata and income from royalty from writing books of science and sells in India and abroad. Profit and Loss account for the year ended 31st March, 2026 furnished by her is given below:

Particulars		**Particulars**	
To Opening stock	1,00,000	By Sales of flower bouquet	36,75,000
To Purchases	15,66,000	By Family pension from PSU	3,60,000
To Salaries and wages	4,90,000	By Royalty from California University for books sold (foreign exchange brought into India)	4,25,000
To Expenses relating to books authored by her	75,000		
To Expenses in connection with dividends	12,000	By Dividend (net of TDS)	4,50,000
To Repairs and maintenance	3,25,000		
To Amount paid to IIT Chennai for scientific Research projects	35,000	By Interest on FDR (no tds deducted)	76,000
		By Closing stock	1,36,000
To Computers & other electronic items purchased on 01.12.2025)	4,50,000		
To Net Profit	20,69,000		
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Additional Information:

Purchases include Rs.2 lakhs relate to flowers and creepers directly purchased from a farmer in cash on 26.09.2025.

Repairs & Maintenance includes one-time deposit of Rs.2,00,000 paid to electricity and water department.

Computers and other electronic items includes Rs.1,00,000 paid for television and washing machine for her household use.

Salary & wages includes salary paid Rs.2,40,000 to her illiterate brother (reasonable salary as per market rate is Rs.1,80,000)

She purchased a residential house for Rs.110 lakhs for which loan of Rs.75 lakhs was taken from State Bank of India. Accrued interest was Rs.3,37,500 till 31.03.2026 which was paid on 10.04.2026. No principal amount and interest was paid by Mrs.S.C. Bose till 31.03.2026. Ground floor of the house was used for shop and first floor was occupied for her residence.

She purchased an electric vehicle on 30.09.2025 for Rs.25 lakhs for business purposes.

Compute PGBP under default tax regime and optional tax regime.

CHAPTER – 10 INCOME UNDER THE HEAD "CAPITAL GAINS"

CAPITAL GAINS: Any GAIN arising from TRANSFER of a CAPITAL ASSET shall be chargeable to tax during the previous year in which TRANSFER took place.

CAPITAL ASSET - Section 2(14):
"Capital asset" means:-

a. property of any kind held by an assessee, whether or not connected with his business or profession;

b. Securities held by a Foreign Institutional Investor (FIIs).

c. Any unit linked insurance policy (ULIP) **(only at CA final level).**

ASSETS NOT REGARDED AS CAPITAL ASSETS:

a. *Stock-in-trade* held by an assessee for the purposes of his business;

b. *Personal effects* (excluding jewellery; immovable property; paintings; drawings; archaeological collections; sculptures and any work of art)

c. *Agricultural land in rural area in India*

d. Gold Deposit Bonds, 1999 or ***deposit certificates issued under Gold Monetisation Scheme, 2015 & 2019*** notified by the Central Government.

MEANING OF RURAL AGRICULTURAL LAND:

a. **If situated within municipality limits** and having a population of less than 10,000;

b. **If situated outside the limits of a municipality:**

Shortest aerial distance from the local limits of a municipality	*Population according to the last preceding census*
Up to 2 kms from the local limits	< 10,000
Above 2 kms and up to 6 kms	< 1,00,000
Above 6 kms and up to 8 kms	< 10,00,000
Above 8 kms	Rural Area (not a capital asset)

TRANSACTIONS REGARDED AS TRANSFER:

- Sale
- Exchange
- Relinquishment
- Extinguishment of rights
- Compulsory acquisition under any law
- Conversion of capital asset into stock-in-trade
- Maturity or redemption of a zero-coupon bond

TRANSACTIONS NOT REGARDED AS TRANSFER:

- Gift, Will, Inheritance

- Distribution of assets by a HUF. to its members in kind at the time of partition
- Distribution of assets by a company to its shareholders at the time of liquidation

- Transfer of capital assets by a holding company to its wholly owned Indian subsidiary company
- Transfer of capital assets by a wholly owned subsidiary company to its Indian holding company

- Any transfer in the scheme of amalgamation
- Any transfer in the scheme of demerger

- Transfer of capital asset in the case of conversion of proprietary concern or firm into a company
- Transfer in the case of conversion of a company into a limited liability partnership

- Conversion of bonds or debentures in to shares or debentures.
- Conversion of preference shares into equity shares of that company

- Transfer of asset under notified reverse mortgage scheme
- Transfer of Sovereign Gold Bond Scheme by way of redemption

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TYPES OF CAPITAL ASSETS:

a. Short term capital asset
b. Long term capital asset

MEANING OF LONG TERM CAPITAL ASSET:

Capital Asset

Listed shares, Units of equity oriented fund, Zero coupon bonds	> 12 months
Any other capital asset (jewellery, land & building)	> 24 months

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Important: *Any capital asset acquired by way of gift, will or inheritance the period of holding by the previous owner shall also be taken into consideration.*

Important: *Any asset on which depreciation is claimed by the assessee, such asset shall always be a short-term capital asset irrespective of period of holding.*

Computation of short-term capital gains:

Sale consideration	xxx
Less: Selling expenses	xxx
Net consideration	xxx
Less: Cost of acquisition	xxx
Less: Cost of improvement	xxx
Short-term capital gains	**xxx**

Computation of long-term capital gains BEFORE 23.07.2024:

Sale consideration	xxx
Less: Selling expenses	xxx
Net consideration	xxx
Less: Indexed cost of acquisition	xxx
Less: Indexed cost of improvement	xxx
Long-term capital gains	**xxx**

Computation of long-term capital gains ON OR AFTER 23.07.2024:

Sale consideration	xxx
Less: Selling expenses	xxx
Net consideration	xxx
Less: Cost of acquisition	xxx
Less: Cost of improvement	xxx
Long-term capital gains	**xxx**

Note: ***Indexation benefit shall not be available for any capital asset transferred on or after 23.07.2024.***

NOTE: LAND or BUILDING ACQUIRED BEFORE 23.07.2024 & SOLD AFTER 23.07.2024:

* The amount of capital gain to be included in total income is to be computed without indexation.

** However, in case of resident individuals or HUF, indexation option shall be available only at the time of computation of tax.

*** If the computation due to indexation results in a loss, such loss shall be ignored and cannot be set-off nor carried forward.

Year	Index	Year	Index	Year	Index	Year	Index
01-02	***100***	02-03	105	03-04	109	04-05	113
05-06	117	06-07	122	07-08	129	08-09	137
09-10	148	10-11	167	11-12	184	12-13	200
13-14	220	14-15	240	15-16	254	16-17	264
17-18	272	18-19	280	19-20	289	20-21	301
21-22	317	22-23	331	23-24	348	24-25	363

25-26 - 376

<u>Indexed Cost of Acquisition:</u>

Indexed cost = $\dfrac{\textit{COST}}{\textit{2001-02 (or) the first year of the current assessee who held the asset}}$ × *Index of the year of transfer*

(whichever is later)

<u>Indexation:</u> However, the **Courts** have held that indexed cost of acquisition has to be computed with reference to the year in which the **previous owner first held the asset** and not the year in which the current assessee became the owner of the asset.

<u>Meaning of the term "COST":</u>

a. ***<u>If the asset was acquired before 1.4.2001:</u>***
Purchase price ***(or)*** fair market value as on 1.4.2001
shall be the cost according to the choice of the assessee.

Note: *However, in case of land or building, f.m.v. as on 01.04.2001 shall not exceed the stamp duty value as on 01.04.2001.*

b. ***<u>If the asset was acquired on or after 1.4.2001:</u>***
Purchase price shall be the cost.

<u>Indexed cost of improvement:</u>

Any improvements before 1.4.2001 shall be ignored. In other words improvements on or after 1.4.2001 is to be considered for indexation.

ICOI = $\dfrac{\textit{COST OF IMPROVEMENT}}{\textit{Index of the year during which improvement took place}}$ × *Index of the year of transfer*

Problems: Meaning of Capital Asset:

1. **State whether the following are capital assets are not:**
Property held by a dealer in property; Gold held by a jeweller; Personal car and air conditioner; Residential house for personal use; Personal mobile phone; Personal laptop; Loose diamonds; Gold and silver coins used for puja; Furniture held for personal use; Furniture in the office of a chartered accountant; Shares held by a dealer in shares; Goodwill of a business (self-generated); Paintings and drawings; Statue of Lord Ganesh (sculpture).

2. **Miss D (an actress), has furnished the following details:**
Sale proceeds of BMW car for Rs.90,00,000 which was used exclusively for personal purposes. This car was acquired for Rs.50,00,000.

   Sale proceeds of Benz car used for her profession was sold for Rs.40,00,000. The w.d.v. of the car as on 01.04.2025 was Rs.30 lakhs.

   Sale of personal jewels made of platinum and paintings for Rs.1 crore which were acquired for 25 lakhs.

3. **State whether the agricultural land mentioned below is a capital asset or not:**

S. no.	Area	Distance from the local limits	Population	**Answer**
1.	A	1 km	9,000	Not a CA
2.	B	1.5 kms	12,000	CA
3.	C	2 kms	11,00,000	CA
4.	D	3 kms	80,000	Not a CA
5.	E	4 kms	3,00,000	CA
6.	F	5 kms	12,00,000	CA
7.	G	6 kms	8,000	Not a CA
8.	H	7 kms	4,00,000	Not a CA
9.	I	8 kms	10,50,000	CA
10.	J	9 kms	15,00,000	Not a CA

Short term or Long term Capital Assets (period of holding):

4. **State whether the asset is short term or long term in the following cases:**

   Mr.X purchases a residential house on 10.3.2023 and sells it on 16.02.2026.
   Mr.X purchases a land on 10.3.2024 and sells it on 26.12.2025.

   Mr.Y purchases listed shares in an Indian Company on 10.3.2024 and sells it on 6.6.2025.
   Mr.R purchases shares in an unlisted company on 10.03.2024 and sells these shares on 20.11.2025
   Mr.Z acquires units of an equity oriented mutual fund on 7.7.2024 and transfers it on 10.7.2025.

   Mrs.R sold her gold jewellery on 01.06.2025. The jewellery was acquired by her on 15.04.2016
   Mr.X purchased a house in 2008-09 and gifted it to his son Mr.Y on 1.11.2025 and Mr.Y sells it to Mr.Z on 23.01.2026.

   X Ltd. sells plant and machinery (entire block) in 2025-26 after using the asset for 5 years.

Computation of Short Term Capital Gain:

5. X is a HUF. The family acquires a residential house at Chennai for Rs.65,00,000 on 1.4.2025. The family undergoes complete partition on 1.11.2025 and the residential house is allotted to Y, a member of the family. Y sells the house on 15.01.2026 for Rs.69,00,000. Expenses in connection with sale is Rs.1,00,000. Compute taxable capital gains in the hands of Y.

Computation of Long Term Capital Gain:

6. Mr.A purchased a house property in 1992 for Rs.18,00,000. He sells the house in June 2025. The fair market value of the house as on 1.4.2001 was Rs.25,00,000. Compute indexed cost.

What would be your answer if:

Mr.A gifts the house to Mr.B, his son in August 2012 and Mr.B sells the house in June 2025. What will be the indexed cost in the hands of Mr.B. ***(CII: 2012-13: 200)***

Government acquired the house from Mr.A in December 2024 but the compensation was paid in June 2025. What will be the indexed cost of acquisition? ***(CII: 2024-25: 363)***

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7. Mr.X purchased a piece of land on 04.01.1996 for Rs.12,00,000. This land was sold by him on 15.12.2025 for Rs.80,00,000. The fair market value of the land as on 1.4.2001 was Rs.18,00,000. Expenses on transfer were 2% of the sale price. Compute capital gains to be included in computation of total income. Advice Mr.X as to whether indexation option would be beneficial. Assume Mr.X has no other income and has shifted out of the default tax regime.

Note: (For land or building transferred on or after 23.07.2024): Capital gain is to be computed without indexation. Indexation benefit for resident individuals and huf is only at the time of computation of tax).

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8. Mr.X acquired the property in the year 2001-02 for Rs.8,00,000 and paid Rs.35,000 as registration charges. Mr.X died on 15.9.2010 and the property was transferred to his son Y through inheritance. Mr.Y sold this property on 31.10.2025 for Rs.48,00,000. Compute capital gains to be included in computation of total income. ***(CII: 2010-11: 167).***

Note: (For land or building transferred on or after 23.07.2024): Capital gain is to be computed without indexation. Indexation benefit for resident individuals and huf is only at the time of computation of tax).

