



# Work Book

Intermediate

## Direct Taxation (Section A)

Paper

7



**The Institute of Cost Accountants of India**

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# WORK BOOK

## Direct Taxation

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**INTERMEDIATE**

**Paper 7A**

**SYLLABUS 2022**



**The Institute of Cost Accountants of India**

CMA Bhawan, 12, Sudder Street, Kolkata - 700 016

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## Preface

**T**he landscape of professional education is undergoing a profound transformation, driven by the evolving demands of a globally integrated economy. In this dynamic environment, it is imperative to equip students not only with technical knowledge but also with the analytical skills and professional acumen essential for success.

Effective learning extends beyond theoretical understanding—it necessitates the development of strong conceptual foundations, critical thinking abilities, and disciplined study habits. These attributes are cultivated through continuous practice and engagement with thought-provoking academic material. To facilitate this process, the curriculum, instructional methods, and assessments must be designed to provide comprehensive, structured, and intellectually stimulating learning experiences.

Building on the success of the previous editions, we are pleased to present the new edition of our 'Workbook' in an e-distributed format. This edition has been meticulously developed to enhance students' comprehension and application of key concepts. Each chapter is structured to offer a seamless learning experience and integrating practical illustrations in a phased manner to align with the evolving regulatory framework.

We are confident that this new edition will continue to serve as a valuable academic resource, empowering students to achieve their professional aspirations with confidence and competence.

The Directorate of Studies,  
The Institute of Cost Accountants of India

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# 1

## Basics of Income Tax Act [Study Material - Module 1]

### Residential Status

#### Illustration 1

Mr. Thomson, a foreign national came to India for the first time on November 14, 2020. Subsequently, he stayed in India during 2020-21, 2021-22, 2022-23, 2023-24 and 2024-25 for 80 days, 170 days, 90 days, 150 days and 70 days respectively. Determine his residential status for the A.Y. 2025-26.

During the previous year 2024-25, he earned income of ₹ 5,70,000 from a business in Bangladesh which is controlled from India. Discuss the taxability of such income in India.

#### Solution

During the previous year 2024-25, Mr. Thomson was in India for 70 days & during 4 years immediately preceding the previous year, he was in India for 490 days as shown below:

| Year                        | 2020-21 | 2021-22  | 2022-23 | 2023-24  | Total    |
|-----------------------------|---------|----------|---------|----------|----------|
| No. of days stayed in India | 80 days | 170 days | 90 days | 150 days | 490 days |

Thus, he satisfies one of the conditions specified u/s 6(1) & consequently, he becomes a resident in India for the P.Y. 2024-25.

Further, to determine whether he is an ordinarily resident or not, he needs to satisfy both conditions laid down in sec. 6(6). His days of stay in India in the last few years are as follows:

| S. N. | Year      | Presence in India (In days) | Resident (R) or Non resident (NR) | Condition satisfied to become a resident |
|-------|-----------|-----------------------------|-----------------------------------|--|
| 1     | 2023-2024 | 150                         | NR                                | None                                     |
| 2     | 2022-2023 | 90                          | NR                                | None                                     |
| 3     | 2021-2022 | 170                         | NR                                | None                                     |
| 4     | 2020-2021 | 80                          | NR                                | None                                     |
| 5     | 2019-2020 | 0                           | NR                                | None                                     |
| 6     | 2018-2019 | 0                           | NR                                | None                                     |
| 7     | 2017-2018 | 0                           | NR                                | None                                     |
| 8     | 2016-2017 | 0                           | NR                                | None                                     |
| 9     | 2015-2016 | 0                           | NR                                | None                                     |
| 10    | 2014-2015 | 0                           | NR                                | None                                     |



## Work Book : Direct Taxation (Section A)

Condition (i) of sec. 6(6) requires that an individual should be resident in India for at least 2 out of 10 years immediately preceding the relevant previous year. He was never resident in India during the 10 years immediately preceding the previous year. Thus, he does not satisfy this condition.

Condition (ii) of sec. 6(6) requires that an individual should be present in India for at least 730 days during 7 years immediately preceding the relevant previous year. He was in India for 490 days during 2017-18 to 2023-24. Hence, he does not satisfy this condition.

Thus, he is a resident but not ordinarily resident in India for the previous year 2024-25. Hence income from business in Bangladesh which is controlled from India shall be taxable in India

### Illustration 2

Satan, a Sri-lankan national, discloses the following particulars of his income during the previous year 2024-25:

- (i) Income from house property in Sri Lanka, remitted by tenant to him in India through State Bank of India ₹ 1,00,000
- (ii) Income from business in Singapore, controlled and managed from Singapore and profit received in Singapore ₹ 5,00,000.
- (iii) Profit from business in Sri-Lanka, controlled and managed from India but profit being received in Sri Lanka ₹ 10,00,000.
- (iv) Net dividends received from Srilankan companies outside India ₹ 1,35,000 (tax deducted at source ₹ 15,000).
- (v) Interest received on bonds of U.K. companies outside India ₹ 45,000

Determine income liable to be taxed in India for the previous year 2024-25 in the following cases:

- (a) He is resident and ordinarily resident in India during the previous year;
- (b) He is resident but not ordinarily resident in India during the previous year.

### Solution:

Computation of income liable to be taxed in India of Satan for A.Y. 2025-26

| Particulars   | Resident & ordinarily resident | Resident but not ordinarily resident |
|---|--------------------------------|--------------------------------------|
| Income from house property in Sri Lanka, remitted by tenant to him in India                                 | 1,00,000                       | 1,00,000                             |
| Income from business in Singapore, controlled and managed from Singapore and profit received in Singapore   | 5,00,000                       | -                                    |
| Profit from business in Sri Lanka, controlled and managed from India but profit being received in Sri Lanka | 10,00,000                      | 10,00,000                            |
| Dividends received from Srilankan companies outside India   | 1,50,000                       | -                                    |
| Interest received on bonds of U.K. companies outside India  | 45,000                         | -                                    |
| <b>Income liable to be taxed in India</b>   | <b>17,95,000</b>               | <b>11,00,000</b>                     |

### Illustration 3

The following are the particulars of the income of Sri Arjun Singh for the previous year 2024-25:

- (a) Profit of ₹ 50,000 from a business in Nepal deposited in a bank therein. The business is controlled from India.
- (b) Income from house property in London but received in India ₹ 1,00,000.
- (c) Income from agriculture in Bangladesh received therein ₹ 75,000.
- (d) Income of ₹ 60,000 from a business in Sri Lanka received in India. The business is controlled from Sri Lanka.
- (e) ₹ 80,000 brought into India out of the past untaxed profit earned in USA.

Compute income liable to be taxed in India for the Assessment Year 2025-26 if he is a

- (i) Resident but not ordinarily resident in India and
- (ii) Non-resident in India.

### Solution

Computation of income liable to be taxed in India of Sri Arjun Singh for A.Y. 2025-26

| S. N. | Particulars   | Resident but not ordinarily resident | Non-Resident    |
|-------|---|--------------------------------------|-----------------|
| (a)   | Profit from a business in Nepal being controlled from India | 50,000                               | -               |
| (b)   | Income from house property in London but received in India  | 1,00,000                             | 1,00,000        |
| (c)   | Income from agriculture in Bangladesh received therein      | -                                    | -               |
| (d)   | Income from a business in Sri Lanka received in India       | 60,000                               | 60,000          |
| (e)   | Past untaxed profit   | -                                    | -               |
|       | <b>Income liable to be taxed in India</b>                   | <b>2,10,000</b>                      | <b>1,60,000</b> |

### Illustration 4

Mr. Sahil Roy, an Indian Citizen, left India for the purpose of employment in USA for the first time on 1<sup>st</sup> October, 2024. He came back to India on 30<sup>th</sup> March, 2025 for visit and returned back to USA after staying 20 days in India. During the previous year 2024-25, he earned the following Income:

- (i) Salary earned in USA ₹ 5,00,000 and credited in USA.
- (ii) Interest received in India out of Fixed Deposit in Bank ₹ 1,50,000.

Determine his residential status and Tax Incidence in India for the A.Y. 2025-26

### Solution

During the previous year, Mr. Roy was in India as under



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| P.Y.  | Apr | May | June | July | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Total |
|-------|-----|-----|------|------|-----|-----|-----|-----|-----|-----|-----|-----|-------|
| 24-25 | 30  | 31  | 30   | 31   | 31  | 30  | 1   | -   | -   | -   | -   | 2   | 186   |

Since, Mr. Roy resided in India for 186 days (as shown above) in the previous year 2024-25, hence he satisfies condition of sec. 6(1)(a). He is, therefore, a resident in India for the A.Y. 2025-26.

Further, he is leaving India for the first time, hence he is also satisfying both the conditions mentioned u/s 6(6). Thus, his residential status for the year is resident and ordinarily resident. Accordingly, tax incidences are as follow:

| Particulars                               | Amount          |
|---|-----------------|
| Salary earned in USA                      | 5,00,000        |
| Interest of fixed deposit in bank         | 1,20,000        |
| <b>Income liable to be taxed in India</b> | <b>6,20,000</b> |

### Illustration 5

With reasons determine the residential status in the following cases:

- Ram an Indian citizen employed in a foreign country came to India on 1st November, 2024 and remained in India up to 5th March, 2025. His total income is ₹ 27 lakh for the previous year ended 31st March, 2025 which included income in India of ₹ 15,20,000. He visits India every year for a stay of 125 days. He paid income-tax in respect of his foreign income in the said country.
- Laxman a foreign citizen (not being a person of Indian origin) came to India for the first time on 20th November, 2024 and remained in India up to 31st March, 2025. His total income is ₹ 26 lakh for the previous year ended 31st March, 2025 which included income in India of ₹ 14,50,000.
- Dr. Bharat, an Indian citizen, living outside India came to India on 5th April, 2024 and remained in India up to 10th August, 2024. During his stay in India, he earned income of ₹ 16,50,000. His stay in India was 60 days each in earlier financial years. There is no income-tax in the country in which he is a resident.

### Solution

- (i) Determination of residential status of Ram

During the previous year(s), Ram was in India as under

| P.Y.         | Apr | May | June | July | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Total |
|--------------|-----|-----|------|------|-----|-----|-----|-----|-----|-----|-----|-----|-------|
| 24-25        | -   | -   | -    | -    | -   | -   | -   | 30  | 31  | 31  | 28  | 5   | 125   |
| 23-24 & back |     |     |      |      |     |     |     |     |     |     |     |     | 125   |

Since he was in India for the P.Y. 2024-25 only for 125 days, he does not satisfy the first basic condition of section 6(1)(a).

Further, he is a person of Indian origin comes on a visit to India and his income in India exceeds ₹ 15 lakhs, the second condition shall be read as under:

- During the relevant previous year, he is in India for 120 days or more; and
- His stay in India during the 4 previous years preceding the previous year 2024-25 is 365 days or more

As he was in India for 125 days during the previous year 125 days and his aggregate stay in 4 immediately preceding previous years is 500 days (125 days x 4 years), hence he satisfies the second basic condition. Therefore, he is a resident.

Further, as per section 6(6)(c) since he is a person of Indian origin having total income other than income from foreign sources (Indian income) exceeding ₹ 15 lakhs and has stayed for 120 days or more but less than 182 days, his status would be resident but not ordinarily resident (RNOR).

(ii) Determination of residential status of Laxman

During the previous year 2024-25, Laxman remained in India for 132 days as shown under:

| P.Y.  | Apr | May | June | July | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Total |
|-------|-----|-----|------|------|-----|-----|-----|-----|-----|-----|-----|-----|-------|
| 24-25 | -   | -   | -    | -    | -   | -   | -   | 11  | 31  | 31  | 28  | 31  | 132   |

Therefore, he does not satisfy the first basic condition of section 6(1) (a). As regards the second basic condition, since he came to India for the first time in the previous year 2024-25, he does not satisfy the second basic condition also. Therefore, his status would be non-resident.

Note: He is not an Indian citizen, hence, provision relating to deemed resident is not applicable

(iii) Determination of residential status of Dr. Bharat

During the previous year(s), he was in India as under

| P.Y.         | Apr | May | June | July | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Total |
|--------------|-----|-----|------|------|-----|-----|-----|-----|-----|-----|-----|-----|-------|
| 24-25        | 26  | 31  | 30   | 31   | 10  | -   | -   | -   | -   | -   | -   | -   | 128   |
| 23-24 & back |     |     |      |      |     |     |     |     |     |     |     |     |       |

During the previous year 2024-25, He was in India for 128 days only, hence, he does not satisfy the first basic condition of section 6(1)(a).

Further, he has stayed for only 60 days in the earlier financial years, he would not satisfy the second basic condition also (i.e. 365 days or more in 4 immediately preceding previous years).

However, as per sec. 6(1A), an individual shall be deemed as resident if the following conditions are satisfied:

- He is a citizen of India;
- His total income, other than the income from foreign sources, exceeds ₹ 15 lakhs during the previous year;



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- c. He is not satisfying any of the basic conditions given u/s 6(1) [i.e., 182 days or 60 days + 365 days]; and
- d. He is not liable to tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature.

Therefore, applying sec. 6(1A), Dr. Bharat is a deemed resident in India for the previous year 2024-25 as his income in India exceeds ₹ 15 lakhs and he is not liable to tax in any other country by reason of his domicile or residence. However, as per section 6(6)(d) a person citizen of India who is deemed resident u/s 6(1A) shall be “resident but not ordinarily resident”. Therefore, the residential status of Dr. Bharat shall be “resident but not ordinarily resident”.

### Illustration 6

Mr. X came in India for the first time on April 16, 2024 and left India On December 13, 2024. During his stay in India, he was in Delhi up to 30.06.2024 and thereafter in Mumbai.

Determine his residential status for the assessment year 2025-26.

#### Solution

Number of days Mr. X stayed in India can be calculated as under:

| P.Y.  | Apr | May | June | July | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Total |
|-------|-----|-----|------|------|-----|-----|-----|-----|-----|-----|-----|-----|-------|
| 24-25 | 15  | 31  | 30   | 31   | 31  | 30  | 31  | 30  | 13  | -   | -   | -   | 242   |

Since X resides in India for 242 days in the previous year 2024-25, he satisfies the condition of sec. 6(1)(a). He is, therefore, resident in India for the previous year 2024-25. As he did not reside in India for any number of days in immediately preceding previous years, therefore, he does not satisfy conditions of sec. 6(6), as a result, he is a ‘resident but not-ordinarily resident’.

### Illustration 7

Mr. Steve is a foreign citizen. Since 1985 he visits India every year in the month of April for 100 days. Find out the residential status of Mr. Steve for the Assessment Year 2025–26.

#### Solution

Since Mr. Steve stayed for 100 days during the previous year 2024-25 and for 400 days (100 days x 4 years) during the 4 years immediately preceding the previous year, hence, he is satisfying sec. 6(1)(c). Thus, he is resident for the previous year 2024-25. Further, he resides for only 700 days (100 days x 7 years) during the 7 years immediately preceding the previous year. Hence, he does not satisfy one of the conditions of sec. 6(6). Thus, he is resident but not ordinarily resident for the previous year 2024-25.



### Illustration 8

Mr. Calm came to India from England on 30<sup>th</sup> June, 2018 and after staying for three years in India he went Germany on 1<sup>st</sup> July 2021. On 1<sup>st</sup> April, 2022, he again came back to India and stayed in India upto 31<sup>st</sup> July, 2023. On 1<sup>st</sup> August, 2023, he went to Denmark at a monthly salary of ₹ 8,00,000. He transferred to India on 1<sup>st</sup> January, 2025 and joined Delhi office of the same organization and started staying in India since then.

Determine the residential status of Mr. Calm for the assessment year 2025-26.

### Solution

Number of days Mr. Calm stayed in India in past few years can be calculated as under:

| P.Y.  | Apr | May | June | July | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Total |
|-------|-----|-----|------|------|-----|-----|-----|-----|-----|-----|-----|-----|-------|
| 24-25 | -   | -   | -    | -    | -   | -   | -   | -   | -   | 31  | 28  | 31  | 90    |
| 23-24 | 30  | 31  | 30   | 31   | 1   | -   | -   | -   | -   | -   | -   | -   | 123   |
| 22-23 | 30  | 31  | 30   | 31   | 31  | 30  | 31  | 30  | 31  | 31  | 28  | 31  | 365   |
| 21-22 | 30  | 31  | 30   | 1    | -   | -   | -   | -   | -   | -   | -   | -   | 92    |
| 20-21 | 30  | 31  | 30   | 31   | 31  | 30  | 31  | 30  | 31  | 31  | 28  | 31  | 365   |
| 19-20 | 30  | 31  | 30   | 31   | 31  | 30  | 31  | 30  | 31  | 31  | 29  | 31  | 366   |
| 18-19 | -   | -   | 1    | 31   | 31  | 30  | 31  | 30  | 31  | 31  | 28  | 31  | 275   |
| 17-18 | -   | -   | -    | -    | -   | -   | -   | -   | -   | -   | -   | -   | 0     |
| 16-17 | -   | -   | -    | -    | -   | -   | -   | -   | -   | -   | -   | -   | 0     |
| 15-16 | -   | -   | -    | -    | -   | -   | -   | -   | -   | -   | -   | -   | 0     |
| 14-15 | -   | -   | -    | -    | -   | -   | -   | -   | -   | -   | -   | -   | 0     |

On the basis of given data, residential status of Mr. Balm in last few years are as under:

| Previous Year | Presence in India<br>(In Days) | Resident (R) or<br>Non-resident (NR) | Condition satisfied to<br>became a resident |
|---------------|--------------------------------|--------------------------------------|---|
| 2024-2025     | 90                             | R                                    | 6(1)(c)                                     |
| 2023-2024     | 123                            | R                                    | 6(1)(c)                                     |
| 2022-2023     | 365                            | R                                    | Both  |
| 2021-2022     | 92                             | R                                    | 6(1)(c)                                     |
| 2020-2021     | 365                            | R                                    | Both  |
| 2019-2020     | 366                            | R                                    | 6(1)(a)                                     |
| 2018-2019     | 275                            | R                                    | 6(1)(a)                                     |
| 2017-2018     | 0                              | NR                                   | None  |
| 2016-2017     | 0                              | NR                                   | None  |
| 2015-2016     | 0                              | NR                                   | None  |
| 2014-2015     | 0                              | NR                                   | None  |



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Since, assessee resided in India for 90 days in the previous year 2024-25 and 365 days (even more) during immediately preceding 4 previous years, hence he satisfies sec. 6(1). Therefore, he is resident in India. Further, he is resident in India for more than 2 times out of 10 years immediately preceding the previous year 2024-25 and resides for 730 days (even more) in India during 7 years immediately preceding the previous year 2024-25. Thus, he satisfies sec. 6(6) and he is resident and ordinarily resident.

**Conclusion:** Resident and ordinarily resident.

### Illustration 9

Mr. Rohan has received the following amounts during the previous year ending on March 31, 2025:

- (a) Income from house property in Sri Lanka received therein ₹22,500.
- (b) Income from salary in India ₹1,20,000.
- (c) Dividend from an Indian company received in China ₹25,000 (gross).
- (d) Income from business in Nepal being controlled from India ₹37,500.
- (e) ₹10,000 earned in England during the previous year 2023-24 was brought to India.

State the income liable to be taxed in India if he is:

- (i) Ordinarily resident
- (ii) Not ordinarily resident and
- (iii) Non-resident

### Solution

Calculation of income liable to be taxed in India of Mr. Rohan for the A.Y. 2025-26

| Particulars  | Resident & Ordinarily resident | Resident but not ordinarily resident | Non-resident |
|--|--------------------------------|--------------------------------------|--------------|
| Income from house property in Sri Lanka received therein | 22,500                         | -                                    | -            |
| Income from salary in India                              | 1,20,000                       | 1,20,000                             | 1,20,000     |
| Dividend from an Indian company received in China        | 25,000                         | 25,000                               | 25,000       |
| Income from business in Nepal controlled from India      | 37,500                         | 37,500                               | -            |
| Past year income   | -                              | -                                    | -            |
| Income liable to tax in India                            | 2,05,000                       | 1,82,500                             | 1,45,000     |

### Illustration 10

Mr. Abdul provides the following information regarding his income for P.Y. 2024-25. Compute income liable to be charged in India in the following cases:

|                                  |                                      |                          |
|----------------------------------|--------------------------------------|--------------------------|
| a) He is an ordinarily resident. | b) He is not an ordinarily resident. | c) He is a non-resident. |
|----------------------------------|--------------------------------------|--------------------------|

| Particulars   | ₹         |
|---|-----------|
| Business income from USA received in India  | 10,000    |
| Business income earned in India received in Pakistan  | 20,000    |
| Salary income from a company of UK situated in India  | 15,000    |
| Interest on German Development Bond (2/5 <sup>th</sup> received in India)                     | 60,000    |
| Income from agriculture in Nepal received there but later on, remitted to India               | 1,81,000  |
| Income from property in Jakarta received outside India  | 86,000    |
| Income earned from business in UAE which is controlled from Delhi (₹15,000 received in India) | 65,000    |
| Profit from a business in Madras and managed from outside India                               | 27,000    |
| Profit on the sale of a building in India but received in Sri Lanka                           | 14,80,000 |
| Pension from a former employer in India received in USA                                       | 36,000    |
| Gift in foreign currency from a relative received in India                                    | 80,000    |

### Solution

Computation of income liable to be charged in India of Mr. Abdul for the A.Y. 2025-26

| Particulars   | Case a           | Case b           | Case c           |
|---|------------------|------------------|------------------|
| Business income from USA received in India                              | 10,000           | 10,000           | 10,000           |
| Business income earned in India received in Pakistan                    | 20,000           | 20,000           | 20,000           |
| Salary income from a company of UK situated in India                    | 15,000           | 15,000           | 15,000           |
| <u>Interest on German Development Bond</u>                              |                  |                  |                  |
| - 2/5 <sup>th</sup> received in India                                   | 24,000           | 24,000           | 24,000           |
| - 3/5 <sup>th</sup> received outside India                              | 36,000           | -                | -                |
| Income from agriculture in Nepal  | 1,81,000         | -                | -                |
| Income from property in Jakarta received outside India                  | 86,000           | -                | -                |
| <u>Income earned from business in UAE being controlled from Delhi</u>   |                  |                  |                  |
| - Received in India   | 15,000           | 15,000           | 15,000           |
| - Received outside India  | 50,000           | 50,000           | -                |
| Profit from a business in Madras and managed from outside India         | 27,000           | 27,000           | 27,000           |
| Profit on the sale of a building in India but received in Sri Lanka     | 14,80,000        | 14,80,000        | 14,80,000        |
| Pension from a former employer in India received in USA                 | 36,000           | 36,000           | 36,000           |
| Gift in foreign currency from a relative received in India <sup>1</sup> | -                | -                | -                |
| <b>Income liable to be charged in India</b>                             | <b>19,80,000</b> | <b>16,77,000</b> | <b>16,27,000</b> |

<sup>1</sup> Gift received from a relative is not an income, hence not taxable.



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### Illustration 11

X, a foreign citizen (not being a person of Indian origin), came to India for the first time on 2<sup>nd</sup> December, 2023 for a visit of 210 days. X had the following income during the previous year ended 31-3-2025:

|  |          |
|--|----------|
| Salary received in India for 3 months (computed)   | 90,000   |
| Income from house property in London (received there)  | 2,69,200 |
| Interest on saving bank deposit in Standard Chartered Bank, New Delhi  | 40,000   |
| Amount brought into India out of the past untaxed profit earned in Germany   | 80,000   |
| Income from agriculture in Sri Lanka being invested there  | 12,324   |
| Income from business in Nepal, being controlled from India   | 30,240   |
| Gift in foreign currency from a relative received in India   | 80,000   |
| Income from house property in USA received in USA (₹ 76,000 is used in Canada for meeting the educational expenses of X's daughter and ₹ 10,000 is later on remitted to India) | 86,000   |

You are required to compute his total income for the A.Y.2025-26.

### Solution

Assessee resided in India for 210 days in the following manner -

| P.Y.         | Apr | May | June | July | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Total |
|--------------|-----|-----|------|------|-----|-----|-----|-----|-----|-----|-----|-----|-------|
| 24-25        | 30  | 31  | 28   | -    | -   | -   | -   | -   | -   | -   | -   | -   | 89    |
| 23-24        | -   | -   | -    | -    | -   | -   | -   | -   | 30  | 31  | 29  | 31  | 121   |
| 22-23 & back | -   | -   | -    | -    | -   | -   | -   | -   | -   | -   | -   | -   | -     |

Since X does not satisfy any of the condition prescribed u/s 6(1), he is non-resident in India for the P.Y. 24-25.