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9. X acquired land in 77-78 for Rs.2,00,000 and gifted it to his major son Y on 1.6.1989. Stamp Duty Value as on 01.04.2001 is Rs.16,00,000. The fmv of the land as on 1.4.2001 was Rs.18,00,000. Y sold the land on 15.01.2026 for Rs.61,00,000. Transfer expenses Rs.1,00,000. Compute capital gains to be included in computation of total income. ***(CII: 2025-26: 376)***

Note: (For land or building transferred on or after 23.07.2024): Capital gain is to be computed without indexation. Indexation benefit for resident individuals and huf is only at the time of computation of tax).

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10. Mr.C purchases a house property for Rs.1,06,000 on 15.5.1975. The following expenses are incurred by him for making additions:

Cost of construction of the first floor in 82-83:	Rs.3,10,000
Cost of construction of the second floor in 02-03:	Rs.7,35,000
Reconstruction of the house in 12-13:	Rs.5,50,000

FMV. of the property on 1.4.2001 is Rs.8,50,000. The house is sold by Mr.C on 10.04.2025 for Rs.72,00,000 (expenses incurred on transfer Rs.2,00,000). Compute capital gains to be included in computation of total income. ***(CII: 2002-03: 105 & 2012-13: 200)***

Advise Mr.C about which option of computation of capital gains is most suitable for him.

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11. Mr.R acquired land on 6.7.1998 for Rs.3,00,000. He constructed ground floor in the year 2004-05. Cost of construction was Rs.6,00,000. He further spends Rs.5,00,000 in the construction of first floor which was completed in the year 2007-08. The entire house property was sold on 04.02.2026 for Rs.48,00,000. FMV of the land as on 01.04.2001 was Rs.9,00,000. Compute capital gains to be included in computation of total income. ***(CII: 2004-05: 113 & 2007-08: 129).***

Note: (For land or building transferred on or after 23.07.2024): Capital gain is to be computed without indexation. Indexation benefit for resident individuals and huf is only at the time of computation of tax).

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12. Mr.Mani, a resident individual aged about 45 years, acquired a plot of land in March 2002 for Rs.12,25,000 and paid stamp duty of Rs.1,00,000 on registry of the land. He sold this land on 10th October 2025 for Rs.80,00,000. The stamp duty valuation assessed by sub registrar was Rs.83,50,000.

Advice Mani about which option of computation of capital gains is most suitable for him as far as his tax liability is concerned on the assumption that he has no other income chargeable to tax and has not opted out of the provision of section 115BAC (DTR).

Costs Inflation Index for various financial years are as under:
2001-02 - 100; 2002-03 - 105; 2025-26 - 376.

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13. Mr.Gopal (aged 33 years), a resident individual, sold one of his residential house properties for Rs. 60,00,000 on 31.08.2025 which was purchased on 14.10.2022 for Rs.45,00,000. His old tenant paid him rent in arrear for the above said property on 12.11.2025 amounting to Rs.75,000 which was treated as unrealized rent by Mr.Gopal during earlier years.

He purchased a residential plot on 08.12.2025 for Rs.5,00,000 but no construction was started till date although he earned Rs.30,000 as rent from this plot in the last quarter of previous year 2025-26. Mr.Gopal is opting for default taxation regime u.s.115BAC of Income-tax Act, 1961.

Cost of Index for P.Y. 2025-26: 376 and P.Y. 2022-23: 331

Based on the above information, answer the following MCQ No.1 to 3 for the A.Y. 2026-27.

1. Determine income from capital gains and exemption available to Mr.Gopal for purchasing residential plot considering benefit of the assessee.

(a) Long-term capital gain of Rs.15,00,000 after no exemption.
(b) Long-term capital gain of Rs.8,88,218 after no exemption.
(c) Long-term capital gain of Rs.3,88,218 after claiming exemption of Rs.5,00,000 u/s.54.
(d) Long-term capital gain of Rs.10,00,000 after claiming exemption of Rs.5,00,000 u/s.54.

2. Compute income from house property in the hands of Mr.Gopal.

(a) Rs.75,000
(b) Rs.1,05,000
(c) Rs.73,500
(d) Rs.52,500

3. Assuming Mr.Gopal has no other income, his total tax liability shall be:

(a) Rs.1,18,710
(b) Rs.1,53,725
(c) Rs.1,76,180
(d) Rs.1,02,340

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14. Mr.Surinder furnishes the following particulars for the previous year ending 31.03.2026. He had a Residential House, inherited from his father in December 2009, the fair market value of which on 01.04.2001 was Rs.19,24,000. In the year 2013-14, further construction and improvements costing of ₹11 lakhs. The house was originally purchased by his father on 01.03.2000 for ₹10 lakhs.

On 10.05.2025, the house was sold for ₹75 lakhs. Expenditure in connection with transfer is 50,000. On 20.12.2025, he purchased a residential house for ₹ 42 lakhs and he does not own any other house.

Compute the taxable capital gain for the assessment year 2026-27.

(Cost Inflation Index: F.Y. 09-10 – 148; F.Y. 13-14 – 220; F.Y. 25-26 – 376;).

SECTION 54: Transfer of a residential house and purchase or construction of a residential house:

Exemption under this section is available for Individuals and HUF only

The house transferred should be a residential house

The residential house transferred should be a long-term capital asset

A residential house should be purchased or constructed on or before the due date of filing ROI.

Amount of exemption: Amount invested or Rs.10 crores (whichever is less)

Where the amount of capital gains exceeds Rs.2 crores:
Exemption can be availed in respect of **ONE** residential house purchased or constructed in India

Where the amount of capital gains does not exceed Rs.2 crores (once in a life time):
Exemption can be availed in respect of TWO residential houses purchased or constructed in India. This exemption is available to the assessee once in a life time.

Scheme of deposit: If the new house is not purchased or constructed before the "due date" then the same can be deposited under Capital Gain Account Scheme for claiming exemption.

Extension of time limit if deposit is made: The new house/houses should be purchased one year before or two years after the date of transfer (three years for construction).

Withdrawal of exemption: The new residential house should not be transferred within a period of three years from the date of its purchase or construction. If transferred, the exemption previously granted shall be reduced from the cost of acquisition for computing capital gains.

Note: The unutilized deposit amount in the capital gain account scheme, in the case of an assessee, who dies before the expiry of the two/three years stipulated period, cannot be taxed in the hands of the deceased or the legal heirs.

SECTION 54 B: Transfer of an Agricultural land and purchase of an agricultural land

There should be a transfer of urban agricultural land

This section is available to Individuals and HUF only

The agricultural land must be used by the assessee or by his parents or HUF for agricultural purposes at least for two years immediately preceding the date of transfer.

Exemption is available for both short term and long term capital gains.

Agricultural land (urban or rural) should be purchased within two years from the date of transfer.

Exemption (no limit), Scheme of deposit and withdrawal of exemption are same as per Section 54.

Where an urban agricultural land is compulsorily acquired under any Law and compensation is determined or approved by the Central Government or by RBI, the capital gain on such acquisition is fully exempt u/s.10 (37).

SECTION 54 D: Transfer (on account of compulsory acquisition) of any land or building used for industrial purposes and purchase of land or building for industrial purposes.

This section is available to all assesses

The land or building should have been used for industrial purposes by the assessee at least for two years immediately preceding the date of transfer.

The industrial land or building can be either a short term or a long term capital asset.

The new industrial land or building should be purchased within 3 years from the date of receipt of compensation.

Amount of exemption, Scheme of deposit, Withdrawal of exemption are same as per section 54.

SECTION 54 EC: Transfer of land or building and investment in a "Specified Asset"

This section is available to all assessees.

The land or building transferred should be a long-term capital asset.

Note: Such asset can also be a depreciable asset (in this case, building) held for > 24 months – SC

The assessee should invest in a **"specified asset"** within 6 months from the date of transfer.

"Specified asset" means bonds redeemable after **5** years issued by the National Highways Authority of India (NHAI) or by the Rural Electrification Corporation Ltd (REC) or any other bond notified by the Central Government (bonds of Power Finance Corporation & Indian Railways Finance Corporation).

The assessee should not transfer or convert or avail loan or advance on the security of such bonds within a period of **5** years from the date of acquisition of such bonds.

Amount of exemption: Rs.50 lakhs (or) amount invested within 6 months (whichever is less)

SECTION 54 F: Transfer of any capital asset (not being a residential house) but purchase/construction of a residential house.

This section is available for Individual and HUF only

The capital asset transferred should be a long-term capital asset

A new residential house should be purchased in ***INDIA*** within one year before or two years after from the date of transfer (3 years for construction)

The assessee should not own more than one residential house on the date of transfer

Amount of exemption:

a. If entire net consideration is invested, entire capital gain (maximum 10 Cr.) is exempt from tax.

b. If part of net consideration is invested then amount exempt is:

$$\frac{\textit{Amount invested (max 10 Cr)}}{\textit{Net consideration}} \quad (x) \quad \textit{LTCG (before exemption)}$$

Withdrawal of exemption:

a) If the new residential house is transferred within a period of three years; or

b) The assessee should not purchase or construct another house within the stipulated period.

Problems on Section 54:

15. Mr.R sold his residential house on 27.10.2025 which has resulted in a long-term capital gain of Rs.1,50,00,000. For claiming exemption u.s.54, he purchases two residential houses at Chennai for Rs.60,00,000 each within the time allowed. Compute taxable capital gains if he has exercised the option to claim exemption for two houses.

What will be your answer if the sale had resulted in a long-term capital gain of Rs.14,25,00,000 and Mr.R purchases one residential property at Chennai for Rs.12 crores within the time specified.

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16. Determine the amount of exemption u/s.54 and taxable capital gains:
X sells a residential house in Agra for 82,25,000 on 23.05.2025 which was purchased by him on 20.04.2005 for Rs.10,53,000. Selling expenses in this connection Rs.25,000. On 16.03.2026, he purchases a house in Delhi for Rs.72,00,000.

On 18.11.2026, X sells the house in Delhi for Rs.75,00,000. **Can he also claim exemption under section 54 in respect of transaction ii.** ***(CII: 05-06: 117)***

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17. X sold a residential house on 15.01.2026 for a consideration of Rs.14,05,00,000. Transfer expenses incurred amounted to Rs.5,00,000. The said residential house was purchased on 05.06.1998 for Rs.90,00,000 (FMV as on 01.04.2001 Rs.98,00,000). The due date for furnishing return of income is July 31, 2026. Stamp Duty Value as on 01.04.2001 is not available. Compute capital gains for Assessment Year 2026-27 if:

Case a. he invests Rs.12,00,00,000 for purchase of a new house on 15.07.2026.

Case b. he purchased land for construction of a house on 20.01.2026 for Rs.6,00,00,000 and deposited Rs.4,50,00,000 in the Capital Gain Account Scheme on 20.07.2026 and a further sum of Rs.50,00,000 on 30.11.2026.

Problems on Section 54B:

18. R purchased an agricultural land in 2004-05 for Rs.6,00,000. The land was being used for agricultural purposes by him. This land is sold by him on 02.02.2026 for Rs.36,00,000. He has spent Rs.10,00,000 for acquiring an agricultural land on 21.07.2026 and has deposited Rs.18,00,000 under the Capital Gains Account Scheme on 31.07.2026.

Out of the amount deposited, he withdrew Rs.16,50,000 for purchasing agricultural land on 15.01.2028. Compute taxable amount of capital gains for assessment years 2026-27; 2027-28; 2028-29 and 2029-30; if:

A. The agricultural land which was sold is urban agricultural land;
B. The agricultural land which was sold is rural agricultural land ***(CII: 04-05: 113)***

Problems on Section 54EC:

19. On 02.01.2026, X sells land for Rs.96,00,000 (cost of acquisition on 10.3.2003: Rs.11,55,000). On 5.02.2026, he acquires bonds of National Highway Authority of India (investment being Rs.35,00,000). Again on 03.05.2026 he further invested Rs.25,00,000 in these bonds. Find out the amount of exemption u/s.54 EC and taxable capital gains. ***(CII: 02-03: 105)***

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20. R acquired a land on 15.12.2008 for Rs.5,48,000 which was sold on 15.06.2025 for Rs.28,20,000. Expenses of transfer were Rs.20,000. He invests Rs.10,00,000 in the bonds of Rural Electrification Corporation Ltd on 16.11.2025. Compute capital gains for the A.Y. 2026-27.

State the period for which the bonds should be held by the assessee. What will be the consequences if such bonds are sold within the specified period? What will be the consequences if R takes a loan against the security of such bonds? ***(CII: 08-09: 137)***

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21. Ms.Kavita, an individual sold an agricultural land for Rs.40 lakhs on 10th March 2026. The land is located at 3.6 kms (aerial distance) from the local limits of municipality whose population was 600000 according to the last preceding census. It was acquired by her on 30th June 2014 for ₹18 lakhs.

She also sold a vacant land located in urban area for ₹ 75 lakhs in June 2025 and the value of land for stamp duty purposes was Rs.80 lakhs. This vacant land was obtained as gift from her father in May 2013, which was originally acquired by her father in October, 2001 for ₹ 12 lakhs. The Fair Market Value of the vacant land in May 2013 was Rs.40 lakhs.

Kavita deposited Rs.30 lakhs in section 54EC bonds on 25.03.2026.
Under the Income Tax Act, 1961, compute income from capital gains in the hands of Kavita for assessment year 26-27. She does not opt to be taxed under section 115BAC of the Income Tax Act 1961.

Problems on Section 54F:

22. X sells land on 10.7.2025 for Rs.96,00,000 (cost on 15.6.2004 Rs.16,95,000 and selling expenses Rs.1,00,000). On 10.7.2025, he owns one residential house property. To get the benefit of exemption under section 54F, X deposits on 30.5.2026 Rs.47,50,000 in Capital Gains Deposit Scheme. By withdrawing from the Deposit Account he purchases a residential house property at Delhi on 16.12.2026 for Rs.38,00,000. ***(CII: 04-05: 113)***

Ascertain:-

- the amount of capital gain chargeable to tax for the assessment year 2026-27;
- tax treatment of the unutilized amount;

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23. Mr.Aryan, a resident individual aged 58 years, sells (unlisted) shares in a private sector company on May 17, 2025 for ₹ 10,02,000. The shares were bought on 01.08.2012 for a consideration of ₹ 2 lakhs. Mr.Aryan paid ₹ 2000 as brokerage on sale of shares.

Mr.Aryan deposited Rs.6 lakhs in Capital Gain Account Scheme on 15.06.2026 (before filing the return of income for assessment year 26-27).

On April 30, 2027, he withdraws Rs.4,50,000 and purchases a residential house property at Delhi on May 1, 2027 for ₹ 4,50,000.

Ascertain:

(i) The amount of capital gain chargeable to tax for assessment year 26-27.
(ii) Tax treatment (with mention of the relevant assessment year) of the unutilized amount.

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24. **Section 54 & Section 54F:**

Anish owns a residential house which is self-occupied and also a house plot. He sells the house on 28.2.2026 and the house plot on 04.03.2026 for Rs.60 lacs and Rs.50 lacs, respectively. The house was purchased on 17.10.2002 for Rs.15 lacs and the plot on 26.12.2006 for Rs.12 lacs. Anish has purchased a new residential house on 03.05.2026 for Rs.47 lacs. Compute "Capital Gain" for the A.Y. 2026-27.

SECTION 54 H: Extension of time limit under compulsory acquisition cases:

Under compulsory acquisition cases, the time limit for the purpose of acquiring a new asset to avail exemption under section 54, 54B, 54D, 54EC and 54F shall be reckoned from the date of receipt of such compensation and not from the date of transfer.

CAPITAL GAINS – PART III:

TREATMENT OF ADVANCE MONEY RECEIVED AND FORFEITED:

Any advance money received by the assessee shall be taxable under the head **"Income from other sources"** if:

a) such advance is forfeited; and
b) the negotiations did not result in transfer of such capital asset

Provision before 01.04.2014: Advance money received and forfeited shall be reduced from the cost and the reduced cost is considered for computing capital gains.

SECTION 50 C: IN THE CASE OF IMMOVABLE PROPERTY:

Sale consideration is taken as the **STAMP DUTY VALUE** or the **ACTUAL SALE PRICE** whichever is higher. Where the stamp duty value does not exceed **110%** of the actual sale price, then actual sale price shall be deemed to be the full value of consideration.

SDV on the date of agreement and on the date of registration are not same:

Normally, SDV on the date of sale/registration should be considered. However, SDV on the date of the agreement can be opted only in a case where any advance/down payment, has been received by way of an a/c payee cheque or a/c payee bank draft or use of ECS through a bank account or through prescribed electronic modes, on or before the date of the agreement.

In case of dispute: The assessee can request the A.O. to refer the matter to the Valuation Officer.

e.g.	**case I**	**case II**	**case III**
Actual sale price	25,00,000	25,00,000	25,00,000
Stamp duty value	32,00,000	32,00,000	32,00,000
Value determined by Valuation Officer	22,00,000	28,00,000	35,00,000
As per Section 50C (sale consideration)	25,00,000	28,00,000	32,00,000

Section 50CA: Capital gains in the case of UNQUOTED SHARES:

The full value of consideration shall be the **higher** of the following:

- Actual consideration received; or
- FMV of shares as per valuation rules prescribed by the CBDT

CAPITAL GAIN ON CONVERSION OF CAPITAL ASSET IN TO STOCK-IN-TRADE:

Conversion of capital asset into stock-in-trade is a transfer.

I. Computation of capital gain on conversion:

Fair Market Value on the date of conversion	xxx
Less: Cost of acquisition	xxx
Long term capital gain	xxx

The above capital gains are taxed in the year in which the stock-in-trade is sold.

II. Computation of business income on sale of stock-in-trade:

Sale proceeds of stock in trade	xxx
Less: Cost of stock-in-trade (being f.m.v. on the date of conversion)	xxx
Income from Business	xxx

RECEIPT OF INSURANCE CLAIMS FOR DAMAGE OF CAPITAL ASSETS:

"Damage or Destruction" of a capital asset will be treated as transfer (extinguishment) provided the asset is insured and compensation is received. Such gains are taxed in the year during which the compensation is received from the "Insurer".

The damage or destruction is as a result of a) flood, typhoon, hurricane, cyclone, earthquake; b) riot or civil disturbance; or c) accidental fire or explosion; or d) action by an enemy.

COMPULSORY ACQUISITION – YEAR OF TAXABILITY:

Under compulsory acquisition cases, capital gains are taxable in the year of receipt of compensation by the assessee. However, if compensation is received based on an INTERIM ORDER of a court, tribunal or other authority, such compensation shall be deemed to be income of the previous year in which the FINAL ORDER of such court, tribunal or other authority is made.

MEANING OF 'REVERSE MORTGAGE':

A senior citizen who owns a house but not having regular source of income can mortgage his property with a bank. The bank in turn pays him periodic installments or lump sum amount to the senior citizen. The borrower can continue to stay in the house and as well as receive regular income from the bank.

The borrower is not required to pay the principal as well as the interest to the bank during his life time. The bank will recover the loan along with the interest by selling the house after the death of the borrower. However, before selling the property, the legal heirs are given an option to repay the loan along with interest and get the mortgaged property released.

TAX TREATMENT:

Mortgage of a property under a reverse mortgage scheme notified by Central Government shall not be regarded as 'transfer'. Therefore, no capital gains tax. The periodic installments or lump sum received by the senior citizen is exempt from tax u.s.10 (43).

<u>SECTION 50 B:</u> <u>COMPUTATION OF CAPITAL GAIN IN THE CASE OF SLUMP SALE</u>

'Slump Sale' means the transfer of one or more undertakings as a result of the sale for a lump sum consideration without values being assigned to the individual assets and liabilities.

a) "Fair market value" shall be deemed to be the full value of consideration. It shall be the **HIGHER** of:

   FMV 1, being the fmv of capital assets transferred; and
   FMV 2, being the fmv of the consideration received (monetary and non-monetary)

b) Cost of acquisition and cost of improvement shall be the "NET WORTH" of the undertaking

c) NET WORTH means <u>value of total assets</u> minus <u>value of total liabilities</u> of the "DIVISION"

d) Any change in the value of assets on account of revaluation shall be ignored

e) In case of depreciable assets, written down value (as per I.T. Act) shall be considered

f) In case of non-depreciable assets, book value shall be considered

g) Net worth cannot be negative

h) Short term or Long term depends upon the period for which the "UNIT" is owned and held by the assessee.

i) Indexation benefit is not available

j) A report of a C.A. in Form No.3CEA showing the amount of net worth should be furnished.

<u>SELF-GENERATED ASSETS:</u>

Self-generated assets include:

a. Goodwill of a business/profession;
b. Tenancy rights,
c. Route permits,
d. Loom hours,
e. The right to manufacture, produce and process any article or thing, a trade mark or brand name associated with a business and
f. a right to carry on any business or profession. ***(Section 55)***

The cost of the above self-generated assets is "Nil". Even if the aforesaid assets were acquired before April 1, 2001, the option of adopting the fair market value on the said date is not available. The entire sale consideration shall be treated as "capital gains".

RULE: CAPITAL GAINS ARE TAXED IN THE YEAR IN WHICH TRANSFER TOOK PLACE.

Exceptions to the above rule:

a. Conversion of Capital Asset in to Stock in trade
b. Compulsory Acquisition under any law
c. Extinguishment of a capital asset and Insurance compensation is received
d. In the case of Joint Property Development

JOINT DEVELOPMENT AGREEMENTS – Section 45(5A):
Where the capital gains arises to an ***Individual or HUF*** from the transfer of ***land or building or both***, under a ***specified agreement***, shall be chargeable to tax in the year in which ***certificate of completion*** for ***whole or part*** of the project is issued by the competent authority.

The full value of consideration received shall be the **aggregate** of:
(i) his share of stamp duty value as on the date of issue of certificate of completion; and
(ii) consideration received in cash, if any.

"Specified agreement" means a registered agreement in which a person owning land or building or both, agrees to allow other person to develop a real estate project on such land, in consideration of a share, being land or building or both in such project, whether with or without payment of part of the consideration in cash.

Advance money received and forfeited before or after 01.04.2014:

30. Mr.A received an advance of Rs.50,000 on 1.12.2025 against the sale of his house. However, due to non-payment of installment in time, the contract was cancelled and the amount of Rs.50,000 was forfeited. Discuss the taxability or otherwise in the hands of recipient Mr.A.

31. Mr.Suman received an advance of Rs.3 lakhs on 12.11.2025 to transfer his residential house property. Since the transfer was not effected during the previous year due to failure in negotiations, he deducted the advance money forfeited from the cost of acquisition of the property. State whether the treatment is correct by Mr.Suman.

Problems on Section 50C:

32. Mr.T inherited a house in Jaipur under will of his father in May, 2003. The house was purchased by his father in January, 2000 for Rs.12,50,000. He invested an amount of Rs.7,00,000 in construction of one more floor in this house in June, 2005. The house was sold by him in November, 2025 for Rs.40,00,000.

The valuation adopted by the registration authorities for charge of stamp duty was Rs.50,00,000 which was not contested by the buyer, but as per assessee's request, the Assessing Officer made a reference to Valuation Officer. The value determined by the Valuation Officer was Rs.52,00,000.

Brokerage @ 1% of sale consideration was paid by Mr.T to Mr.S. The fair market value as on 01.04.2001 was Rs.15,00,000. You are required to compute the amount of capital gain chargeable to tax for A.Y.2026-27. ***(CII: 2003-04: 109; 2005-06: 117)***

33. Mr.Raj a resident individual, aged 69 years sold an urban agricultural land for Rs.75,00,000 to Mr. Vipul on 15.12.2025 when the stamp duty value of agricultural land was Rs.95 lakhs. However, the "agreement to sell" the agricultural land was entered on July 15, 2025 and Mr.Vipul gave Rs.4 lakhs as advance through IMPS. The stamp duty value at the time of agreement was Rs.85 lakhs. Mr.Raj paid 1% of sale consideration as commission to a broker. The land was purchased by him on May 15, 2002 for Rs.21,00,000 and it was being used for agricultural purposes by him since its purchase.

Mr.Raj purchased another agricultural land in rural area on July 1, 2026 for Rs.40 lakhs and this land was sold by him on September 12, 2026 for Rs.45 lakhs and he invested the entire sale proceeds in fixed deposits with a nationalized bank on the same day.

Compute capital gain for A.Y. 2026-27 if Mr.Raj exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

<u>Stamp Duty Value on the DOA and Stamp duty value on the DOR:</u>

34. Mr.S entered into an agreement with Mr.D to sell his residential house located at Kanpur on 16.08.2025 for Rs.1,50,00,000.

The sale proceeds was 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 of the property.

Mr.D was handed over the possession of the property on 15.12.2025 and the registration process was completed on 14.01.2026. He paid the sale proceeds as per the sale agreement.

The value determined by the stamp duty authority:-

- a) on 16.08.2025 was Rs.170 lakhs;
- b) on 15.12.2025 was Rs.171 lakhs; and
- c) on 14.01.2026 was Rs.171.50 lakhs.