Computation of total income of X, a non-resident, for the A.Y.2025-26

| Particulars   | Details              | Amount | Amount          |
|---|----------------------|--------|-----------------|
| <u>Salaries</u>   |                      |        |                 |
| Salary received in India                                  |                      |        | 90,000          |
| <u>Income from house property</u>                         |                      |        |                 |
| Income from house property in London                      | Being a non-resident | Nil    |                 |
| Income from house property in USA being received in USA   | Being a non-resident | Nil    | Nil             |
| <u>Profit &amp; gains from business or profession</u>     |                      |        |                 |
| Income from business in Nepal being controlled from India | Being a non-resident |        | Nil             |
| <u>Income from other sources</u>                          |                      |        |                 |
| Interest from Standard Chartered Bank, New Delhi          |                      | 40,000 |                 |
| Income from agriculture in Sri Lanka                      | Being a non-resident | Nil    | 40,000          |
| <b>Gross Total Income / Total Income</b>                  |                      |        | <b>1,30,000</b> |

Notes: 1. Remittance of past-untaxed profit in India is not taxable.

2. Gift from a relative is not an income, hence not taxable.

## Agricultural Income

### Illustration 1

Mr. Keshav, engaged in the growing and manufacturing of tea, furnished the following information for the previous year 2024-25

|   |             |
|---|-------------|
| Sale of Tea                               | ₹ 15,00,000 |
| Growing and manufacturing expenses of tea | ₹ 5,00,000  |

You are required to compute the taxable income of Mr. Keshav for the A. Y. 2025-26.

### Solution

Computation of taxable income of Mr. Keshav

| Particulars   | Amount          |
|---|-----------------|
| Sale of tea   | 15,00,000       |
| Less: Growing and manufacturing expenses of tea             | 5,00,000        |
|   | 10,00,000       |
| Less: 60% of the above is considered as agricultural income | 6,00,000        |
| <b>Total Income</b>   | <b>4,00,000</b> |

### Illustration 2

Mr. X grows and manufactures tea in India. His income details are as under –

|   |             |
|---|-------------|
| Income from business of growing & manufacturing tea (in total)                              | ₹ 10,00,000 |
| Interest received from Mr. Y, being a grower and manufacturer of tea                        | ₹ 3,55,000  |
| Brought forward loss (P.Y. 2022-23) from business of growing & manufacturing tea (in total) | ₹ 4,00,000  |

Compute total income of Mr. X for A.Y. 2025-26

### Solution

Computation of total income and agricultural income of Mr. X for the A.Y. 2025-26

| Particulars                               | Agro-income     | Non-agro income |
|---|-----------------|-----------------|
| Profits & gains of business or profession |                 |                 |
| Income from tea business (Rule 8)         |                 |                 |
| 60% of ₹ 10,00,000                        | 6,00,000        |                 |
| 40% of ₹ 10,00,000                        |                 | 4,00,000        |
| Less: Brought forward loss                |                 |                 |
| 60% of ₹ 4,00,000                         | 2,40,000        |                 |
| 40% of ₹ 4,00,000                         |                 | 1,60,000        |
|   | 3,60,000        | 2,40,000        |
| <b>Income from other sources</b>          |                 |                 |
| Add: Interest income                      | -               | 3,55,000        |
| <b>Total income</b>                       | <b>3,60,000</b> | <b>5,95,000</b> |

### Illustration 3

Brijmohan, 62 years, owns a tea estate in Assam. He also owns a nursery wherein he grows plants and sells them. He furnishes the following particulars:



## Work Book : Direct Taxation (Section A)

|       |   | ₹        |
|-------|---|----------|
| (i)   | Profit from sale of green tea leaves                              | 1,75,000 |
| (ii)  | Profit from manufacturing of tea grown in the garden owned by him | 7,00,000 |
| (iii) | Profit from sale of plants from nursery                           | 1,00,000 |

Compute tax payable by Brjmohan for the Assessment Year 2025-26.

### Solution

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

| Particulars   | Agro-income     | Non-agro income |
|---|-----------------|-----------------|
| <u>Profits &amp; gains of business or profession</u>                |                 |                 |
| - On sale of green tea leaves                                       | 1,75,000        |                 |
| - On manufacturing of tea grown in the garden owned by him [Rule 8] |                 |                 |
| 60% of ₹ 7,00,000   | 4,20,000        |                 |
| 40% of ₹ 7,00,000   |                 | 2,80,000        |
| - On sale of plants from nursery                                    | 1,00,000        |                 |
| <b>Total income</b>   | <b>6,95,000</b> | <b>2,80,000</b> |

Since his non-agricultural income does not exceed the basic exemption limit, hence his tax liability shall be nil

### Illustration 4

In the aforesaid illustration, if the profit from the manufacturing of tea grown in the garden owned by him is ₹ 10,00,000 [instead of ₹ 7,00,000], then what would be his tax liability?

### Solution

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

| Particulars   | Agro-income     | Non-agro income |
|---|-----------------|-----------------|
| <u>Profits &amp; gains of business or profession</u>                |                 |                 |
| - On sale of green tea leaves                                       | 1,75,000        |                 |
| - On manufacturing of tea grown in the garden owned by him [Rule 8] |                 |                 |
| 60% of ₹ 10,00,000  | 6,00,000        |                 |
| 40% of ₹ 10,00,000  |                 | 4,00,000        |
| - On sale of plants from nursery                                    | 1,00,000        |                 |
| <b>Total income</b>   | <b>8,75,000</b> | <b>4,00,000</b> |

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

| Particulars   | ₹          |
|---|------------|
| Income Tax on ₹ 12,75,000 (i.e. agro income ₹ 8,75,000 + non agro ₹ 4,00,000)             | 95,000     |
| Less: Tax on ₹ 11,75,000 (i.e. agro income ₹ 8,75,000 + basic exemption limit ₹ 3,00,000) | 76,250     |
| Tax liability   | 18,750     |
| Less: Rebate u/s 87A  | 18,750     |
| <b>Tax and cess payable</b>   | <b>Nil</b> |

# 2

## Heads of Income [Study Material - Module 2]

### Salary

#### Illustration 1

Mr. Rajan retired on 9-3-2025 from a private company, after completion of 32 years and 10 months of service. He was entitled to 25 days leave for each completed year of service. He availed 10 months leave during his service life. His basic pay was ₹12,000 p.m. from 1-4-2024 and DA @ 50% of basic pay. He received ₹3,00,000 for leave encashment. Find out the amount of leave salary to be taxed for the assessment year 2025-26.

#### Solution

Computation of taxable leave encashment of Mr. Rajan for the A.Y. 2025-26

| Particulars  | Details   | Amount          |
|--|-----------|-----------------|
| Leave encashment received  |           | 3,00,000        |
| Less: Minimum of the following is exempted u/s 10(10AA):   |           |                 |
| (a) Actual amount received   | 3,00,000  |                 |
| (b) Statutory amount   | 25,00,000 |                 |
| (c) 10 months * Avg. Salary p.m. (10 * 18,000)   | 1,80,000  |                 |
| (d) [(25 days * completed year of service – Leave taken) * Avg. salary p.m.] = 16 <sup>2</sup> / <sub>3</sub> months leave (16 <sup>2</sup> / <sub>3</sub> * 18,000) | 3,00,000  | 1,80,000        |
| <b>Taxable Leave Encashment</b>  |           | <b>1,20,000</b> |

Workings:

Completed year of service: 32 years

Salary here means Basic + Dearness allowance + Commission on turnover (last 10 months average from the date of retirement). Since salary structure has not changed in last 10 month immediately preceding date of retirement, hence his average salary is ₹ 18,000 [i.e. ₹ 12,000 + ₹ 6,000]

Statement showing balance of leave lying to the credit of Mr. Rajan

|   |                                       |
|---|---------------------------------------|
| Total leave Allowed 25 days x 32 years                                  | 800 days                              |
| In terms of month [800/30]  | 26 <sup>2</sup> / <sub>3</sub> months |
| Less: Leave actually availed during service                             | 10 months                             |
| Balance leave lying to his credit at the time of retirement (in months) | 16 <sup>2</sup> / <sub>3</sub> months |



## Work Book : Direct Taxation (Section A)

### Illustration 2

Mr. Singh after serving for 22 years and 10 months of service in a private concern in Chennai, retires on December 31, 2024 and receives gratuity of ₹ 11,35,000. His basic salary and dearness allowance at the date of retirement was ₹ 53,500 and ₹ 26,750 (50% of basic salary) per month respectively. His annual increment of salary of ₹ 6,000 per month fell due on 1<sup>st</sup> April each year. Calculate the taxable amount of gratuity for Mr. Singh.

#### Solution

Computation of Taxable Gratuity, assuming Mr. Singh is not covered by the Payment of Gratuity Act:

| Particulars  | Details   | Amount          |
|--|-----------|-----------------|
| Gratuity received  |           | 11,35,000       |
| Less: Minimum of the following is exempted as per sec. 10(10)  |           |                 |
| a) Actual gratuity received  | 11,35,000 |                 |
| b) Statutory amount  | 20,00,000 |                 |
| c) $\frac{1}{2}$ x completed year of service x salary p.m. [ $\frac{1}{2} \times 22 \times 83,800$ ] | 9,21,800  | 9,21,800        |
| <b>Taxable Gratuity</b>  |           | <b>2,13,200</b> |

Workings:

- Completed year of service 22 years.
- Salary here means Basic + Dearness Allowance + Commission on turnover (last 10 months average just preceding the month of retirement) as shown below:

|        | 1      | 2      | 3      | 4      | 5      | 6      | 7      | 8      | 9      | 10     | Total    |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|
|        | Feb    | Mar    | Apr    | May    | June   | July   | Aug    | Sept   | Oct    | Nov    |          |
| Basic  | 47,500 | 47,500 | 53,500 | 53,500 | 53,500 | 53,500 | 53,500 | 53,500 | 53,500 | 53,500 | 5,23,000 |
| D.A.   | 23,750 | 23,750 | 26,750 | 26,750 | 26,750 | 26,750 | 26,750 | 26,750 | 26,750 | 26,750 | 3,15,000 |
| Commn. | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -        |
| Total  |        |        |        |        |        |        |        |        |        |        | 8,38,000 |

Average salary = ₹ 8,38,000/ 10 months = ₹ 83,800

### Illustration 3

Mr. Manish, an employee of a private concern after rendering 24 years & 11 months of service retired on 30-6-2024 & received gratuity of ₹ 5,50,000. He also received ₹ 2,62,500 as commuted value of pension for 75% of his monthly pension. His average monthly salary for the preceding 10 months to his retirement was ₹ 54,500. Determine the taxability of Mr. Manish

#### Solution

Computation of Taxable Gratuity and Taxable Pension of Mr. Bose for the A.Y.2025-26

| Particulars  | Details | Amount   | Amount |
|--|---------|----------|--------|
| Gratuity received  |         | 5,50,000 |        |
| Less: Minimum of the following is exempted as per sec. 10(10): |         |          |        |



|   |           |          |                 |
|---|-----------|----------|-----------------|
| a) Actual gratuity received   | 5,50,000  |          |                 |
| b) Statutory amount   | 20,00,000 |          |                 |
| c) $\frac{1}{2}$ x completed year of service x salary p.m. [ $\frac{1}{2}$ x 24 x 54,500] | 6,54,000  | 5,50,000 | Nil             |
| Commutated pension  |           | 2,62,500 |                 |
| Less: Exempted u/s 10(10A)  |           |          |                 |
| $\frac{1}{3}$ rd of the total value of commuted pension                                   |           | 1,16,667 |                 |
| ( $\frac{1}{3}$ rd of ₹ 3,50,000 as assessee receives gratuity)                           |           |          | 1,45,833        |
| <b>Taxable Gratuity &amp; Pension</b>   |           |          | <b>1,45,833</b> |

**Working:** Calculation of Total Pension:

|  |            |
|--|------------|
| Commutated (in terms of %)                   | 75%        |
| Amount received for 75%                      | ₹ 2,62,500 |
| Value for 100% [being (₹ 2,62,500 x 100)/75] | ₹ 3,50,000 |

#### Illustration 4

Mr. Dipesh retired from service on 31.10.2024 and received ₹ 5,00,000 as gratuity. He was entitled to a pension of ₹ 10,000 per month w.e.f. 01.11.2024. From 01.01.2025, he commuted 50% of his pension and received ₹ 3,00,000 as commuted pension.

Compute his taxable amount of pension for the assessment year 2025-26.

#### Solution

Computation of Taxable Pension of Mr. Dipesh for the A.Y.2025-26

| Particulars  | Details  | Amount          |
|--|----------|-----------------|
| <b>Uncommuted Pension</b>  |          |                 |
| (₹ 10,000 * 2) <sup>1</sup>  | 20,000   |                 |
| (₹ 5,000 * 3) <sup>2</sup>   | 15,000   | 35,000          |
| Commutated Pension   | 3,00,000 | -               |
| Less: Exempted u/s 10(10A)(ii) $\frac{1}{3}$ rd of ₹ 6,00,000 <sup>3</sup> | 2,00,000 | 1,00,000        |
| <b>Taxable Pension</b>   |          | <b>1,35,000</b> |

From 1/11/2023 to 31/12/2023: 100% pension is in uncommuted form

From 1/1/2024 to 31/3/2024: 50% pension is in uncommuted form as 50% pension being commuted.