Mr.S had acquired the property on 01.04.2001 for Rs.30,00,000. After recovering the sale proceeds from Mr.D, he purchased two residential house properties, one in Agra for Rs.20,00,000 on 24.03.2026 and another in Delhi for Rs.35,00,000 on 28.05.2026. Compute CG. for A.Y.2026-27.

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35. Mr.Shiva purchased a house property on February 15, 1979 for ₹ 3,24,000. In addition, he has also paid stamp duty charges @ 10% on the stamp duty value of ₹ 3,50,000.

In April, 2008, Mr.Shiva entered into an agreement with Mr.Mohan for sale of such property for ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr.Shiva forfeited the advance.

In May 2016, he again entered into an agreement for sale of said house for ₹ 20,25,000 to Ms.Deepa and received ₹ 1,51,000 as advance. However, as Ms.Deepa did not pay the balance amount, Mr.Shiva forfeited the advance.

In August, 2015, Mr.Shiva constructed the first floor by incurring a cost of ₹ 3,90,000.

On November 15, 2025, Mr.Shiva entered into an agreement with Mr.Manish for sale of such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr.Manish paid the balance entire sum and Mr.Shiva transferred the house to Mr.Manish on February 20, 2026. Mr.Shiva has paid the brokerage @ 1% of sale consideration to the broker.

On April 1, 2001, fair market value of the house property was ₹ 11,85,000 and Stamp duty value was ₹ 10,70,000. Further, the valuation as per Stamp Duty Authority of such house on 15th November, 2025 was ₹ 39,00,000 and on 20th February, 2026 was ₹ 41,00,000. Compute capital gains in the hands of Mr.Shiva for A.Y.2026-27.

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36. Mrs.Yuvika bought a vacant land for ₹ 80 lakhs in May 2004. 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 2006-07.

Mrs.Yuvika, entered into an agreement on 01.05.2025 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by RTGS. The SDV on the date of agreement was ₹ 890 lakhs. The sale deed was executed and registered on 14.07.2025 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 900 lakhs. Mrs.Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs.Yuvika made following investments:
Acquired two residential houses at Delhi for ₹ 130 lakhs and ₹ 50 lakhs on 31.01.2026 and 15.05.2026. Acquired a residential house at UK for ₹ 180 lakhs on 23.03.2026.

Subscribed to NHAI capital gains bond (approved under section 54EC) for ₹ 50 lakhs on 30.11.2025 and for ₹ 40 lakhs on 09.01.2026.

Compute the income chargeable under the head 'Capital Gains' of Mrs.Yuvika for A.Y.2026-27. The choice of exemption must be in the manner most beneficial to the assessee.

Conversion of capital asset in to stock in trade:

37. Mr.A converts his capital asset acquired in July, 2004 for Rs.50,000 into stock-in-trade in the month of November, 2024. The fair market value of the asset on the date of conversion is Rs.4,50,000. The stock-in-trade was sold for Rs.6,50,000 in the month of September, 2025. Compute taxable income, if any, and if so, under what head of income and for which assessment year.

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38. Mrs.Harshita purchased a land at a cost of Rs.34,88,000 in the financial year 2003-04 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 Rs.210 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is Rs.10 lakhs. Construction was completed in February, 2026. She sold 10 flats at Rs.30,00,000 per flat in March, 2026. The remaining 5 flats were held as stock on 31st March, 2026.

She invested Rs.50 lakhs in bonds issued by NHAI on 31st March, 2026 and another Rs.50 lakhs in bonds of REC Ltd in April, 2026. Compute capital gains & business income for A.Y. 2026-27 indicating clearly the reasons for treatment for each item. (*Cost inflation Index: 2003-04: 109; 2023-24: 348)*

SLUMP SALE (Section 50 B)

39. The Balance Sheet of LMN Ltd as on 30th November 2025, being the date on which Unit N has been transferred by way of slump sale is given hereunder:

BALANCE SHEET AS ON 30.11.2025

Liabilities	***Rs. in lakhs***	***Assets***	***Rs. in lakhs***
Paid up capital	1,700	Fixed Assets:	
Reserves	620	Unit L	150
		Unit M	150
		Unit N	550
Liabilities			
Unit L	40	Other assets	
Unit M	110	Unit L	520
Unit N	90	Unit M	800
		Unit N	390
TOTAL	**2,560**	**TOTAL**	**2,560**

- Using the information given below, calculate the capital gain arising on slump sale of Unit N:

- Slump sale consideration received Rs.850 lakhs. Fair market value of the assets transferred is Rs.880 lakhs.

- Fixed assets of Unit N includes land which was purchased at Rs.60 lakhs in the year 2009 and revalued at Rs.90 lakhs as on 31.03.2025.

- Fixed assets of Unit N reflected at Rs.460 lakhs (Rs.550 lakhs less land value of Rs.90 lakhs) is the written down value of depreciable assets as per books. However, the written down value of these assets under section 43 (6) of the Income-tax Act is Rs.410 lakhs.

- Other assets of Unit N shown at Rs.390 lakhs represent book value of non-depreciable assets.

- Unit N is in existence since July, 2009.

40. Mr.A is a proprietor of Akash Enterprises having 2 units. He transferred on 01.04.2025 his Unit 1 by way of slump sale for a total consideration of Rs.25 lakhs. The fair market value of capital assets of unit 1 on 01.04.2025 is Rs.30 lacs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were Rs.28,000. His Balance Sheet as on 31.03.2025 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		Machinery	3,00,000	1,00,000	4,00,000
(for land of unit 1)	3,00,000	Debtors	1,00,000	40,000	1,40,000
Bank Loan (70% for unit 1)	2,00,000	Other assets	1,50,000	60,000	2,10,000
Creditors (25% for unit 1)	1,50,000				

Other information:

a. Revaluation reserve is created by revising upward the value of land of Unit 1.

b. No individual value of any asset is considered in the transfer deed

c. Other assets of Unit 1 include patents acquired on 01.07.2023 for Rs.50,000 on which no depreciation has been charged.

d. The value of machinery represents the written down value as per the IT Act, 1961.

e. Compute the capital gain for assessment year 2026-27.

Capital gain in case of JOINT DEVELOPMENT AGREEMENT – Section 45(5A):

41. Mr.X purchased a residential plot on 01.01.1998 for Rs.50,00,000. FMV of plot as on 01.04.2001 is Rs.65,00,000. Alpha Builders enter into a Development Agreement with Mr.X on 01.05.2025 on the following terms and conditions:

a. Mr.X will hand over the possession of plot to Alpha Builders on 01.05.2025

b. Alpha Builders will pay a cheque of Rs.60 lakhs to Mr.X on 01.05.2025.

c. Alpha Builders will construct 10 residential units on the plot of land will give 6 units to Mr.X. The 10 units shall be completed by 30.06.2027 and on that date 6 units will be handed over to Mr.X.

d. The stamp duty value of plot on 01.05.2025 is Rs.2 crores

e. The stamp duty value of each flat on 30.06.2027 is Rs.45 lakhs

CASE I: The project completion certificate is issued by competent authority on 30.06.2027. 6 units are handed over to Mr.X on 30.06.2027.

CASE II: The project completion certificate is issued by competent authority on 30.04.2028 and on that date the stamp duty value of each flat is Rs.50 lakhs. 6 units are handed over to Mr.X on 30.04.2028.

Answer:
There is a 'Transfer' on 01.05.2025 in hands of Mr.X since he has given the possession of residential plot to the builder under a Development Agreement.

However, the capital gains shall not be taxable in previous year 25-26 but shall be taxable in the previous year in which certificate of completion is issued by competent authority (i.e. PY 27-28).

The above section is applicable since assessee is an individual.

The holding period of residential plot shall be taken from 01.01.1998 to 30.04.2025. i.e. long term

CASE I: Assessment Year 2028-29

Sale consideration (SDV of 6 flats on 30.06.2027 + cash received)	3,30,00,000
Less: Cost of acquisition	65,00,000
LTCG	**2,65,00,000**

CASE II: Assessment Year 2029-30

Sale consideration (SDV of 6 flats on 30.04.2028 + cash received)	3,60,00,000
Less: Cost of acquisition	65,00,000
LTCG	**2,95,00,000**

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42. State whether the following statement is true or false:
Where capital gain arises to an individual from the transfer of capital asset, being immovable property under a joint development agreement, the capital gain is chargeable to tax in the previous year in which the certificate of completion for whole or part of the project is issued by the competent authority.

Problem on Reverse Mortgage:

43. Mr.Suresh (senior citizen) received Rs.50,00,000 on 23.01.2026 on transfer of his residential building in a transaction of reverse mortgage under a scheme notified by the Central Government. The building was acquired in March 2002 for Rs.8,00,000. Is the amount received on reverse mortgage chargeable to tax under the head 'Capital Gains'?

Answer:
Mortgage of property with a bank under reverse mortgage scheme notified by the Central Government shall not be regarded as transfer. Hence, amount received under RMS is not chargeable to tax.

Note: *Amount received under RMS from a bank either in lumpsum or in installments is exempt from tax under section 10(43) of the Income-tax Act.*

Transfer of capital asset by a partner to the firm as capital contribution:

Where a person transfers a capital asset to a firm by way of capital contribution, capital gain arising from such transfer will be chargeable to tax as income of the previous year in which such transfer took place.

Full value of consideration: For this purpose, the value of consideration will be the AMOUNT RECORDED IN THE BOOKS OF ACCOUNTS of the firm.

44. B joined Avtar & Co. as a partner on 1st June, 2025. He contributed his vacant land to the firm as his capital which was recorded in the books of the firm at Rs.5 lakhs. The land was inherited by B from his father in April 2010 and the fair market value on that date was Rs.2 lacs. The land was originally acquired by his father in August, 2005 for Rs.1 lakh. The fair market value on 1st June, 2025 was Rs.10 lacs. The full value of consideration received as a result of transfer of land by B as capital would be taken as:

a) Rs.1 lakh
b) Rs.2 lakhs
c) Rs.5 lakhs
d) Rs.10 lakhs **option C**

MCQs:

1. Mr.A (aged 45 years) sold an agricultural land for Rs.52 lakhs on 04.10.2025 acquired at a cost of Rs.49.25 lakhs on 13.09.2024 situated at 7 kms from the jurisdiction of municipality having population of 4,00,000 and also sold another agricultural land for Rs.53 lakhs on 12.12.2025 acquired at a cost of Rs.46 lakhs on 15.02.2024 situated at 1.5 kms from the jurisdiction of municipality having population of 12,000. What would be the amount of capital gain chargeable to tax in the hands of Mr.A for the A.Y. 2026-27?

(a) Short-term capital gain of Rs.9.75 lakhs
(b) Short-term capital gain of Rs.7 lakhs
(c) Long-term capital gain of Rs.4,12,500
(d) Long-term capital gain of Rs.5,29,196 **option B**

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2. Mr.C entered into an agreement for sale of his house property located at Jaipur to Mr.Y on 1st August, 2025 for consideration of Rs.95 lakhs. Mr.Y paid an amount of Rs.20 lakhs by a/c. payee cheque to Mr.C on 1st August, 2025 and balance was agreed to be paid at the time of registration of the Conveyance Deed which could only be executed by Mr.C on 1st September, 2025. The Stamp Valuation Authority determined the value of the house property on the date of registration of deed at Rs.140 lakhs. However, the value determined by the Stamp Valuation Authority of the house on the date of agreement (1st August, 2025) was Rs.110 lakhs. The sale value for the purpose of computing the capital gains of the property for A.Y. 2026-27 to be taken by Mr.C shall be:

a) Rs.95 lakhs
b) Rs.110 lakhs
c) Rs.140 lakhs
d) Rs.120 lakhs **option B**

CHAPTER - 11: LISTED SHARES & UNLISTED SHARES

TAX RATES ON CAPITAL GAINS:

A. ***In the case of listed shares sold through the stock exchange and STT paid:***
  a. STCG: 20% tax u.s.111A (STT not allowed)
  b. LTCG: 12.5% tax u.s.112A after exemption of Rs.1.25 lakhs (STT not allowed)

B. ***Other Capital Assets such as unlisted shares, land or building, jewellery:***
  a. STCG: slab rate applicable
  b. LTCG: 12.5% tax u.s.112 without indexation

Important: *In case of Land and Building, the amount of capital gain to be included in computation of total income is without indexation. Indexation option is available to a resident individual or huf only at the time of paying tax.*

ADJUSTMENT OF UNEXHAUSTED EXEMPTION FOR A RESIDENT ASSESSEE:
If basic exemption is not fully exhausted against slab rate income, then balance exemption can be adjusted against incomes taxed at special rates except against casual income.

Important: The above benefit/adjustment is not available to a NON-RESIDENT.

SPECIAL RATES

LTCG on listed shares (through stock exchange and STT paid):	12.5% u.s.112A
STCG on listed shares (through stock exchange and STT paid):	20% u.s.111A
LTCG on other capital assets:	12.5% u.s.112
Casual Income:	30% u.s.115BB

LISTED SHARES SOLD THROUGH STOCK EXCHANGE AND STT PAID:

STCG: (through RSE and STT paid):	20% u.s.111A
LTCG: (through RSE and STT paid):	12.5% u.s.112A after Rs.1,25,000 exemption

- ✓ Rebate u.s.87A shall not be allowed; and
- ✓ INDEXATION BENEFIT is not available.
- ✓ Section 112A exemption of Rs.1,25,000 is available for both resident and non-residents;
- ✓ This exemption is in addition to basic exemption available to an individual;
- ✓ Chapter VI-A deductions are not available

REMEMBER: LTCG on sale of listed shares is fully taxable & hence fully included in total income. At the time of computing tax, the assessee can claim Rs.1.25 lakhs exemption.

1. Salary income (computed) Rs.10,00,000; STCG (listed shares) Rs.1,00,000; LTCG (listed shares) Rs.1,50,000. The shares were sold on 01.09.2025 through stock exchange and STT paid. Compute tax liability of the assessee who is 38 years old and a resident for relevant A.Y. Ignore DTR.

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2. Mr.X (age 68 years) is a resident individual. For A.Y.2026-27, he has income from LTCG on transfer of equity shares Rs.7,50,000 (STT has been paid on acquisition and transfer of the said shares) and income from other sources Rs.2,75,000. Compute his tax liability under the optional tax regime assuming that shares were sold on 15.12.2025.

WHAT SHALL BE THE COST OF A LISTED SHARE?

EARLIER: LTCG on sale of listed shares through stock exchange was fully exempt u.s.10(38).

AFTER AMENDMENT: W.E.F. 01.02.2018, exemption u.s.10(38) has been removed. LTCG on sale of listed shares through the stock exchange is taxed @ 12.5% after exemption of Rs.1,25,000.

The cost of a listed share purchased before 01.02.2018 shall be determined as under:

Acquired	**Cost of a listed share**
Before 01.02.2018	Choice available Purchase price (or) fmv as on 31.01.2018 (w. e. higher) (note: fmv as on 31.01.2018 cannot exceed the sale price) Fmv is the ***highest price*** of the share quoted on the stock exchange
On or after 01.02.2018	Choice not available Purchase price shall be the cost

Note: The Finance Minister has clarified that profit made up to 31.01.2018 shall not be taxed.

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3. In the case of Mr.X. listed shares purchased and sold are given below, Compute Capital gains:

	Case 1	***Case 2***	***Case 3***	***Case 4***	***Case 5***
Purchase price on 1.9.2017	410	710	900	800	30
FMV as on 31.01.2018	730	780	300	1,000	100
Sale price on 20.01.2026	760	650	910	825	400

Answer:

Sale consideration	760	650	910	825	400
Less: Cost	730	710	900	825	100
LTCG	30	-60	10	nil	300

FMV cannot exceed the sale price. Indexation is not available. Rebate u.s.87A is not available.

BONUS (FREE) SHARES:

What is the COST of a bonus share (listed)?

Allotted	**Cost**
Before 01.02.2018	Fmv as on 31.01.2018 (fmv as on 31.01.2018 cannot exceed the sale price)
On or after 01.02.2018	nil
Period of holding:	*From the date of allotment till the date of sale.*

What is the COST of an unlisted bonus share?

Allotted	**Cost**
On or after 01.04.2001	nil
Before 01.04.2001	FMV as on 1.04.2001 (since purchase price is zero)

RIGHT SHARES AND RELINQUISHMENT OF RIGHT ENTITLEMENTS:

The cost of a right share (listed share):

Acquired	**Cost**
On or after 01.02.2018	Purchase price
Before 01.02.2018	Purchase price (or) fmv as on 31.01.2018 (w. e. higher) (fmv as on 31.01.2018 cannot exceed the sale price)
Period of holding:	*From the date of allotment till the date of sale.*

Relinquishment of rights in a right share:
The cost of right entitlements shall be nil.

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4. One equity share of a company listed on recognised stock exchange is acquired on 01.01.2017 at Rs.100. Its fair market value is Rs.200 on 31.01.2018 and it is sold on 01.04.2025 at Rs.150. Assuming all conditions required by section 112A are fulfilled, compute the amount of capital gain/loss on sale of this share u/s 112A.

5. On 28.02.2026, 10,000 shares of XY Ltd. a listed company are sold by Mr.B @ 550 per share and STT was paid at the time of sale of shares. These shares were acquired by him on 5th April, 2017 @ Rs.395 per share by paying STT at the time of purchase. On 31st January, 2018, the shares of XY Ltd. were traded on a recognized stock exchange at the Fair Market Value of Rs.390 per share.

Unlisted shares – Original and Bonus shares:

6. Ms.Usha purchases 1,000 equity shares in X Ltd., an unlisted company, at a cost of Rs.30 per share (brokerage 1%) in January 1996. She gets 100 bonus shares in August 2000. She again gets 1100 bonus shares by virtue of her holding on February 2006. Fair market value of the shares of X Ltd as on 1st April, 2001 is Rs.80.

On 01.01.2026, she transfers all her shares @ Rs.280 per share (brokerage 2%). Compute the capital gains.

Unlisted shares: Original shares, right shares and right entitlements:

7. Mr.R holds 1000 shares in Star Minus Ltd., an unlisted company, acquired in the year 2001-02 at a cost of Rs.75,000. He has been offered right shares by the company in the month of August, 2025 at Rs.160 per share, in the ratio of 2 for every 5 held.

He retains 50% of the rights and renounces the balance right shares in favour of Mr.Q for Rs.30 per share in September 2025.

All the shares are sold by Mr.R for Rs.320 per share in January 2026 and Mr.Q sells his shares in December 2025 at Rs.300 per share. Compute capital gains in the hands of Mr.R and Mr.Q?

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8. Cost of acquisition in case of bonus shares allotted before 01.04.2001 will be:
   a) Face value on the date of allotment
   b) Nil
   c) Fair market value as on 01.04.2001
   d) Current market value

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9. For an assessee, who is a salaried employee who invests in equity shares, what is the benefit available in respect of securities transaction tax paid by him on sale and acquisition of 100 listed shares of X Ltd. which has been held by him for 14 months before sale?

   (a) Rebate under section 88E is allowable in respect of securities transaction tax paid
   (b) STT paid is treated as expenses of transfer and deducted from sale
   (c) Capital gains without deducting STT paid is taxable at a concessional rate of 12.5% on such capital gains exceeding Rs.1,25,000 lakh
   (d) Capital gains without deducting STT paid is taxable at concessional rate of 20%.

CHAPTER – 12 INCOME FROM OTHER SOURCES

Specific examples:

- Dividend
- Casual Income
- Sum of money or property received by any person (gift)
- Any interest on compensation or enhanced compensation received from the Government
- Advance forfeited due to failure of negotiations for transfer of a capital asset
- Compensation received by any person, in connection with termination of his employment or the modification of the terms and conditions relating thereto.

Other examples:

- Interest on securities
- Interest on income-tax refund
- Income from sub-letting
- Salary received by a Member of Parliament
- Interest on deposit with a bank, company, etc.
- Keyman insurance policy received on maturity (if not taxed under other heads)
- Income from royalty
- Income from letting of plant and machinery on hire
- Income from letting of plant and machinery and also building being inseparable
- Income from a vacant land
- Interest on employees contribution to unrecognized provident fund received
- Foreign agricultural income
- Family pension received by family members of a deceased employee
- Director's sitting fee
- Income from undisclosed sources

Casual Income:

Winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature.

note: The above incomes are taxed at a flat rate of 30% u.s.115BB.
note: Chapter VIA deductions are not available
note: Basic exemption is not available
note: Expenditure incurred for earning such income is not allowed as deduction
note: No loss can be set-off against casual income
note: How to "gross up" if net winning is given?

$$\frac{\text{Net amount received}}{70\%}$$

note: In case of online games, net winnings therefrom is chargeable to tax @ 30% u.s.115BBJ and no expenditure or deduction under chapter VIA can be allowed. No loss can be set off.

Important points:

Income under this head is to be computed according to the method of accounting.

Deduction in respect of dividends or income from units of a mutual fund: Actual interest expenditure or 20% of dividend income (whichever is less) shall be allowed as deduction.

Unexplained cash credit or unexplained investments or unexplained expenditure shall be taxed @ 60% plus surcharge @ 25% and cess @ 4% (effective rate 78%). Basic exemption cannot be availed. No deduction is allowed in respect of any expenditure against such income. Set-off of losses is not permissible against such income. ***(refer sum 4 and 5)***

Interest on Post Office Savings Account is exempt to the extent of Rs.3,500 in the case of an individual account and Rs.7,000 in the case of joint account under section 10 (15).

Interest on Public Provident Fund account is exempt from tax under section 10 (11).
Income by way of interest on Non-resident (External) Account (NRE A/c) is exempt u.s.10(4).
Daily allowance and Constituency allowance received by any MP or MLA is exempt u.s.10(17).

KEYMAN INSURANCE – POLICY

Keyman insurance policy is a policy taken on the life of one person by another person where the insured plays a key role in the Organization. The relationship between the two persons may be that of employer-employee or that of a principal-agent.

Important: Premium paid on such policy is allowed as business expenditure while computing business income.

On its maturity:

a) If employer-employee relationship exists: Maturity value is taxed in the hands of employee under the head "Salaries".

b) Where no employer-employee relationship exists: Maturity value is taxed in the hands of the person receiving it either as "Business Income" or as "IFOS".

Note: Amount received on maturity of a life insurance policy is exempt u.s.10(10D) which is different from keyman insurance policy.

Important points:

Deduction in respect of family pension: Rs.15,000 (OTR)/Rs.25,000 (DTR) (or) 33 1/3% of pension received (w.e.l.)

Family pension received by a widow of a member of the armed forces where the death of the member has occurred **IN THE COURSE OF OPERATIONAL DUTIES** is exempt from tax u.s.10 (19). Any ex-gratia received by the widow is also exempt as per Circular issued by the CBDT.

Family pension received *by any member of the family* of an individual who has been awarded "Param Vir Chakra" or "Vir Chakra" or "Mahavir Chakra" (gallantry awards) is exempt u.s.10 (18).

1. Mr.M, Government servant, died on 11.5.2022 while still being in service. In terms of the rules governing the service, his widow S, is paid a family pension of Rs.20,000 p.m. and dearness allowance of 5,000 p.m. thereof. For the assessment year 2026-27, is the widow assessable on the receipt and if so, under what head of income? Is she entitled to any relief or deduction on the above sum? Discuss.

2. During the year 2025-26, Mrs.Kalis (aged 65 years), received Rs.10,50,000 as family pension. She had to spend Rs.26,000 to get such income towards documentation and processing charges. She does not have any other income.

   Assuming she opts for the default tax regime, what shall be her total income chargeable to tax?

   (a) Rs.10,35,000 (b) Rs.10,25,000
   (c) Rs.10,24,000 (d) Rs.10,50,000

3. Amit, a captain in Indian army was killed in Kargil border during a war. The widow of Amit was paid an ex-gratia payment of Rs.8,00,000 in March, 2026, besides the family pension during the year of Rs.30,000 p.m. She wants to know about the taxability of both the receipts.

4. Mr.Raman, aged 64 years, was not able to provide satisfactory explanation to the Assessing Officer for the investments of Rs.7 lakhs not recorded in the books of accounts. What shall be the tax payable by him on the value of such investments considered to be deemed income u.s.69?

5. Mr.Ajay is found to be the owner of two gold chains of 50 gms each (market value of which is Rs.1,45,000 each) during the financial year ending 31.03.2026 but he could offer satisfactory explanation to the Assessing Officer for Rs.50,000 spent on acquiring these gold chains. As per section 115BBE, Mr.Ajay would be liable to pay a tax of Rs………………

6. In the following cases state the head of Income under which the receipt is to be assessed and comment.

   a. X Ltd., lets out its property to Y. Y sublets it. How is subletting receipt to be assessed in the hands of Y?

   b. X has built a house on leasehold land. He has let-out the property and claims the rent received to be assessed under "other sources" and deducted expenses on repair, security charges, insurance and collection charges in all amounting to 60% of receipts.