Commutated amount for 50% of pension = ₹ 3,00,000

Therefore, commuted amount for 100% of pension = ₹ 6,00,000

#### Illustration 5

Mrs. Kabra, is working with T Ltd. received the following emoluments during the previous year 2024-25:

(a) Basic pay on 01.04.2024 ₹ 24,000 (increment of ₹ 1,000 p.m. falls due on 1<sup>st</sup> July each year).

(b) Dearness Allowance (forming part of salary) @ 100% of basic pay.



## Work Book : Direct Taxation (Section A)

- (c) Children Education Allowance ₹ 600 p.m. (she has one child).
- (d) Remuneration from Bhawanipur University as examiner ₹ 1,400.
- (e) Medical Allowance ₹ 1,000 p.m. and bonus ₹ 15,000 p.a.
- (f) The employer provided a free furnished accommodation in Kolkata. Fair rental value of the house was ₹ 14,500 p.m. and furnished with furniture costing ₹ 50,000. She was provided with a sweeper and a watchman whose monthly salaries were ₹ 3,000 and ₹ 4,500 respectively. A free telephone was also provided by employer at her residence, which was used by her both for personal and official purposes.
- (g) She is a member of a recognised provident fund and contributed 14% of her salary. Her employer also contributed 14% of her salary to the provident fund.
- (h) Interest credited at 13% p.a. credit balance of provident fund ₹ 6,500.
- (i) She had taken a life policy for ₹ 5,00,000 on her own life for which she paid a premium of ₹ 15,000 during the previous year. (Policy was taken on 01.08.22.)
- (j) Employer paid her professional tax of ₹ 1,000
- (k) She is provided with a 14 H. P. car owned by employer and has been used both for the purpose of her employment and personal use. Entire expenses were borne by the employer.

Compute income from salary of Mrs. Kabra for the assessment year 2025-26.

### Solution

Computation of Taxable Salary of Mrs Kabra for the A.Y.2025-26

| Particulars                              | Working                         | Details | Details  | Amount   |
|--|---------------------------------|---------|----------|----------|
| Basic                                    | [₹ 24,000 x 3 + ₹ 25,000 x 9]   |         |          | 2,97,000 |
| Bonus                                    |                                 |         |          | 15,000   |
| <b>Allowances</b>                        |                                 |         |          |          |
| Dearness allowance                       |                                 |         | 2,97,000 |          |
| Children Education allowance             |                                 | 7,200   |          |          |
| Less: Exempted                           | Not available in default regime | NA      | 7,200    |          |
| Medical Allowance                        |                                 |         | 12,000   | 3,16,200 |
| <b>Perquisites u/s 17(2)</b>             |                                 |         |          |          |
| <i>Rent free furnished accommodation</i> |                                 |         |          |          |
| - Accommodation                          | 10% of salary <sup>1</sup>      | 62,820  |          |          |
| - Furniture                              | 10% of ₹ 50,000                 | 5,000   | 67,820   |          |
| Sweeper facility                         | ₹ 3,000 x 12                    |         | 36,000   |          |
| Watchman facility                        | ₹ 4,500 x 12                    |         | 54,000   |          |
| Telephone facility                       |                                 |         | Exempt   |          |
| Motor car facility                       | ₹ 1,800 x 12                    |         | 21,600   |          |
| Professional Tax paid by the employer    |                                 |         | 1,000    | 1,80,420 |

|  |   |  |        |          |
|--|---|--|--------|----------|
| Employer's contribution to RPF                                       | 2% (being 14% - 12%) of salary <sup>1</sup> |  | 11,880 |          |
| Interest on RPF in excess of 9.5%                                    | (6,500/13) x 3.5                            |  | 1,750  | 13,630   |
| Gross Taxable Salary   |   |  |        | 8,22,250 |
| Less: Standard Deduction u/s 16(ia)                                  |   |  | 75,000 |          |
| Less: Professional Tax u/s 16(iii) [Not available in default regime] |   |  | NA     | 75,000   |
| Taxable Salary   |   |  |        | 7,47,250 |

### Notes

- Salary for the purpose of

| Particulars                  | Rent free accommodation | RPF             |
|------------------------------|-------------------------|-----------------|
| Basic salary                 | 2,97,000                | 2,97,000        |
| Bonus                        | 15,000                  | -               |
| Dearness allowance           | 2,97,000                | 2,97,000        |
| Medical allowance            | 12,000                  | -               |
| Children Education allowance | 7,200                   | -               |
| <b>Total</b>                 | <b>6,28,200</b>         | <b>5,94,000</b> |

- Remuneration from Bhawanipur University shall be taxable under the head Income from Other Sources.
- Further, under the default tax regime, deduction u/s 80C is not available

### Illustration 6

Mr. Rahul is the Director of ABC Ltd. (a private limited company) in Chennai. He furnishes the following particulars of his income for the financial year 2024-25:

- Basic salary @ ₹ 40,000 per month
- Dearness allowance @ 50% of basic salary (forming part of salary for computation of retirement benefits)
- House rent allowance ₹2,500 p.m. During the year 2024-25, he stayed in a rented house in Chennai paying monthly rent of ₹ 3,000.
- Children education allowance received @ ₹ 200 p.m. per child for his three children.
- Medical allowance received @ ₹ 600 p.m. (Actual medical expenses incurred by him during the year amounted to ₹ 5,000).
- He contributes 15% of salary to recognised Provident Fund. His employer also makes a matching contribution.
- Interest credited to Recognised Provident Fund @ 12% p.a. amounted to ₹ 9,600.
- His employer provided a 1200 c.c. car. He used the car both for official and private purposes. All expenses are borne by his employer.
- He was provided with a servant for his domestic work. His employer paid ₹ 1,500 per month to the servant.
- Professional tax of Mr. Rahul @ ₹ 200 p.m. was also paid by his employer.

Compute the income from salary of Mr. Rahul for the A.Y. 2025-26 assuming he has opted for the old tax regime.



## Work Book : Direct Taxation (Section A)

### Solution

Computation of Salaries of Mr. Rahul for the A.Y.2025-26

| Particulars                                       | Working         | Details  | Amount   | Amount          |
|---|-----------------|----------|----------|-----------------|
| Basic   |                 |          |          | 4,80,000        |
| <u>Allowances</u>                                 |                 |          |          |                 |
| Dearness allowance                                |                 |          | 2,40,000 |                 |
| House Rent Allowance                              |                 | 30,000   |          |                 |
| Less: Min. of the following is exempt u/s 10(13A) |                 |          |          |                 |
| a. Actual HRA                                     | 30,000          |          |          |                 |
| b. 50% of salary                                  | 3,60,000        |          |          |                 |
| c. Rent paid- 10% of salary [₹36,000 – ₹72,000]   | Nil             | Nil      | 30,000   |                 |
| Children Education allowance [₹ 200 x 3 x 12]     |                 | 7,200    |          |                 |
| Less: Exempted [₹ 100 x 2 x 12]                   |                 | 2,400    | 4,800    |                 |
| Medical allowance                                 |                 |          | 7,200    | 2,82,000        |
| <u>Perquisites u/s 17(2):</u>                     |                 |          |          |                 |
| Car facility [₹ 1,800 x 12]                       |                 |          | 21,600   |                 |
| Domestic helper                                   |                 |          | 18,000   |                 |
| Professional Tax                                  |                 |          | 2,400    | 42,000          |
| Employer's contribution to RPF                    | ₹7,20,000 x 15% | 1,08,000 |          |                 |
| Less: Exempted                                    |                 | 86,400   | 21,600   |                 |
| Interest @ 12% on RPF                             |                 | 9,600    |          |                 |
| Less: Exempted                                    |                 | 7,600    | 2,000    | 23,600          |
| Gross Salary                                      |                 |          |          | 8,27,600        |
| Less: Standard Deduction u/s 16(ia)               |                 |          | 50,000   |                 |
| Less: Professional Tax u/s 16(iii)                |                 |          | 2,400    | 52,400          |
| <b>Taxable Salary</b>                             |                 |          |          | <b>7,75,200</b> |

Notes: Salary for the purpose of

| Particulars                  | HRA             | RPF             |
|------------------------------|-----------------|-----------------|
| Basic salary                 | 4,80,000        | 4,80,000        |
| Dearness allowance           | 2,40,000        | 2,40,000        |
| House Rent allowance         | -               | -               |
| Children Education allowance | -               | -               |
| Medical Allowance            | -               | -               |
| <b>Total</b>                 | <b>7,20,000</b> | <b>7,20,000</b> |

### Illustration 7

From the following information furnished by Mr. Ratnam, an employee of a private sector company for the previous year 2024-25, calculate Income from Salaries for the assessment year 2025-26 if he has opted for the old tax regime

(a) Basic Salary ₹ 55,000 p.m.

- (b) Dearness Allowance (50% of which forms part of salary) ₹ 20,000 p.m.
- (c) Entertainment Allowance ₹ 2,500 p.m.
- (d) Conveyance Allowance (he spends ₹ 20,000 during the previous year for official purposes) ₹ 3,000 p.m.
- (e) House Rent Allowance ₹ 22,000 p.m. Actual rent paid for a house in Chennai ₹ 25,000 p.m.
- (f) Children Education Allowance for 3 children ₹ 500 p.m. per child
- (g) Medical Allowance (he spends ₹ 15,000 for his medical treatment) ₹ 3,000 p.m.
- (h) Mr. Ratnam contributes 12% of salary to RPF and his employer also contributes the same amount
- (i) Interest credited to accumulated balance of the PF @12% of salary ₹ 36,000
- (j) He is provided with a self driven 1200 CC car which he uses for both official and private purpose.  
Car is owned by the employer and all the expenses are borne by the employer.
- (k) Professional tax @ 200 p.m. is paid by the employer.

### Solution

Computation of Taxable Salaries of Mr. Ratnam for the A.Y. 2025-26

| Particulars  | Workings       | Details  | Details  | Amount   | Amount   |
|--|----------------|----------|----------|----------|----------|
| <b>Salaries</b>                                      |                |          |          |          |          |
| Basic  |                |          |          |          | 6,60,000 |
| <b>Allowances:</b>                                   |                |          |          |          |          |
| Dearness allowance                                   |                |          |          | 2,40,000 |          |
| Medical allowance                                    |                |          |          | 36,000   |          |
| Entertainment allowance                              |                |          |          | 30,000   |          |
| Children Education allowance                         | ₹ 500 * 12 * 3 |          | 18,000   |          |          |
| Less: Exempted                                       | ₹ 100 * 12 * 2 |          | 2,400    | 15,600   |          |
| Conveyance Allowance                                 |                |          | 36,000   |          |          |
| Less: Exemption                                      |                |          | 20,000   | 16,000   |          |
| House rent allowance                                 |                |          | 2,64,000 |          |          |
| Less: Exempt u/s 10(13A) [Min.]                      |                |          |          |          |          |
| a. Actual amount                                     |                | 2,64,000 |          |          |          |
| b. 50% of salary                                     |                | 3,90,000 |          |          |          |
| c. Rent paid - 10% of Salary [₹ 3,00,000 - ₹ 78,000] |                | 2,22,000 | 2,22,000 | 42,000   | 3,79,600 |
| <b>Perquisites u/s 17(2):</b>                        |                |          |          |          |          |
| Car facility   | ₹ 1,800 * 12   |          |          | 21,600   |          |
| Professional Tax                                     | ₹ 200 * 12     |          |          | 2,400    | 24,000   |



## Work Book : Direct Taxation (Section A)

|                                |                |  |        |        |                  |
|--------------------------------|----------------|--|--------|--------|------------------|
| Employer's contribution to RPF | As it is @ 12% |  |        | Exempt |                  |
| Interest on RPF                |                |  | 36,000 |        |                  |
| Less: Exempted upto 9.5%       | ₹36,000/12*9.5 |  | 28,500 | 7,500  | 7,500            |
| Gross Salary                   |                |  |        |        | 10,71,100        |
| Less: Deduction u/s            |                |  |        |        |                  |
| 16(ia) Standard Deduction      |                |  |        | 50,000 |                  |
| 16(iii) Professional Tax       |                |  |        | 2,400  | 52,400           |
| <b>Taxable Salaries</b>        |                |  |        |        | <b>10,18,700</b> |

Notes: Salary for the purpose of

| Particulars        | HRA      | RPF      |
|--------------------|----------|----------|
| Basic salary       | 6,60,000 | 6,60,000 |
| Dearness allowance | 1,20,000 | 1,20,000 |
| Total              | 7,80,000 | 7,80,000 |

### Illustration 8

Mr. Rahul Agarwala is the employee of HPL India Ltd. He furnishes the under-noted particulars of his income for the previous year 2024-25. Compute his salary income for the A.Y. 2025-26:

- Basic salary drawn in March, 2025 ₹ 60,000 (last increment was in January, 2025, ₹ 5,000)
- Dearness Allowance @ 80% of Basic Salary (40% forming part of retirement benefits)
- House Rent allowance 10% of Basic Salary. He resides in his own house.
- Transport allowance paid ₹ 400 p.m.
- He and his employer each contributed 14% of Salary to a Recognized Provident Fund (RPF).
- Interest credited to this fund @ 11% is ₹ 12,100 during the year.
- His personal electric bill amounts to ₹ 20,000 p.a. out of which he paid ₹ 5,000 and balance paid by his employer.
- He used his own car (1.8 litres) both for Private and official use. All expenses are met by him. (Expenses related to Private use calculated at ₹ 80,000).
- He took a new life insurance policy of LIC during the year and premium was paid by his employer ₹40,000.
- Profession tax was paid by his employer ₹ 2,400.
- His employer has provided him with a Laptop for official and private use (original cost ₹ 45,000).

### Solution

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

| Particulars                    | Details                                   | Details  | Amount   | Amount           |
|--------------------------------|---|----------|----------|------------------|
| Basic                          | 9 months * ₹ 55,000 + 3 months * ₹ 60,000 |          |          | 6,75,000         |
| <b>Allowances:</b>             |   |          |          |                  |
| Dearness allowance             | ₹ 6,75,000 * 80%                          |          | 5,40,000 |                  |
| House Rent Allowance           |   |          | 67,500   |                  |
| Transport allowance            | ₹ 400 * 12                                |          | 4,800    | 6,12,300         |
| <b>Perquisites u/s 17(2):</b>  |   |          |          |                  |
| Electric Bill payment          |   |          | 15,000   |                  |
| Use of own car                 | Not a prerequisite                        |          | -        |                  |
| LIC Premium                    |   |          | 40,000   |                  |
| Profession Tax                 |   |          | 2,400    |                  |
| Laptop facility                |   |          | Exempt   | 57,400           |
| Employer's contribution to RPF | 14% of salary                             | 1,24,740 |          |                  |
| Less: Exempted                 | 12% of salary                             | 1,06,920 | 17,820   |                  |
| Interest on RPF                | In excess of 9.5%[(12,100 * 1.5)/11]      |          | 1,650    | 19,470           |
| <b>Gross Taxable Salary</b>    |   |          |          | 13,64,170        |
| <b>Less: Deduction u/s</b>     |   |          |          |                  |
| 16(ia) Standard Deduction      |   |          | 75,000   |                  |
| 16(iii) Professional tax       | Not available under default regime        |          | NA       | 75,000           |
| <b>Taxable Salary</b>          |   |          |          | <b>12,89,170</b> |

### Notes

1. Salary for the purpose of:

| Particulars                           | RPF      |
|---------------------------------------|----------|
| Basic Salary                          | 6,75,000 |
| Dearness Allowance [₹ 5,40,000 x 40%] | 2,16,000 |
| Total                                 | 8,91,000 |

### Illustration 9

Mr. Madan, an employee of M. Ltd joined the service from January 1, 2022 on a pay-scale of ₹ 20,000 – 1,000 - ₹ 30,000. From the following particulars relating to the previous year 2024-25, compute salary income of Mr. Mukherjee for the Assessment Year 2025-26 assuming he has opted for the old tax regime:

Dearness Allowance – 40% of basic salary

He received house rent allowance ₹ 4,000 p.m. (he paid ₹ 5,000 p.m. as rent for his Bangalore House).

He received entertainment allowance ₹ 400 p.m. out of which he spent ₹ 3,500 during the previous year.





## Work Book : Direct Taxation (Section A)

He contributed ₹ 3,500 p.m. to a Recognized Provident Fund and his employer also contributed the same amount. Interest was credited to the RPF @ 9% ₹ 1,700.

He received Project allowance @ ₹ 1,000 p.m.

The following expenses were borne by the Company on behalf of Mr. Madan:

Electricity Bill – ₹ 2,000, Professional Tax – ₹ 5,000

His Medical Expenditure (not in recognized medical institution) of ₹ 16,000 were reimbursed by the Company.

### Solution

Computation of Taxable Income of Mr. Madan for the A.Y. 2025-26

| Particulars                           | Workings                   | Details | Details  | Amount          |
|---------------------------------------|----------------------------|---------|----------|-----------------|
| <b>Salaries</b>                       |                            |         |          |                 |
| Basic                                 | [22,000 * 9 + 23,000 * 3]  |         |          | 2,67,000        |
| <b>Allowances:</b>                    |                            |         |          |                 |
| Dearness allowance                    | 40% of ₹ 2,67,000          |         | 1,06,800 |                 |
| Entertainment Allowance               | 400 * 12                   |         | 4,800    |                 |
| House rent allowance                  |                            | 48,000  |          |                 |
| Less: Exempt u/s 10(13A) [Min.]       |                            |         |          |                 |
| a. Actual amount                      | 48,000                     |         |          |                 |
| b. 40% of salary <sup>3</sup>         | 1,49,520                   |         |          |                 |
| c. Rent paid - 10% of Salary          |                            |         |          |                 |
| [₹ 60,000 – ₹ 37,380]                 | 22,620                     | 22,620  | 25,380   | 1,36,980        |
| <b>Perquisites u/s 17(2):</b>         |                            |         |          |                 |
| Professional tax paid by the employer |                            |         | 5,000    |                 |
| Reimbursement of Medical Bill         |                            |         | 16,000   |                 |
| Reimbursement of Electric Bill        |                            |         | 2,000    | 23,000          |
| Employer's contribution to RPF        | ₹ 3,500 * 12               | 42,000  |          |                 |
| Less: Exempted u/s 10(12)             | 12% of salary <sup>3</sup> | 44,856  | Nil      |                 |
| 9% Interest on RPF                    |                            |         | Nil      | Nil             |
| <b>Gross Salary</b>                   |                            |         |          | 4,26,980        |
| <b>Less: Deduction u/s</b>            |                            |         |          |                 |
| 16(ia) Standard Deduction             |                            |         | 50,000   |                 |
| 16(iii) Professional Tax              |                            |         | 5,000    | 55,000          |
| <b>Taxable Salary</b>                 |                            |         |          | <b>3,71,980</b> |

### Notes:

1. Calculation of basic salary per month

| Period                      | Basic Salary p.m. |
|-----------------------------|-------------------|
| From 1/1/2022 to 31/12/2022 | 20,000            |
| From 1/1/2023 to 31/12/2023 | 21,000            |
| From 1/1/2024 to 31/12/2024 | 22,000            |
| From 1/1/2025 to 31/12/2025 | 23,000            |



2. It is assumed that entire project allowance has been used for official purpose.
3. Salary for the purpose of:

| Particulars | HRA      | RPF      |
|-------------|----------|----------|
| Basic       | 2,67,000 | 2,67,000 |
| DA          | 1,06,800 | 1,06,800 |
| Total       | 3,73,800 | 3,73,800 |

### Illustration 10

Mr. Amit is working with ABC Ltd. for the P.Y. 2024-25, he furnished the following information:

|  | ₹           |
|--|-------------|
| Basic salary   | 32,000 p.m. |
| Dearness Allowance @ 20% of basic salary   | —           |
| Medical allowance  | 1,500 p.m.  |
| Entertained allowance  | 500 p.m.    |
| Employer's contribution to a Recognised Provident Fund   | 32,000      |
| Interest credited to said RPF @ 12% p.a.   | 10,800      |
| Facility of motor car of less than 1600 CC with driver (entire expenses borne by the employer) | —           |
| Children education allowance for 2 children  | 500 p.m.    |
| Rent free furnished house in Chennai for which employer pays rent of ₹ 3,000 p.m.              | —           |
| Cost of furniture provided in the house  | 50,000      |
| Free services of watchman  | 600 p.m.    |

He paid professional tax ₹2,640 during the year. Compute his salary income for the A.Y. 2025-26 assuming he has opted for the old tax regime.

### Solution

Computation of income under the head 'Salaries' of Mr. Amit for the A.Y. 2025-26

| Particulars                   | Workings                              | Details | Amount | Amount   |
|-------------------------------|---------------------------------------|---------|--------|----------|
| Basic                         | 32,000 * 12                           |         |        | 3,84,000 |
| <b>Allowances:</b>            |                                       |         |        |          |
| Dearness allowance            | 3,84,000 * 20%                        |         | 76,800 |          |
| Medical Allowance             |                                       |         | 18,000 |          |
| Entertainment Allowance       |                                       |         | 6,000  |          |
| Children Education Allowances | 500 * 12                              | 6,000   |        |          |
| Less: Exempted                | 100 * 2 * 12                          | 2,400   | 3,600  | 1,04,400 |
| <b>Perquisites u/s 17(2):</b> |                                       |         |        |          |
| Rent Free Accommodation       | Lower of 10% of salary<br>or ₹ 36,000 | 36,000  |        |          |
| Add: Value of Furniture       | 10% of ₹ 50,000                       | 5,000   | 41,000 |          |
| Motor Car Facility            | (1800 + 900) * 12                     |         | 32,400 |          |
| Watchman service              | 600 * 12                              |         | 7,200  | 80,600   |



## Work Book : Direct Taxation (Section A)

|                                |  |        |        |                 |
|--------------------------------|--|--------|--------|-----------------|
| Employer's contribution to RPF |  | 32,000 |        |                 |
| Less: Exempted                 |  | 55,296 | Nil    |                 |
| Interest on RPF                |  | 10,800 |        |                 |
| Less: Exempted upto 9.5%       |  | 8,550  | 2,250  | 2,250           |
| Gross Taxable Salary           |  |        |        | 5,71,250        |
| Less: Standard Deduction       |  |        | 50,000 |                 |
| Less: Professional Tax         |  |        | 2,640  | 52,640          |
| <b>Taxable Salary</b>          |  |        |        | <b>5,18,610</b> |

Note: Salary for the purpose of

| Particulars                   | RFA             | RPF             |
|-------------------------------|-----------------|-----------------|
| Basic salary                  | 3,84,000        | 3,84,000        |
| Dearness allowance            | 76,800          | 76,800          |
| Medical Allowance             | 18,000          | -               |
| Entertainment Allowance       | 6,000           | -               |
| Children Education Allowances | 3,600           | -               |
| <b>Total</b>                  | <b>4,88,400</b> | <b>4,60,800</b> |

### Illustration 11

Sri Samir furnished the following information for the previous year 2024-25:

|   |                            |
|---|----------------------------|
| Basic salary                                    | ₹ 1,60,000                 |
| Dearness allowance                              | 25% of basic pay           |
| Transport allowance                             | ₹ 1,200 p.m.               |
| Contribution of RPF                             | 15% of basic salary and DA |
| Children education allowance (For two children) | ₹ 500 p.m.                 |
| Interest credited on the balance of RPF @ 12%   | ₹ 7,200                    |
| Entertainment allowance                         | ₹ 1,000 p.m.               |

- He is provided with rent-free accommodation in Kolkata for which employer pays rent ₹ 5,000 pm
- During the previous year, he spent ₹ 5,000 for medical treatment of himself in a private nursing home and his employer reimbursed the entire amount.
- He engaged a domestic servant at a salary of ₹ 500 p.m. and his employer paid the salary.
- His employer presented him Laptop Computer costing ₹ 15,000 in the previous year.
- Professional tax of ₹ 1,600 was paid by his employer

Compute taxable income for salary of Sri Samir for the A.Y. 2025-26 assuming he has opted for the old tax regime.