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7. **Mr.R (an ordinary resident) furnishes the following details for the A.Y. 2026-27:**

   Agricultural income in India Rs.75,000; Agricultural income in Sri Lanka Rs.90,000; Income from a vacant land Rs.72,000; Rent received on sub-letting house Rs.3,75,000; Rent payable for house sub-let Rs.1,50,000; Maintenance expenses on house sublet Rs.12,000.

   Interest on deposits with nationalized bank Rs.10,000; Interest on PPF account Rs.6,000; Interest accrued but not received on NSC VIII issue Rs.8,000 (assessee follows mercantile system of accounting); Winnings from lottery (net of tax of Rs.30,000) Rs.70,000 (cost of lottery tickets purchased Rs.1,000).

During the year he received an Income-tax refund of Rs.2,30,000 relating to A.Y. 23-24 from the Income-tax Department. Interest included in the above Rs.30,000.

Dividend from Indian companies (gross) Rs.1,00,000 (interest paid on loan taken for the purpose of investment in shares Rs.26,000). **Compute Income from Other Sources.**

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8. Ms.S, submits the information of following transactions/income during the previous year 2025-26:

Interest on Post Office Saving Bank Account (single account)	Rs.2,500
Winning from lotteries (net)	Rs.28,000
Received a motor car as gift from her friend on the occasion of her birthday	Rs.9,00,000
Cash gift of Rs.15,000 each from her four friends	Rs.60,000
Income from undisclosed sources	Rs.10,000
Rent received from sub-letting of house property (rent paid to original owner Rs.22,000)	Rs.30,000

You are required to compute the income of Ms.S chargeable under the head "Income from other sources" for A.Y. 2026-27. Ms.S does not opt to be taxed under section 115BAC of the IT Act, 1961.

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9. Mrs.B (aged 50 years), submits the information of following transactions/income during the previous year 2025-2026:

Dividend received from co-operative society	Rs.15,000;
Winning from TV game show KBC (net of tds)	Rs.87,500;
Pension received from employer of deceased husband @ 5,000 p.m.	Rs.60,000;
She purchased a painting for ₹ 65,000, although fair market value was	Rs.80,000;
Rent received of a factory building along with machinery (Mrs.B has spent Rs.2,000 on repairs, Rs.2,500 on insurance). Further, the depreciation on factory building is Rs.5,000 and on machinery is Rs.3,500)	Rs.95,000;
Rent received from vacant plot of land	Rs.80,000;
Interest received on loan given to relative	Rs.7,500.

You are required to compute the income of Mrs.B chargeable under the head income from other sources for the assessment year 26-27, assuming Mrs.B exercises the option of shifting out of the default tax regime provided under section 115 BAC.

Deductions not allowed while comuting IFOS:

- Personal expenditure
- Any payment exceeding Rs.10,000 by way of cash/bearer cheque
- Any payment to a resident without tds (30% shall not be allowed as deduction)
- Any salary or interest which is payable outside India without tds

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INTEREST ON ORIGINAL (OR) ENHANCED COMPENSATION:

Any interest received on such compensation from the Government shall be taxed in the ***year of receipt*** irrespective of the method of accounting followed by the assessee. ***Note:*** A deduction @ 50% of the interest received shall be allowed. **Section 56(2)(viii)**

10. The land of Mr.Ganesh was acquired by NHAI in the year 2022 and since then the litigation was going on for enhancement of compensation. The issue was resolved on 11.12.2025 and the court ordered finally to make payment to Mr.Ganesh of the enhanced compensation and the following amounts for interest on such enhanced compensation.

Financial Year	Amount (Rs.)
2022-23	1,15,000
2023-24	2,26,000
2024-25	3,75,000
2025-26	2,14,000

Explain the provisions of the Act and also work out the amount of interest and the assessment year in which the same shall be taxed.

11. On 10.10.2025, Mr.Govind (a bank employee) received Rs.5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2017-18.

Out of this interest, Rs.1,50,000 relates to the previous year 2018-19, Rs.1,65,000 relates to previous year 2019-20 and Rs.1,85,000 relates to previous year 2020-21. He incurred Rs.50,000 by way of legal expenses to receive the interest on such enhanced compensation. Discuss the tax implication, if any, of such interest income for A.Y.2026-27.

Section 2 (22) (e): DEEMED DIVIDEND:

Where a closely-held company advances a loan

a) to its shareholder who beneficially owns at least ***10% equity*** in the company; or
b) to ***any other person*** for the benefit of such shareholder; or
c) to ***"any other concern"*** where such shareholder owns ***substantial interest*** in addition to 10% shareholding in the company

then such loan or advance shall be deemed to be dividend in the hands of the shareholder to the extent of ***accumulated profits*** of the company.

note: A closely-held company is a company in which public have no substantial interest (e.g. a private company).

note: **"Any other concern"** mentioned above can be an individual, a huf, a firm or a company.

note: **"Substantial Interest"** shall mean 20% equity or voting rights in case of a company or 20% share of profits in any other concern.

note: "**Trade advances"** in the nature of commercial transactions cannot be deemed as dividend.

note: Where money-lending is a substantial part of the business of the company (i.e. giving loans), deemed dividend provisions are not applicable.

12. Sanjay holds 16% shares in XYZ Private Limited. The company has given him a loan of Rs.2,00,000 on 01.02.2026. Accumulated profits of the company on that date was Rs.1,75,000. Sanjay repaid the loan on 31.03.2026. Examine the tax implication, if any, of the above transactions in the hands of Mr.Sanjay.

13. Rahul, a resident Indian, holding 28% of equity shares in a company, took loan of Rs.5,00,000 from the same company. On the date of granting the loan, the company had accumulated profits of Rs.4,00,000. The company is engaged in some manufacturing activity.

a. Is the amount of loan taxable as deemed dividend, if the company is a company in which the public are substantially interested?

b. What would be your answer, if the lending company is a private limited company (i.e.) a company in which the public are not substantially interested?

14. Mr.Ravi received an advance of Rs.2,00,000 on 10.5.2025 from a closely-held manufacturing company (private company in which the public are not substantially interested) in which he holds 22% shareholding. The company had an accumulated profit of Rs.1,00,000 at the time of giving the advance. Compute the amount of income to be included in the hands of Mr.Ravi for the assessment year 2026-27 and also state the head under which it is to be included.

15. A private limited company engaged in manufacturing activity had general reserve of Rs.20 lakhs. It granted a loan of Rs.5 lakhs to a director who held 13% shareholding cum voting rights in the company. The said loan was re-paid by him before the end of the year. The amount of deemed dividend arising out of the above transaction is:

(a) Rs.2,60,000
(b) Rs.2,40,000
(c) Rs.5,00,000
(d) Nil

Taxability of Gifts – Section 56(2)(x):

Important: Any sum of money or value of property received without consideration or for inadequate consideration to be taxed in the hands of the recipient **[Section 56(2)(x)]**

Different types of gifts:

a. Gift in cash; or
b. Gift of immovable property (land or building); or
c. Gift of movable property: "Movable property" includes the following capital assets: Jewellery, archaeological collections, drawings, paintings, sculptures, work of art, shares and securities and bullion.

Note: "Movable assets" does not include cars, two-wheelers, computers and laptops, mobile phones, wrist watches, television, etc.

A. CASH received as gift by any person::

Received from relatives is not taxable (any amount)
Received on the occasion of marriage is not taxable
In other cases, cash gift received in excess of Rs.50,000 in AGGREGATE in a year is fully taxable

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B. IMMOVABLE PROPERTY RECEIVED:

1. Received as gift (without consideration) by any person:

Tax treatment in the hands of transferee:
In case Stamp Duty Value exceeds Rs.50,000; then SDV is taxable. SDV will be the cost of acquisition if the asset is sold subsequently by the buyer.

Note: Agricultural land situated in a rural area is not a capital asset, hence not taxable.

2. If purchase price is less than the stamp duty value (i.e. inadequate consideration):

Tax treatment in the hands of buyer:
If the ***difference*** between the SDV and the purchase price exceeds Rs.50,000 ***AND*** also exceeds 10%; the difference is taxable.

note: SDV shall be the cost in the hands of the buyer in case of subsequent sale by him.

C. MOVABLE PROPERTY RECEIVED AS GIFT:

1. If received as a gift (without consideration):
Fully taxable if fair market value of the gift exceeds Rs.50,000 in aggregate

2. If purchased for a value which is less than the f.m.v (inadequate consideration):
If the difference between f.m.v. and purchase price exceeds Rs.50,000, the difference is taxable.

Note: If gift received forms part of stock-in-trade then the above provisions do not apply, hence no tax implication.

Gift received in the following cases shall not be taxable:

- **a.** Gifts received from relatives; or
- **b.** Gifts received on the occasion of the marriage of the individual; or
- **c.** Gifts received under a will or by way of inheritance; or
- **d.** Gifts received in contemplation of death of the payer or donor; or
- **e.** Gifts received from a registered charitable trust or institution; or
- **f.** Gifts received from any local authority; or
- **g.** Gifts received from any fund, university, educational institution, hospital, medical institution registered.

"RELATIVE" includes:

1. Spouse of the individual
2. Brother or Sister of the individual
3. Brother or Sister of the spouse of the individual
4. Brother or Sister of either of the parents of the individual
5. Any lineal ascendant or descendant of the individual
6. Any lineal ascendant or descendant of the spouse of the individual

Spouse of the person referred to in items (2) to (6) mentioned above

Note: In case of HUF, any member thereof.

Problems on gifts received and its taxability:

1. Mr.A, the friend of Mr.B, has gifted an immovable property to Mr.B on 01.01.2026 whose stamp duty value on the date of gift is Rs.45,00,000. What shall be the value of gift in the hands of Mr.B? Would your answer differ if Mr.B had purchased the above property from Mr.A for Rs.36,00,000?

2. Mr.R purchased an immovable property from Mr.S for Rs.91,00,000 whereas its stamp duty is Re.1 crore. Discuss the tax liability of Mr.R. What will be your answer if the immovable property was purchased for Rs.90,00,000 instead of Rs.91,00,000?

3. Mr.X sold his residential house to Mr.Y for Rs.10 lakhs on 01.04.2025. The value of the said house as per Stamp Valuation Authority was Rs.16 lakhs. Mr.Y is a childhood friend of Mr.X. Mr.X gifted a plot of land (purchased by him on 01.08.2017) to Mr.Y on 01.07.2025. The value as per Stamp Valuation Authority is Rs.8 lakhs. Mr.Y sold the land on 01.03.2026 at Rs.14 lakhs.

Compute the income of Mr.Y chargeable under the heads "Capital Gains" and "IFOS".

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4. Compute the "Capital Gains" and "Income from other sources" in the hands of Mr.V:

Mr.D gifted a vacant site to his friend Mr.V on 23.05.2025 on the occasion of latter's birthday. Mr.D had acquired the said vacant site in May, 2019 for Rs.30,00,000. The fair market value of the site for stamp duty purposes on the date of gift i.e., on 23.05.2025 was Rs.60,00,000. Mr.V sold the vacant site on 15.03.2026 for a consideration of Rs.70,00,000 when its stamp duty value on the date of sale was Rs.90 lakhs.

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5. The following details have been furnished by Mrs.Hema pertaining to the year ended 31.03.2026:

a. 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.

b. On the above occasion, a diamond necklace worth Rs.2 lacs was gifted by her sister living in Dubai.

c. When she celebrated her daughter's wedding on 21.02.2026, her friend assigned in Mrs.Hema's favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was Rs.52,000. Compute the income, if any, assessable as income from other sources.

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6. Mr.A receives a motor car as gift from his friend on the occasion of birthday on 01.01.2026. The fair market value of the car is Rs.25,00,000. Compute the sum taxable in the hands of Mr.A.

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7. Check the taxability of the following gifts received by Mrs.R during the previous year 2025-26 and compute the taxable income from gifts for Assessment Year 2026-27:

a. On the occasion of her marriage on 14.8.2025, she has received Rs.90,000 as gift out of which Rs.70,000 are from relatives and balance from friends
b. On 12.9.2025, she has received gift of Rs.18,000 from cousin of her mother.
c. A cell phone worth Rs.75,000 is gifted by her friend on 15.8.2025.
d. She gets a cash gift of Rs.25,000 from the elder brother of her husband's grandfather.
e. She has received a cash gift of Rs.12,000 from her friend on 14.11.2025.