### Solution

Computation of income under the head 'Salaries' of Sri Samir for the A.Y. 2025-26

| Particulars                    | Workings                            | Details | Amount | Amount          |
|--------------------------------|-------------------------------------|---------|--------|-----------------|
| Basic                          |                                     |         |        | 1,60,000        |
| <b>Allowances:</b>             |                                     |         |        |                 |
| Dearness allowance             |                                     |         | 40,000 |                 |
| Children Education Allowance   | 500 * 12                            | 6,000   |        |                 |
| Less: Exempted                 | 100 * 2 * 12                        | 2,400   | 3,600  |                 |
| Entertainment Allowance        | 1,000 * 12                          |         | 12,000 |                 |
| Transport Allowances           | 1,200 * 12                          |         | 14,400 | 70,000          |
| <b>Perquisites u/s 17(2):</b>  |                                     |         |        |                 |
| Rent Free Accommodation        | Lower of 10% of salary or rent paid |         | 23,000 |                 |
| Medical Reimbursement          |                                     |         | 5,000  |                 |
| Domestic Servant facility      | 500 * 12                            |         | 6,000  |                 |
| Gift of laptop                 | In excess of ₹ 5,000                |         | 10,000 |                 |
| Professional tax               |                                     |         | 1,600  | 45,600          |
| Employer's contribution to RPF | ₹ 2,00,000 * 15%                    | 30,000  |        |                 |
| Less: Exempted                 | ₹ 2,00,000 * 12%                    | 24,000  | 6,000  |                 |
| Interest on RPF                |                                     | 7,200   |        |                 |
| Less: Exempted upto 9.5%       |                                     | 5,700   | 1,500  | 7,500           |
| Gross Taxable Salary           |                                     |         |        | 2,83,100        |
| Less: Standard Deduction       |                                     |         | 50,000 |                 |
| Less: Professional Tax         |                                     |         | 1,600  | 51,600          |
| <b>Taxable Salary</b>          |                                     |         |        | <b>2,31,500</b> |

Note: Salary for the purpose of

| Particulars                   | RFA      | RPF      |
|-------------------------------|----------|----------|
| Basic salary                  | 1,60,000 | 1,60,000 |
| Dearness allowance            | 40,000   | 40,000   |
| Children Education Allowances | 3,600    |          |
| Entertainment Allowance       | 12,000   |          |
| Transport Allowances          | 14,400   |          |
| Total                         | 2,30,000 | 2,00,000 |



## Income From House Property

### Illustration 1

Mr. Solanki constructed a house in Pune for his own residence. The construction of the house started on July 1, 2021 and it was completed on October 31, 2024. For this purpose, he took a loan of ₹ 20,00,000 at 10% p.a. interest on 01-07-2021. Mr. Solanki repaid ₹ 8,00,000 of principal on April 1, 2024. Determine the amount of admissible interest on loan u/s 24(b) for the A.Y. 2025-26 if he opts for the old regime.

### Solution

Since construction started on 1/7/2021, hence pre-construction period starts from 1/7/2021 and since construction completed on 31/10/2024, hence pre construction period ends on 31/3/2024 and post construction period starts from the year 2024-25. Finally, pre construction period is from previous year 2021-22 to previous year 2023-24 and post construction period is from previous year 2024-25 onwards.

Calculation of pre-construction period interest

| Previous Year                              | Amount    | Month | Interest @ 10% |
|--|-----------|-------|----------------|
| 21-22                                      | 20,00,000 | 9     | 1,50,000       |
| 22-23                                      | 20,00,000 | 12    | 2,00,000       |
| 23-24                                      | 20,00,000 | 12    | 2,00,000       |
| Total interest for pre-construction period |           |       | 5,50,000       |

Total interest for pre-construction period is ₹ 5,50,000 which shall be allowed in 5 equal installments i.e., ₹ 1,10,000 p.a. from P.Y. 2024-25.

Interest allowed in the A.Y. 2025-26

|   |            |
|---|------------|
| Interest for pre-construction period                      | ₹ 1,10,000 |
| Interest for post-construction period [₹ 12,00,000 * 10%] | ₹ 1,20,000 |
| Total   | ₹ 2,30,000 |
| Restricted to Maximum Limit                               | ₹ 2,00,000 |

### Illustration 2

Mr. Thakur is the owner of three houses. From the following particulars of the houses, compute his income from house property for the Assessment year 2025-26 assuming that he has opted for the old tax regime:

**First House:** The house is situated in Delhi. It was let-out with effect from 1-4-2023 for ₹ 20,000 p.m. which was vacated by tenant on 31-01-2025 remained vacant for 2 months. Municipal valuation of the house is ₹ 2,00,000. Municipal taxes @ 18% of municipal value has been paid by him. The fair rent and standard rent of the house are ₹ 2,20,000 and ₹ 2,00,000 respectively. Interest paid by him on money borrowed for the purchase of house property was ₹ 60,000. Construction of the house was completed on 31-12-2018.

In the previous year 2024-25, ₹ 15,000 has been recovered for unrealized rent, relating to the previous year 2020-21.

**Second House:** The house is situated in Kolkata, which he has transferred to his wife in 1997 without any consideration. The municipal value of the house is ₹ 5,00,000. He, however uses this house for his own residence. Municipal tax paid for the house was ₹ 18,750. He took a loan for the purpose of repairing of the house. The loan amount is still outstanding. The interest on loan due for the previous year 2024-25 was ₹ 1,65,000, out of which he paid ₹ 1,45,000 during the previous year 2024-25.

**Third House:** The house consists of two identical flats and situated in Kolkata. One flat has been used by him for his own business and other one has been let out to a tenant. He received ₹ 30,000 as rent from the house. Net municipal value of the house is ₹ 1,00,000. Municipal tax @ 9% has been paid by him.

### Solution

Computation of Income from House Property of Mr. Thakur for the A.Y. 2025-26

| Particulars  | Details<br>₹ | Amount<br>₹ | Amount<br>₹   |
|--|--------------|-------------|---------------|
| <b>House 1: Let out</b>  |              |             |               |
| Gross Annual Value (Working)                                       |              | 2,00,000    |               |
| Less: Municipal Tax  |              | 36,000      |               |
| Net Annual Value   |              | 1,64,000    |               |
| Less: <u>Deduction u/s</u>   |              |             |               |
| 24(a) Standard Deduction   | 49,200       |             |               |
| 24(b) Interest on loan   | 60,000       | 1,09,200    | 54,800        |
| <b>House 2: Self occupied &amp; House 3: Self occupied Portion</b> |              |             |               |
| Net Annual Value   |              | Nil         |               |
| Less: <u>Deduction u/s</u>   |              |             |               |
| 24(b) Interest on loan   |              | 30,000      | (30,000)      |
| <b>House 3: Let out Portion</b>                                    |              |             |               |
| Gross Annual Value (Working)                                       |              | 50,000      |               |
| Less: Municipal Tax [ $\frac{1}{2}$ of (₹ 1,00,000 x 9%)]          |              | 4,500       |               |
| Net Annual Value   |              | 45,500      |               |
| Less: <u>Deduction u/s</u>   |              |             |               |
| 24(a) Standard Deduction   | 13,650       |             |               |
| 24(b) Interest on loan   | Nil          | 13,650      | 31,850        |
| Recovery of unrealized rent  |              | 15,000      |               |
| Less: Standard Deduction   |              | 4,500       | 10,500        |
| <b>Gross Total Income / Total Income</b>                           |              |             | <b>67,150</b> |



## Work Book : Direct Taxation (Section A)

Working: Computation of GAV

| Step            | Particulars              | H1       | H3     |
|-----------------|--------------------------|----------|--------|
| 1 <sup>st</sup> | Municipal value          | 2,00,000 | 50,000 |
|                 | Fair rent                | 2,20,000 | N.A.   |
|                 | Standard rent            | 2,00,000 | N.A.   |
|                 | Reasonable Expected Rent | 2,00,000 | 50,000 |
| 2 <sup>nd</sup> | Actual rent receivable   | 2,00,000 | 30,000 |
| 3 <sup>rd</sup> | Higher of above          | 2,00,000 | 50,000 |
| 4 <sup>th</sup> | Gross Annual Value (GAV) | 2,00,000 | 50,000 |

Though H2 is not legally owned by Mr. Thakur, still as per sec. 27, he is deemed owner of such property.

### Illustration 3

K Rathi is the owner of a house in Durgapur. The house is divided in two equal residential units. One unit is used for own residential purpose and the other unit is rented for ₹ 8,000 p.m. The rented unit was vacant for two months during the previous year. The particulars of house for the previous year 2024-25 are as under:

|                              |                        |
|------------------------------|------------------------|
| Standard rent                | ₹ 1,62,000 p.a.        |
| Municipal valuation          | ₹ 1,90,000 p.a.        |
| Fair rent                    | ₹ 1,85,000 p.a.        |
| Municipal tax                | 15% of municipal value |
| Light and water charges      | ₹ 500 p.m.             |
| Interest on borrowed capital | ₹ 2,500 p.m.           |
| Repairs                      | ₹ 32,000 p.a.          |

Compute income from house property (under the old regime) of Mr. Rathi for the A.Y. 2025-26.

### Solution

Computation of Income from House Property of Mr. K Rathi for the A.Y. 2025-26

| Particulars   | Working | Unit A  |           | Unit B  |        |
|---|---------|---------|-----------|---------|--------|
|   |         | Details | Amount    | Details | Amount |
| Gross Annual Value  | 1       |         | Nil       |         | 80,000 |
| Less: Municipal Tax                                       |         |         | Nil       |         | 14,250 |
| Net Annual Value  |         |         | Nil       |         | 65,750 |
| Less: <u>Deduction u/s</u>                                |         |         |           |         |        |
| 24(a) Standard Deduction                                  |         | Nil     |           | 19,725  |        |
| 24(b) Interest on loan                                    | 50:50   | 15,000  | 15,000    | 15,000  | 34,725 |
| <b>Income from house property</b>                         |         |         | (-)15,000 |         | 31,025 |
| <b>Income under the head 'Income from house property'</b> |         | 16,025  |           |         |        |

Working 1: Computation of Gross Annual Value (GAV)

| Steps | Particulars        | Working                                  | Unit A       | Unit B |
|-------|--------------------|--|--------------|--------|
|       | Municipal Value    | 50:50                                    | 95,000       | 95,000 |
|       | Fair Rent          | 50:50                                    | 92,500       | 92,500 |
|       | Standard Rent      | 50:50                                    | 81,000       | 81,000 |
| 1     | RER                | Higher of MV & FR (RER cannot exceed SR) | NIL (As S/O) | 81,000 |
| 2     | ARR                | ₹ 8,000 * 10                             | -            | 80,000 |
| 3     | Gross Annual Value | Lower* of Step 1 & 2                     | -            | 80,000 |

\*ARR is less than RER due to vacancy (otherwise ARR would have been ₹ 96,000). Therefore, GAV will be the ARR computed in step 2.

**Illustration 4**

Mr. Sanyal owns three houses at Patna. He furnishes the following particulars for the previous year 2024-25.

**House No. 1:** The house was constructed in 2022 and let out to a tenant at a monthly rent of ₹ 20,000 per month. He has paid ₹ 22,000 as municipal taxes @ 10% of Municipal Value. He has also paid fire insurance premium of ₹ 5,000.

**House No. 2:** Ground floor is let out @ ₹ 30,000 p.m. First floor identical to ground floor is occupied by him for his residence. Municipal taxes paid @ 20% amounted to ₹ 1,20,000.

**House No. 3:** The house was constructed in 2011 and is used for his business. The annual value of this house is ₹ 2,00,000 and he spent ₹ 10,000 as municipal taxes and ₹ 4,000 for repairs.

**Other information:** A loan of ₹ 60,00,000 has been taken on 01.06.2021 for construction of House No. 2. Construction of the house was completed on 01.06.2023. He repaid the entire loan on 31.12.2024. Interest on loan is payable @ 12% p.a.

Compute his income from house property for the A.Y. 2025-26, if he has opted for the old tax regime.

**Solution**

Computation of Income from House Property of Mr. Sanyal for the A.Y. 2025-26

| Particulars                                | Details | Details  | Amount   |
|--|---------|----------|----------|
| House 1: <u>Let out</u>                    |         |          |          |
| Reasonable Expected Rent [₹ 22,000 / 10%]  |         | 2,20,000 |          |
| Actual Rent                                |         | 2,40,000 |          |
| Gross Annual Value (Being Higher of above) |         | 2,40,000 |          |
| Less: Municipal Tax                        |         | 22,000   |          |
| Net Annual Value                           |         | 2,18,000 |          |
| Less: <u>Deduction u/s</u>                 |         |          |          |
| 24(a) Standard Deduction                   | 65,400  |          |          |
| 24(b) Interest on loan                     | Nil     | 65,400   | 1,52,600 |





## Work Book : Direct Taxation (Section A)

|   |          |          |                   |
|---|----------|----------|-------------------|
| <b>House 2: Ground Floor (Let out)</b>                                      |          |          |                   |
| Reasonable Expected Rent [ $\text{₹ } 1,20,000 / 20\% \times \frac{1}{2}$ ] |          | 3,00,000 |                   |
| Actual Rent   |          | 3,60,000 |                   |
| Gross Annual Value  |          | 3,60,000 |                   |
| Less: Municipal Tax [50% of ₹ 1,20,000]                                     |          | 60,000   |                   |
| Net Annual Value  |          | 3,00,000 |                   |
| <b>Less: Deduction u/s</b>  |          |          |                   |
| 24(a) Standard Deduction  | 90,000   |          |                   |
| 24(b) Interest on loan  | 4,02,000 | 4,92,000 | (1,92,000)        |
| <b>House 2: First Floor (Self occupied)</b>                                 |          |          |                   |
| Net Annual Value  |          | Nil      |                   |
| <b>Less: Deduction u/s</b>  |          |          |                   |
| 24(b) Interest on loan (Maximum Limit)                                      |          | 2,00,000 | (2,00,000)        |
| House 3: Used in own business (Not taxable under this head)                 |          |          | Nil               |
| <b>Income from House Property</b>   |          |          | <b>(2,39,400)</b> |

### Workings

Calculation of Interest to be deducted in A.Y.2025-26

| Previous Year  | Loan      | Rate | Month | Interest |
|--|-----------|------|-------|----------|
| <b>Pre-construction Interest</b>   |           |      |       |          |
| 2021-22  | 60,00,000 | 12%  | 10    | 6,00,000 |
| 2022-23  | 60,00,000 | 12%  | 12    | 7,20,000 |
| 1/5 <sup>th</sup> of pre-construction (a)  |           |      |       | 2,64,000 |
| Post-construction interest (b) [ $\text{₹ } 60,00,000 \times 12\% \times 9/12$ ] |           |      | 9     | 5,40,000 |
| Total interest charged (a) + (b)   |           |      |       | 8,04,000 |
| 50% for Ground Floor   |           |      |       | 4,02,000 |

### Illustration 5

Arun is the owner of two houses in Chennai. From the following particulars, compute his income from house property for the assessment year 2025-26 assuming he has opted for the old tax regime.

**House No. 1:** The house was purchased in the previous year 2011-12 and it has 2 independent units. Unit 1 (50% of floor area) is let out for residential purpose. Rent received ₹ 1,00,000. Unit 1 remains vacant for 2 months when it is not put to any use. Unit 2 (the remaining 50%) is utilized for the purpose of his own residence. Other particulars of the house are as follows– fair rent ₹ 2,48,000, municipal value: ₹ 2,00,000, standard rent under the Rent Control Act: ₹ 2,28,000, municipal taxes paid ₹ 20,000, repairs ₹ 10,000, interest on capital borrowed to purchase the property ₹ 1,20,000, fire insurance premium paid ₹ 40,000.

**House No. II :** Arun is also using this house for the purpose of his residence since 2022. He took a loan of ₹ 12,00,000 @ 10% p.a. for construction of this house on 01.04.2019 and construction was completed on 01.06.2022. He repaid the principal amount of loan to the extent of ₹ 2,00,000 on



30.06.2024 but no interest was paid during the year 2024-25. The municipal value of the house is ₹ 3,00,000 and he paid ₹ 10,000 as municipal tax and ₹ 5,000 for repairs of the house.

### Solution

Computation of Income from House Property of Mr. Arun for the A.Y. 2025-26

| Particulars                               | Details  | Details    | Amount            |
|---|----------|------------|-------------------|
| Unit 1 of House 1: <u>Let out</u>         |          |            |                   |
| Gross Annual Value                        |          | 1,00,000   |                   |
| Less: Municipal Tax [₹ 20,000 x ½]        |          | 10,000     |                   |
| Net Annual Value                          |          | 90,000     |                   |
| Less: <u>Deduction u/s</u>                |          |            |                   |
| 24(a) Standard Deduction [₹ 90,000 x 30%] | 27,000   |            |                   |
| 24(b) Interest on loan [₹ 1,20,000 x ½]   | 60,000   | 87,000     | 3,000             |
| Unit 2 of House 1: <u>Self occupied</u>   |          |            |                   |
| Net Annual Value                          | Nil      |            |                   |
| Less: <u>Deduction u/s</u>                |          |            |                   |
| 24(b) Interest on loan [₹ 1,20,000 x ½]   | 60,000   | (60,000)   |                   |
| House 2: <u>Self occupied</u>             |          |            |                   |
| Net Annual Value                          | Nil      |            |                   |
| Less: <u>Deduction u/s</u>                |          |            |                   |
| 24(b) Interest on loan (Maximum Limit)    | 1,77,000 | (1,77,000) | (2,00,000)        |
| <b>Income from House Property</b>         |          |            | <b>(1,97,000)</b> |

Working: Computation of GAV of House 1 (Let out portion)

| Particulars  | House I (₹)     |
|--|-----------------|
| Gross Municipal Value [₹ 2,00,000 x ½]                                   | 1,00,000        |
| Fair Rent [₹ 2,48,000 x ½]   | 1,24,000        |
| Standard Rent [₹ 2,28,000 x ½]   | 1,14,000        |
| 1. Reasonable Expected Rent [Higher of GMV or FR, subject to max. of SR] | 1,14,000        |
| 2. Actual Rent   | 1,00,000        |
| 3. Higher of above   | 1,14,000        |
| <b>GAV</b>   | <b>1,00,000</b> |

### Explanation:

Till step 3, ARR is less than RER due to vacancy [otherwise ARR would have been ₹ 1,20,000 {being (₹ 1,00,000/10) \* 12}]. Therefore, GAV (due to step 4) will be the ARR computed in step 2.

Calculation of Interest to be deducted in A.Y.2025-26

| Previous Year                    | Loan      | Rate | Month | Interest |
|----------------------------------|-----------|------|-------|----------|
| <u>Pre-construction Interest</u> |           |      |       |          |
| 2019-20                          | 12,00,000 | 10%  | 12    | 1,20,000 |



## Work Book : Direct Taxation (Section A)

|   |           |     |    |          |
|---|-----------|-----|----|----------|
| 2020-21                                   | 12,00,000 | 10% | 12 | 1,20,000 |
| 2021-22                                   | 12,00,000 | 10% | 12 | 1,20,000 |
|   |           |     |    | 3,60,000 |
| 1/5 <sup>th</sup> of pre-construction (a) |           |     |    | 72,000   |
| Post-construction interest (b)            | 12,00,000 | 10% | 3  | 30,000   |
|   | 10,00,000 | 10% | 9  | 75,000   |
| Total interest charged (a) + (b)          |           |     |    | 1,77,000 |

### Illustration 6

Mr. Ramesh is a co-owner of a house property along with his brother

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

The loan for the construction of this property is jointly taken and the interest charged by the bank is ₹ 75,000 out of which ₹ 71,000 have been paid. Interest on the unpaid interest is ₹ 950. To repay this loan, Ramesh and his brother have taken a fresh loan interest charged on this loan is ₹ 5,000.

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

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

### Solution

Computation of Income from House Property of Mr. Ramesh for A.Y. 2025-26

| Particulars                                      | Details | Amount        |
|--|---------|---------------|
| <u>Reasonable Expected Rent</u>                  |         |               |
| Municipal Value                                  |         | 1,60,000      |
| Fair Rent  |         | 1,50,000      |
| Higher of the above [A]                          |         | 1,60,000      |
| Standard Rent [B]                                |         | 1,70,000      |
| Reasonable Expected Rent [Lower of A and B] [C]  |         | 1,60,000      |
| Annual Rent [D]                                  |         | 1,80,000      |
| Gross Annual Value [Higher of C and D]           |         | 1,80,000      |
| Less: Municipal Tax [As not paid by the owner]   |         | Nil           |
| Net Annual Value                                 |         | 1,80,000      |
| Less: <u>Deduction u/s 24</u>                    |         |               |
| (a) Standard Deduction [30% of Net Annual Value] | 54,000  |               |
| (b) Interest on loan [₹ 75,000 + ₹ 5,000]        | 80,000  | 1,34,000      |
| <b>Income from House Property</b>                |         | <b>46,000</b> |
| <b>Share of Mr. Ramesh [₹ 46,000 / 2]</b>        |         | <b>23,000</b> |

## Profits & Gains of Business or Profession

### Illustration 1

From the following particulars, compute admissible depreciation and capital gain/loss for the previous year relevant to the assessment year 2025-26:

|   |            |
|---|------------|
| Written down value of Building A & B as on 1-4-2024 (Depreciation rate 10%) | ₹ 2,50,000 |
| Cost of Building C purchased on November 15, 2024 (Depreciation rate 10%)   | ₹ 3,00,000 |

(i) If all the buildings (A, B & C) are sold for ₹ 6,00,000;

(ii) If Buildings (A & B) are sold for ₹ 5,00,000

(iii) If Building (A) is sold for ₹ 50,000.

### Solution

Computation of Depreciation allowed u/s 32 for the A.Y. 2025-26

| Particulars   | Amount   |
|---|----------|
| <b>Case 1: Building @ 10%</b>   |          |
| W.D.V. as on 1/4/2024   | 2,50,000 |
| Add: Purchase during the year   | 3,00,000 |
|   | 5,50,000 |
| Less: Sold during the year  | 6,00,000 |
| Short term capital gain   | 50,000   |
| <b>Case 2: Building @ 10%</b>   |          |
| W.D.V. as on 1/4/2024   | 2,50,000 |
| Add: Purchase during the year   | 3,00,000 |
|   | 5,50,000 |
| Less: Sold during the year  | 5,00,000 |
|   | 50,000   |
| Depreciation @ 10% [ $\text{₹ } 50,000 \times 10\% \times \frac{1}{2}$ ]  | 2,500    |
| <b>Case 3 Building @ 10%</b>  |          |
| W.D.V. as on 1/4/2024   | 2,50,000 |
| Add: Purchase during the year   | 3,00,000 |
|   | 5,50,000 |
| Less: Sold during the year  | 50,000   |
|   | 5,00,000 |
| Depreciation @ 10% [ $(\text{₹ } 3,00,000 \times 10\% \times \frac{1}{2}) + (\text{₹ } 2,00,000 \times 10\%)$ ] | 35,000   |

### Illustration 2

Mr. Barun provided the provided the following information for the assessment year 2025-26:

(i) Purchased machine of ₹ 2,50,000 for in-house scientific research.

(ii) Purchased land of ₹ 5,00,000 for in-house scientific research.



## Work Book : Direct Taxation (Section A)

(iii) Constructed building of ₹ 7,50,000 for in-house scientific research.

(iv) Contributed to IIT Delhi for scientific research ₹ 64,000

(v) Contributed to the Indian Statistical Institute for statistical research ₹ 45,000.

Compute the admissible deduction u/s 35 in the hands of Mr. Barun if:

- Case a: He has opted for the old tax regime

- Case b: He has not opted for the old tax regime

### Solution

Computation of amount of deduction admissible u/s 35 for Scientific Research

| Particulars   | Working                                    | Case (a)         | Case (b)         |
|---|--|------------------|------------------|
| Contribution to IIT Delhi   | Not available under the default tax regime | 64,000           | NA               |
| Contribution to the Indian Statistical Institute for Statistical Research |  | 45,000           | NA               |
| <u>Expenditure on in-house research</u>                                   |  |                  |                  |
| - Cost of land  | Not eligible                               | Nil              | Nil              |
| - Purchase of machinery   |  | 2,50,000         | 2,50,000         |
| - Construction of Building  |  | 7,50,000         | 7,50,000         |
| <b>Total deduction u/s 35</b>   |  | <b>11,09,000</b> | <b>10,00,000</b> |

### Illustration 3

X & Co. is a partnership firm, which sets up a new industrial unit. It incurs the following expenditure in connection with the new unit:

|                               | ₹               |
|-------------------------------|-----------------|
| Preparation of project report | 4,00,000        |
| Market survey                 | 5,00,000        |
| <b>Total</b>                  | <b>9,00,000</b> |

The following further data is available:

|                                  |             |
|----------------------------------|-------------|
| Cost of project                  | ₹ 30,00,000 |
| Capital employed in the new unit | ₹ 40,00,000 |

What is the deduction admissible to the firm u/s 35D for A.Y. 2025-26?

### Solution

In case of firm, preliminary expenditure is restricted to 5% of cost of project. Hence, eligible preliminary expenditure is ₹ 1,50,000 (being 5% of ₹ 30,00,000). Further, eligible preliminary expenditure is deducted in five equal instalments.

Therefore, deduction u/s 35D in respect of preliminary expenditure for the A.Y.2025-26 is ₹ 30,000 (being 1/5<sup>th</sup> of ₹ 1,50,000).

**Illustration 4**

Discuss the allowability or otherwise of the following expenditure in computing income from the business of an assessee for the assessment year 2025-26.