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8. Mrs.H, who draws a salary of Rs.60,000 p.m. received the following gifts during the p. y. 2025-26:

Gift of Rs.1,50,000 on 15.05.2025 from her close friend
Gift of jewellery worth Rs.3,00,000 on 01.08.2025 from her fiancee
Gift of Rs.51,000 each received from her two friends on the occasion of her marriage
Gift of Rs.51,000 on 01.12.2025 from her father's sister
Gift of Rs.25,000 on 12.01.2026 from her family friend
Gift of Rs.11,000 on 12.02.2026 from her brother's mother-in-law
Gift of Rs.75,000 from her sister-in-law

Compute her gross total income for the assessment year 2026-27 under DTR.

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9. Discuss the taxability with reason in the hands of recipient for the assessment year 2026-27 in respect of following receipts or income:

(i) Mr.Ram received a sum of Rs.5,00,000 from his father on Ram's wedding anniversary.

(ii) Mr.Govind sold his house property to Mrs.Radha for Rs.1,25,00,000, whereas value determined by stamp valuation authority was Rs.1,75,00,000.

(iii) Ms.Agastha got a gift of car worth Rs.7,00,000 from her friend on her wedding anniversary.

BUYBACK OF SHARES – SECTION 46A:

In the hands of a domestic company (both listed & unlisted):
No tax treatment in the hands of the company

In the hands of the shareholder:
Amount received shall be treated as ***dividend*** *under the head "Income from Other Sources" in the hands of the shareholders. No deduction for expenses would be available against such dividend income.*

Value of consideration received by a shareholder on buy back of shares by a domestic company would be ***Nil*** *and the difference between cost of acquisition and the value of consideration will result into* ***capital loss****. The same can be set off and carried forward.*

Example (page 3.502):

No. of shares of A Ltd bought in 2020 by Mr.B @ Rs.40 per share:	100 shares
No. of shares bought back in November 2025 by A Ltd @ Rs.60 per share:	20 shares
No. of shares sold in December 2026 by Mr.B @ Rs.70 per share:	50 shares

Discuss the tax treatment.

Solution:

PY. 25-26:
Amount received by Mr.B (20 shares x Rs.60) Rs.1,200 is treated as dividend under IFOS.
Long term capital loss on such buy-back (value of consideration – cost) (nil – 40) x 20 shares: Rs.800.
Such loss can be set-off against long term capital gain.

PY. 26-27:
Long term capital gain on sale of shares (70 – 40) x 50 shares: Rs.1,500
Brought forward LTCL of Rs.800 can now be set-off against Rs.1,500. Balance taxable LTCG is Rs.700

ADDITIONAL PROBLEMS FROM THE INSTITUTE MATERIAL:

1. Mr.A, a dealer in shares, received the following without consideration during the P.Y. 2025-26 from his friend Mr.B:-

(1) Cash gift of Rs.75,000 on his anniversary, 15th April, 2025.

(2) Bullion, the fair market value of which was Rs.60,000, on his birthday, 19th June, 2025.

(3) A plot of land at Faridabad on 1st July, 2025, the stamp value of which is Rs.5 lakh on that date. Mr.B had purchased the land in April, 2010. On 1st March, 2026, he sold the land at Faridabad for Rs.7 lakh.

Mr.A purchased from his friend Mr.C, who is also a dealer in shares, 1000 shares of X Ltd. @ Rs.400 each on 19th June, 2025, the fair market value of which was Rs.600 each on that date. Mr. A sold these shares in the course of his business on 23rd June, 2025.

Further, on 1st November, 2025, Mr.A took possession of property (office building) booked by him two years back at Rs.20 lakh. The stamp duty value of the property as on 1st November, 2025 was Rs.32 lakh and on the date of booking was Rs.23 lakh. He had paid Re.1 lakh by account payee cheque as down payment on the date of booking.

Compute "IFOS" and "Capital Gains" for A.Y. 2026-27.

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2. Examine under which heads the following incomes are taxable:

- Rental income in case property held as stock-in-trade for 3 years
- Dividend on shares in case of a dealer in shares
- Salary received by a partner from his partnership firm
- Rental income of machinery
- Winnings from lotteries by a person having the same as business activity
- Salaries payable to a Member of Parliament
- Receipts without consideration
- In case of retirement, interest on employee's contribution if provident fund is unrecognized.
- Rental income in case of a person engaged in the business of letting out of commercial properties.

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3. Reenu owned 5,000 shares of PQR Ltd. (listed on a recognised stock exchange in India), an Indian company which were acquired on 01.02.2023 for Rs.180 per share. On 01.01.2026, the company bought 2,000 shares back from her and paid Rs.420 per share to Reenu.

Which of the following statements is correct as far as the taxability of buy-back of shares by PQR Ltd, is concerned?

(a) Rs.8,40,000 will be treated as deemed dividend in the hands of Reenu.

(b) PQR Ltd, shall be liable to pay Rs.1,95,686 as additional income-tax and the income arising in respect of such buy-back shall be exempt in the hands of Reenu.

(c) Rs.4,80,000 will be treated as long-term capital gains in the hands of Reenu and it will be taxable at the rate of 12.5% after deducting Rs.1,25,000 from the LTCG.

(d) Rs.4,80,000 will be treated as deemed dividend in the hands of Reenu.

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4. From the following calculate the taxable amount under the proper head of income for the F.Y. 2025-26 of Mr.L, who is resident and 56 years old. The reasons should form part of your answer:

(a) Advance forfeited amounting to Rs.1,00,000 on 01.05.2025 as the negotiation for transfer of capital asset did not result in transfer of Capital Asset.

(b) During the Financial Year 2025-26, he received Rs.99,000 as pension from employer of deceased wife.

(c) Cash Gift received from non-relative on the occasion of marriage of son Rs.51,000.

<u>MCQs:</u>

1. State which out of the following gifts received during the year by Girish from different persons shall be subject to tax in the A.Y. 2026-27.

(i) Wrist watch of Rs.75,000 given by a non-resident friend
(ii) Cash of Rs.51,000 given by elder brother
(iii) Cash of Rs.21,000 each given by 4 friends on his birthday
(iv) Painting of Rs.30,000 given by employer on his birthday

Select the correct answer from the options given below:
(a) (iii) and (iv)
(b) (i), (iii) and (iv)
(c) (ii) and (iii)
(d) All the four in (i), (ii), (iii) and (iv) **option A**

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2. Libra Pvt. Ltd. engaged in trading activity had accumulated profits of Rs.15,00,000 as on 1.4.2025. Mr.Gautam having 30% of the equity shares and voting rights in the company received Rs.5 lakhs as loan on 1.6.2025 from the company. The loan was repaid by him on 30.11.2025. The amount liable to tax in the hands of Mr.Gautam as deemed dividend is:

(a) Rs.4,50,000 (c) Rs.15,00,000
(b) Rs.5,00,000 (d) Rs.1,50,000 **option C**

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3. A Member of Parliament received Rs.1,50,000 per month as salary and Rs.4,50,000 as daily allowance during P.Y. 2025-2026. The taxable amount will be:

(a) Salary Rs.18,00,000
(b) Income from profession Rs.22,50,000
(c) Income from other sources Rs.18,00,000
(d) Nil **Option A**

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4. Mr.Kashyap has acquired a building from his friend on 10.10.2025 for Rs.15,00,000. The stamp duty value of the building on the date of purchase is Rs.16,20,000. Income chargeable to tax in the hands of Mr.Kashyap is:

(a) Rs.70,000 (c) Rs.50,000
(b) Nil (d) Rs.1,20,000 **Option C**

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5. Mr.X aged, 61 years, received dividend of Rs.12,00,000 from ABC Ltd. in P.Y.2025-26. Interest on loan taken for the purpose of investment in ABC Ltd., is Rs.3,00,000. Income included in the hands of Mr. X for P.Y. 2025-26 would be:–

(a) Rs.12,00,000 (c) Rs.9,60,000
(b) Rs.9,00,000 (d) Rs.2,00,000 **Option C**

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6. Raju earned Rs.25,000 from lotteries, Rs.10,000 from betting, Rs.50,000 from online games (on internet) and lost Rs.5,000 in card games during P.Y. 2025-26.

The amount of tax to be charged for A.Y. 2026-27 will be:-

(a) 30% of (Rs.25,000 + Rs.10,000) + 20% of Rs.50,000 and adjustment of unexhausted basic limit is permitted against this income.

(b) 30% of (Rs.25000 + Rs.10,000 + Rs.50,000 – Rs.5,000) and adjustment of unexhausted basic limit is permitted against this income.

(c) 30% of (Rs.25,000 + Rs.10,000 + Rs.50,000) and adjustment of unexhausted basic limit is not permitted against this income.

(d) 30% of (Rs.25,000 – Rs.75,000) + 20% of (Rs.10,000 + Rs.50,000) and adjustment of unexhausted basic limit is not permitted against this income. **Option C**

INTERMEDIATE EXAMINATION

December 2025

P–7(DITX)
Syllabus 2022

DIRECT AND INDIRECT TAXATION

Time Allowed: 3 Hours | Full Marks: 100

The figures in the margin on the right side indicate full marks.

Where considered necessary, suitable assumptions may be made and clearly indicated in the answer.

All workings should form part of the answer.

Section-A

(Compulsory)

1. Choose the correct option from the four alternatives given: 2×15=30

(i) Out of the following which one is not a capital receipt under the Income Tax Act, 1961?

(A) Bonus Shares

(B) Sale of know-how

(C) Dividend on investment

(D) Compensation received for vacating business place

(ii) With reference to the Income Tax Act, 1961, Assessment Year refers to

(A) the year in which income is earned.

(B) any period of 12 months.

(C) the year immediately following the year in which income is earned.

(D) All of the above

(iii) As per the provisions of the Income Tax Act, 1961, if a domestic servant is engaged by the employer and salary is paid by him, the perquisite is ____________.

(A) taxable to the extent of ₹ 120 per person in the hands of all employees

(B) taxable in the hands of all employees

(C) taxable in the hands of specified employees only

(D) not taxable in the hands of both specified and non specified employees.

(iv) Exemption (from the Capital Gain) under Section 54F of the Income Tax Act, 1961, shall not be allowed if the assessee, on the date of transfer, owns _________.

(A) a House which is self-occupied.

(B) a Residential House which is let out.

(C) any Residential House.

(D) more than one Residential House.

(v) Expenditure on promotion of family planning is an allowance as deduction u/s 36(1)(ix) of the Income Tax Act, 1961 in case of _________.

(A) Company

(B) Firm

(C) HUF

(D) Individual

(vi) Deduction (under old regime) under Section 80G of the Income Tax Act, 1961 in respect of donation to certain funds is available to ______________.

(A) only resident individuals

(B) all assessees

(C) only individuals and HUFs (resident or non-resident)

(D) only Indian citizens

(vii) Which among the following is not the difference between direct and indirect taxes?

(A) Burden of tax can be shifted in indirect tax whereas in direct tax it cannot be shifted.

(B) Direct tax is progressive in nature whereas indirect taxes are regressive in nature.

(C) In direct tax, tax evasion is possible whereas tax evasion is not possible in indirect tax.

(D) Direct taxes are imposed by the Central Government whereas indirect taxes are solely imposed by the State Governments.

(viii) As per the GST law, services by an old age home run by Central Government, State Government or entity u/s 12AA of the Income Tax Act, 1961 to residents for consideration up to ________________ is exempt, provided that consideration charged is inclusive of charges for boarding, lodging and maintenance.

(A) ₹ 20,000 per month per member

(B) ₹ 25,000 per month per member

(C) ₹ 20,000 per annum per member

(D) ₹ 25,000 per annum per member

(ix) Rule 30 of the CGST Rules, 2017 inter alia provides that value of supply of goods or services or both based on cost shall be ______% of cost of production or manufacture or the cost of acquisition of such goods or the cost of provision of such services.

(A) 10

(B) 90

(C) 100

(D) 110

(x) Under the GST law, Place of Supply of any service when it is provided on board a rail shall be_______________.

(A) where the passenger embarks on the rail for continuous journey

(B) the first scheduled point of departure of the rail for the journey

(C) the point where the passenger takes the service

(D) the last scheduled point of arrival of the rail after the journey

(xi) Input Tax Credit (ITC) shall not be available if the same is not reflected in _________ of the registered person.

(A) Form GSTR 3B

(B) Form GSTR 1A

(C) Form GSTR 1

(D) Form GSTR 2B

(xii) Where the application for grant of registration has been approved under Rule 9 of the CGST Rules, 2017, Certificate of registration is issued in Form __________.

(A) GST REG-01

(B) GST REG-02

(C) GST REG-06

(D) GST REG-10

(xiii) A person opting to pay tax under composition scheme under the GST law needs to file Form CMP-08 ___________ and CMP-04 ___________.

(A) Monthly; Annually

(B) Quarterly; Monthly

(C) Annually; Monthly

(D) Quarterly; Annually

(xiv) With reference to Customs Act, 1962, what is the limit of Exclusive Economic Zone of India (EEZI) from the baseline?

(A) 24 nautical miles

(B) 100 nautical miles

(C) 200 nautical miles

(D) 12 nautical miles

(xv) As per Section 8B of the Customs Tariff Act, 1975, the total period of levy of safeguard duty is restricted to ______ years.

(A) 5

(B) 6

(C) 7

(D) 10

Section-B

(Answer any five questions out of seven questions given.)

Each question carries 14 Marks. 14×5=70

2. (a) Mr. Naresh, aged 35 years, gives the following information to you regarding his incomes:

(i) Rental income (computed) received in a bank account in Germany in respect of a house property situated in Germany : ₹ 2,40,000

(ii) Income from a business in India controlled from Germany received in India : ₹ 5,00,000

(iii) Agricultural income from a land situated in Sri Lanka received in Sri Lanka : ₹ 6,00,000

(iv) Interest from savings bank account in Germany : ₹15,000

(v) Royalty received from BHI Ltd., an Indian company for a product design to be used in Italy received in Germany bank account : ₹ 25,00,000

(vi) Capital gains on the sale of shares listed in a recognised stock exchange in India : ₹ 5,40,000

Required :

Compute the gross total income of Mr. Naresh for the Assessment Year 2025-26, assuming he is :

(I) a resident and ordinarily resident,

(II) a non-resident. 7

(b) Mr. Suresh, a resident individual aged 54 years, is employed as a General Manager with BNHU Ltd., an Indian company. He gives the following information to you regarding the Financial Year 2024-25:

(i) Basic Salary—
From 01/04/2024–31/12/2024 : ₹ 70,000 p.m.
From 01/01/2025–31/03/2025 : ₹ 85,000 p.m.

(ii) Dearness Allowance: 50% of the basic salary not forming part of retirement benefits

(iii) Bonus is equal to one month's basic salary paid in the month of November 2024

(iv) Employer's Contribution to Recognised Provident Fund: 19% of basic salary. Mr. Suresh also contributed the same amount.

(v) Profession tax paid : ₹ 10,000, out of which ₹ 5,000 was paid by the employer on behalf of Mr. Suresh.

(vi) Facility of laptop provided by the employer for both official and personal use. The cost of the laptop was ₹ 1,00,000 and it was purchased on 01/04/2022 by the company.

(vii) Leave travel concession : ₹ 80,000 for himself, his wife and 3 children aged 3, 7 and 12 years

Required :

Analyze Mr. Suresh's income chargeable under the head **'Salary'** for the Assessment Year 2025-26 assuming he did not opted out of default tax regime under Section 115BAC of the Income Tax Act, 1961. 7

3. (a) Mrs. Sejal (aged 52 years) is an owner of a residential house property. The particulars of the house for the previous year 2024-25 are as under:—

Particulars	**Amount** (₹)
Municipal value of the property	1,80,000
Fair rent	2,36,000
Standard rent under the Rent Control Act	2,20,000
Rent received	22,500 per month

Municipal taxes @ 10% of municipal value was paid by Mrs. Sejal during the year.

The construction of the house began in August, 2017 and was completed on 31st August, 2020. Mrs. Sejal took a loan of ₹ 5,00,000 on 1st September, 2017 for the construction of said property. Mrs. Sejal paid interest on loan @ 15% per annum and every month such interest was paid. The entire loan is outstanding as on 31st March, 2025.

Required :

Analyze the **Income from house property** chargeable in the hands of Mrs. Sejal for the Assessment Year 2025-26.

Assuming Mrs. Sejal exercises the option of default tax regime provided under Section 115BAC of the Income Tax Act, 1961. Indicate clearly the reasons for treatment of each item. 7

(b) Mr. Ratan, a resident individual aged 40 years, is engaged in the business of hiring and plying goods vehicle. He gives the following details of his vehicle fleet :

Opening stock of vehicles as on 01/04/2024 as under:		
Vehicle No.	**Gross weight (in kg)**	**Date of Sale**
1	8,500	—
2	13,000	—
3	15,000	24/04/2024
4	10,000	—
He bought the following vehicles during the Financial Year 2024-25:		
Vehicle No.	**Gross weight (in kg)**	**Date of purchase and put to use**
5	7,500	01/05/2024
6	8,500	01/06/2024

During the Financial Year 2024-25, he received ₹ 45 lakhs from the hiring and plying of these vehicles.

Since he did not maintain proper books of account so he want to opt presumptive Income scheme under Section 44AE of the Income Tax Act, 1961.

Required :

Assess Mr. Ratan's income chargable to tax under the head "**Profit and Gains from Business or Profession**" for the Assessment Year 2025-26 by briefly explaining the relevant provisions of the Act.

Assume: Mr. Ratan did not opt out from default tax regime under Section 115BAC of the Income Tax Act, 1961. 7

4. (a) Mr. Kumar, a 56 years old resident, sold a residential house property on 01-11-2024 for ₹ 28,00,000. He paid brokerage @ 1% for sale. Value determined for the purpose of stamp duty was ₹ 28,50,000. The house property was acquired on 20-03-2001 for ₹ 3,35,000.

Fair market value of the house property as on 01-04-2001 was ₹ 3,25,000. He had constructed a new floor on it at cost of ₹ 2,50,000 on 01-05-2015.

He purchased a new residential house property on 01-09-2024 for ₹ 35,00,000 and commission of ₹ 50,000 was paid to broker.

On 01-03-2025 his diamond ring costing ₹ 1,00,000 purchased on 31-10-24 was stolen and on 30-03-2025 Insurance claim of ₹ 75,000 was received for this.

You are required to **compute** income taxable under the head **'Capital Gains'** for Assessment Year 2025-26 of Mr. Kumar assuming he opted for old tax regime.

Cost Inflation Index for the various Financial Years are as under:

2001-02 :	100
2015-16 :	254
2024-25 :	363

Note: No need to give detailed reason (explanations) for your answer. 7

(b) Mr. Manoj, aged 45 years, submits the information of following transaction/income related to the previous year 2024-25:

S. No.	Particulars	Amount (₹)
(i)	Director sitting fees from MNQ Ltd.	84,000
(ii)	Received gold coins from a family friend on the occasion of marriage anniversary on 1st January, 2025. The market value of the gold coins on the said date was ₹ 1,25,000.	—
(iii)	Interest on debentures of a company listed in a Recognized Stock Exchange (Net of TDS).	14,400
(iv)	Interest on Post Office Saving Bank Account (single account)	3,000
(v)	Interest received on loan given to relative	6,200
(vi)	Rent received from sub-letting a leasehold house property	1,80,000
(vii)	Lease rent paid for sub-let leasehold house property at point no. (vi)	1,20,000
(viii)	Mr. Manoj purchased a piece of land from his friend on 1st August, 2024 for a consideration of ₹ 3,90,000, stamp duty value of such land is ₹ 7,50,000.	—

You are required to **Analyze** the income chargeable to tax under the head **"Income from other sources"** for the Assessment Year 2025-26 in the hands of Mr. Manoj.

Assuming Mr. Manoj exercises the option of shifting out of the default tax regime provided under Section 115BAC of the Income Tax Act, 1961.

Indicate clearly the reasons for treatment of each item. 7

5. (a) Mr. Rijwan, a resident individual, aged 56 years, gives you the following particulars about his income for the previous year 2024-25:

(i) Income from salary (Computed as per the relevant provisions of the Act): ₹ 6,00,000

(ii) Loss from footwear business: ₹ 1,80,000

(iii) Income from speculative business: ₹ 1,20,000

(iv) Income from owning & maintaining horse races: ₹ 1,00,000

(v) Winning from card games: ₹ 25,000

(vi) Loss from betting: ₹ 20,000

(vii) Income from house property: ₹ 1,15,000

He has brought forward loss from house property ₹ 1,30,000 related to A.Y. 2018-2019 for which belated income tax return was filed.

Required :

(i) **Compute** the Gross Total Income of Mr. Rijwan for the Assessment Year 2025-26 assuming he has opted for default tax regime provided under Section 115BAC of the Income Tax Act, 1961.

(ii) **List** out the losses to be carried forward to further assessment years specifying the Assessment Year upto which such losses can be carried forward. 7

(b) Mrs. Kajal, a resident individual aged 45 years, an employee in a private company furnishes the following particulars of her income for the previous year 2024-25:

S. No.	Particulars	Amount (₹)
(i)	Income from salary before standard deduction	9,20,000
(ii)	Interest from Government securities	5,000

She made the following payments:

(I) Deposited ₹ 2,00,000 in her Public Provident Fund (PPF) account by cheque.

(II) Medical insurance premium on own health ₹ 20,000 and on the health of spouse ₹ 10,000 paid by cheque.

(III) Donation towards Prime Minister's Drought Relief Fund ₹ 10,000 paid by cheque.

You are required to calculate total taxable income and tax liability of Mrs. Kajal for the Assessment Year 2025-26 under the default tax regime under Section 115BAC of the Income Tax Act, 1961 and optional tax regime as per the Regular provisions (old regime) of the Income Tax Act, 1961.

Required :

Advise Mrs. Kajal whether she should pay tax under default tax regime under Section 115BAC of the Income Tax Act, 1961 or Regular provisions (old regime) of the Income Tax Act, 1961.

Note: No need to give detailed reason (explanations) for your answer. 7

6. (a) **Discuss,** in brief, the concept and features of Indirect Taxes. 7

(b) **List the** five Centre and five State taxes that were subsumed in the GST regime and also list any four taxes that were not subsumed in the GST regime. 7

7. (a) Mr. Jitesh registered under GST law in the State of Rajasthan provided the details of his turnover to you for the year ended on 31.03.2025:

(i) Value of taxable outward supplies – Intra-state:— ₹ 55,00,000

(ii) Value of taxable outward supplies – Inter-state:— ₹ 16,00,000

(iii) Value of exempt outward supplies :— ₹ 74,00,000

(iv) Amount received as interest on loans and advances (not included in any of the above-mentioned points):— ₹ 2,00,000

(v) Value of inward supplies on which tax is payable by him under reverse charge mechanism (RCM) :— ₹ 8,00,000

(vi) Value of exports (not included in any of the above-mentioned points): — ₹ 6,50,000

All the amounts are exclusive of GST.

You are required to **Analyze** the aggregate turnover of Mr. Jitesh for the purpose of opting for **Composition scheme** under GST law and advise him whether he is eligible to opt for the scheme or not by explaining relevant provisions in brief. 7

(b) Radhe Shyam & Sons, a registered dealer, furnishes the following information relating to goods sold by it to Ganesh Ltd. in the course of intra-State:

S. No.	Particulars	Amount (₹)
(i)	List price of the goods (exclusive of GST and discounts)	8,50,000
(ii)	Subsidy received from Central Government, directly linked to price	85,000
(iii)	Subsidy received from an NGO (non-profit making organisation), directly linked to price	40,000
(iv)	Late fees for delayed payment (Though Ganesh Ltd. made late payment but these charges are waived by Radhe Shyam & Sons)	8,000
(v)	Amount incurred by Ganesh Ltd. for post-delivery inspection. (charges incurred post receipt of goods by Ganesh Ltd.)	9,000
(vi)	Weightiest charges paid to Kartik Ltd. by Ganesh Ltd. on behalf of Radhe Shyam & Sons	20,000
(vii)	Discount of 2% on list price (₹ 8,50,000) of goods was provided and recorded in the invoice.	—

With reference to GST law, you are required to **Analyze** the value of supply made by Radhe Shyam & Sons.

Items given in point no.(iv) to (vii) are not considered while arriving at the list price of the goods given in point no.(i), but point no. (ii) and (iii) deducted.

Brief notes for treatment given for each item should form part of your answer. 7

8. (a) With reference to Quarterly Return Monthly Payment (QRMP) Scheme under GST law, briefly **discuss** the followings:

   (i) Eligibility of QRMP Scheme

      (A) In case of New Registration

      (B) In case of Others

   (ii) Is the QRMP Scheme available GSTIN wise or PAN wise? 7

(b) With **reference to Customs Valuation Rules, state** the provision related to followings in case of import of a machine by air from USA:

(i) Freight charges up to airport of importation

(ii) Insurance charges

(iii) Transshipment charges from one airport of India to another airport

(iv) Applicable rate of exchange for conversion purpose

(v) Applicable rate of Basic Customs Duty (BCD) 7