- (a) Interest on funds borrowed for paying income tax.
- (b) Legal charges were paid for the registration of trademark.
- (c) Legal expenses including lawyer's fee for raising loan from financial institution.
- (d) Lump sum paid to an employee in lieu of regular pension.
- (e) Ex-gratia paid to the dependents of an employee who died in accident while coming to the factory.
- (f) ₹ 70,000 was considered as bad debts. The debtors were declared insolvent having no asset. The amount was, however, not written off as irrecoverable in the accounts of the assessee.
- (g) A compensation of ₹ 10,000 paid to the party for non-delivery of goods as per terms of contract.
- (h) ₹ 25,000 paid to a creditor in cash in a day.
- (i) Interest on capital of ₹ 27,000 paid to the proprietor of a sole proprietorship business
- (j) Penalty of ₹ 15,000 paid to the customs authority for violation of Customs law.

**Solution**

- (a) Interest on funds borrowed for payment of income tax is a disallowed expenditure.
- (b) Legal charges paid for the registration of trademark is an allowed expenditure u/s 37(1).
- (c) Legal expenses including lawyer's fee for raising loan from financial institution is an allowed expenditure u/s 37(1).
- (d) Lump sum paid to an employee in lieu of regular pension is an allowed expenditure u/s 37(1).
- (e) Ex-gratia is an allowed expenditure u/s 37(1).
- (f) As debt has not been written off, such amount shall not be allowed.
- (g) Compensation for non-delivery of goods is an allowed expenditure u/s 37(1).
- (h) Amount paid to a creditor over ₹ 10,000 in a day shall be disallowed to the full extent (i.e., ₹ 25,000) u/s 40A(3)
- (i) Interest on capital paid to the proprietor shall be disallowed.
- (j) Penalty paid to the customs authority for violation of customs law shall be disallowed u/s 37

**Illustration 5**

From the following particulars of Shri Sanju for the year ending 31<sup>st</sup> March, 2025, find out his business income for the assessment year 2025-26:



## Work Book : Direct Taxation (Section A)

| Particulars   | ₹         | Particulars   | ₹         |
|---|-----------|---|-----------|
| To Wages & salaries                                 | 5,25,000  | By Gross Profit   | 11,08,000 |
| To Legal expenses                                   | 15,000    | By Recovery of bad debts<br>(Disallowed in the earlier previous year) | 5,000     |
| To Bad debts  | 30,000    | By Income tax refund  | 12,000    |
| To Rent   | 1,20,000  | By Profit on sale of long-term investment                             | 40,000    |
| To Depreciation                                     | 6,000     | By Sundry receipts  | 5,350     |
| To Income tax                                       | 2,000     |   |           |
| To GST  | 10,000    |   |           |
| To Advertisement                                    | 7,000     |   |           |
| To Entertainment expenses                           | 4,000     |   |           |
| To Purchase of machinery<br>for scientific research | 6,000     |   |           |
| To Charities & Donations                            | 10,000    |   |           |
| To Audit fees                                       | 15,000    |   |           |
| To General expenses                                 | 3,000     |   |           |
| To Extension of building                            | 35,000    |   |           |
| To Compensation paid to<br>retrenched employee      | 1,15,000  |   |           |
| To Net profit                                       | 2,67,350  |   |           |
|   | 11,70,350 |   | 11,70,350 |

In computing the income, the following facts are to be taken into consideration:

- In the item of rent, ₹ 24,000 is included in respect of the rent of the office building, which is owned by Shri Sanju.
- In the amount of salaries, ₹ 5,000 is included in respect of employer's contribution to the Recognized Provident Fund.
- Closing stock is valued at cost while opening stock is valued at 25% above cost. Value of opening stock taken in the Trading Account ₹ 2,00,000
- Bad debts included ₹ 10,500 due from one customer who is solvent and no legal step has been taken yet to recover the amount.
- Legal expenses include ₹ 900 for GST appeal and ₹ 2,000 as a penalty for infringement of customs rules.
- Advertisement includes expenses of ₹ 4,000 spent for purchasing presentation articles for distribution to regular customers on New Year's Day.
- He owned the following assets as on 1.4.2024
  - Building ₹ 1,60,000;
  - Machinery ₹ 1,20,000 and
  - Furniture & Fixture ₹ 50,000 and rates of depreciation are – 10% on Building and 15% on Machinery and 10% on Furniture & Fixture.

## Solution

Computation of business income of Shri Sanju for the A.Y.2025-26

| Particulars   | Notes | Details | Amount          |
|---|-------|---------|-----------------|
| <b>Profits &amp; gains of business or profession</b>              |       |         |                 |
| Net profit as per Profit and Loss A/c                             |       |         | 2,67,350        |
| <u>Add: Expenditure disallowed</u>                                |       |         |                 |
| Income tax  | 1     | 2,000   |                 |
| Depreciation as per books of accounts                             | 2     | 6,000   |                 |
| Charities and donations   | 3     | 10,000  |                 |
| Extension of building   | 4     | 35,000  |                 |
| Rent for the owned office building                                | 5     | 24,000  |                 |
| Legal expenses  | 6     | 2,000   | 79,000          |
|   |       |         | 3,46,350        |
| <u>Less: Expenditure allowed but not debited to P/L A/c</u>       |       |         |                 |
| <u>Depreciation as per I.T. Rules:</u>                            |       |         |                 |
| Building  | 2     | 17,750  |                 |
| Machinery   | 2     | 18,000  |                 |
| Furniture & Fixture   | 2     | 5,000   |                 |
| <u>Less: Income not taxable wrongly credited to P/L A/c</u>       |       |         |                 |
| Bad Debt recovery (earlier not allowed)                           | 7     | 5,000   |                 |
| Income tax refund   | 8     | 12,000  |                 |
| <u>Less: Income taxable under other heads credited to P/L A/c</u> |       |         |                 |
| Profit on sale of long-term investment                            | 9     | 40,000  | 97,750          |
|   |       |         | 2,48,600        |
| <u>Adjustment for valuation of stock</u>                          |       |         |                 |
| <u>Add: Over valuation of opening stock</u>                       | 10    |         | 40,000          |
| <b>Profits &amp; gains of business or profession</b>              |       |         | <b>2,88,600</b> |

### Notes:

- Income tax is specifically disallowed u/s 40(a).
- Depreciation is allowed as per I.T. Act and not as per books of accounts.

Computation of depreciation as per IT Act:

| Particulars                       | Building            | Machinery | Furniture & Fixture |
|-----------------------------------|---------------------|-----------|---------------------|
| Rate of depreciation              | 10%                 | 15%       | 10%                 |
| W.D.V. as on 1/4/2024             | 1,60,000            | 1,20,000  | 50,000              |
| <u>Add: Purchase or extension</u> | 35,000              | Nil       | Nil                 |
| W.D.V. as on 31/3/2025            | 1,95,000            | 1,20,000  | 50,000              |
| <b>Depreciation</b>               | 17,750 <sup>#</sup> | 18,000    | 5,000               |

<sup>#</sup> Depreciation on extension part is charged for half year.



## Work Book : Direct Taxation (Section A)

3. Charity and donation is not allowed, as it is not related to business.
4. Extension of building is a capital expenditure.
5. Rent paid to proprietor is not allowed as no one can earn from himself.
6. Any payment for infringement of law is not allowed as a deduction.
7. Bad debt recovery is taxable only if it is earlier allowed.
8. Refund of income tax is not an income.
9. Profit on sale of investment is taxable as capital gains.
10. Overvaluation of opening stock:  
Actual value of opening stock ( $\text{₹ } 2,00,000 / 125\%$ ) = ₹ 1,60,000  
Overvaluation of stock is 25% of ₹ 1,60,000 = ₹ 40,000
11. Assume that the employer's contribution to RPF has been paid.
12. Advertisement expenditure for presentation to customer is allowed as a deduction u/s 37(1).
13. Cost of machinery acquired for scientific research is fully allowed u/s 35

### Illustration 6

Following is the Receipts & Payments Account of CMA Debnath, a practicing Cost Accountant for the year ended 31st March, 2025. Compute his income from Profession for the A.Y. 2025-26

| Receipts                                       | ₹                | Payments                            | ₹                |
|--|------------------|-------------------------------------|------------------|
| Balance b/f                                    | 1,50,000         | Rent                                | 1,80,000         |
| Professional receipts                          | 8,20,000         | Electric charges                    | 12,000           |
| Fees from other accounting works               | 65,000           | Remuneration to office clerk        | 80,000           |
| Salary from a college as guest lecturer        | 1,20,000         | Salary to office staff              | 1,20,000         |
| Gift from client (For appreciation of service) | 25,000           | Life Insurance Premium              | 15,000           |
| Examiner's remuneration from ICAI              | 40,000           | Misc. office expenses               | 8,000            |
| Interest on deposit                            | 70,000           | Purchase of Motor Car (01.04.24)    | 3,50,000         |
|  |                  | Motor car expenses                  | 75,000           |
|  |                  | Membership fee of ICAI              | 1,500            |
|  |                  | Donation to a Recognised University | 10,000           |
|  |                  | Household expenses                  | 56,000           |
|  |                  | Purchase of professional journals   | 10,000           |
|  |                  | Balance c/f                         | 3,72,500         |
|  | <b>12,90,000</b> |                                     | <b>12,90,000</b> |



Other information:

- 1/5th of the motor car expenses related to personal use.
- The rent and electric charges are in respect of a house, of which half the portion is used for self-residence and the remaining half portion is used for the office of his profession.

### Solution

Computation of Profits and Gains of Business or Profession of CMA Debnath for the A.Y.2025-26

| Particulars  | Details                | Amount   | Amount          |
|--|------------------------|----------|-----------------|
| <b>Profits &amp; gains of business or profession</b> |                        |          |                 |
| <b>Income:</b>                                       |                        |          |                 |
| Professional Receipts                                |                        | 8,20,000 |                 |
| Fees from other accounting works                     |                        | 65,000   |                 |
| Gift from client                                     |                        | 25,000   | 9,10,000        |
| <b>Less: Expenses allowed</b>                        |                        |          |                 |
| Rent   | ½ shall be allowed     | 90,000   |                 |
| Electric charges                                     | ½ shall be allowed     | 6,000    |                 |
| Remuneration to office clerk                         |                        | 80,000   |                 |
| Salary to office staff                               |                        | 1,20,000 |                 |
| Misc. office expenses                                |                        | 8,000    |                 |
| Depreciation   | ₹ 3,50,000 x 15% x 4/5 | 56,000   |                 |
| Motor Car Expenses                                   | ₹ 75,000 x 4/5         | 60,000   |                 |
| Membership fee of ICMAI                              |                        | 1,500    |                 |
| Purchase of professional journals                    |                        | 10,000   | 4,31,500        |
| <b>Profits and Gains of Business or Profession</b>   |                        |          | <b>4,78,500</b> |

### Notes:

- As 20% use of motor car is related to personal purpose, hence as per sec. 38, expenditure is apportioned.
- Payment of LIC premium is eligible for deduction u/s 80C, if he has opted for old tax regime
- As per sec. 145, income chargeable under the head income from business and profession shall be computed only in accordance with the method of accounting regularly followed by the assessee. In this case, assessee follows cash system of accounting.

### Illustration 7

From the following profit & loss account of Sonu for the year ended 31-3-2025, compute his gross total income for the assessment year 2025-26:

| Particulars   | Amount      | Particulars                | Amount      |
|---------------|-------------|----------------------------|-------------|
| Opening stock | 4,00,000    | Sales                      | 2,40,00,000 |
| Purchases     | 2,30,00,000 | Closing stock              | 4,80,000    |
| Salaries      | 8,00,000    | Income from house property | 80,000      |



## Work Book : Direct Taxation (Section A)

|                          |             |                                 |             |
|--------------------------|-------------|---------------------------------|-------------|
| Rent, rates & taxes      | 1,20,000    | Dividend from an Indian company | 9,000       |
| Legal charges            | 40,000      |                                 |             |
| Miscellaneous expenses   | 20,000      |                                 |             |
| Provision for bad debts  | 30,000      |                                 |             |
| Provision for gratuity   | 20,000      |                                 |             |
| Provision for income tax | 40,000      |                                 |             |
| Salary to Mrs. Sonu      | 36,000      |                                 |             |
| Depreciation             | 40,000      |                                 |             |
| Net profit               | 23,000      |                                 |             |
|                          | 2,45,69,000 |                                 | 2,45,69,000 |

### Additional information

- Purchases include ₹ 1,00,000 paid in cash to cultivator for purchase of an agricultural produce.
- Purchases also include ₹ 1,00,000 paid by way of compensation to a supplier as the assessee was unable to take the delivery of goods due to lack of storage space and finances.
- Opening stock was overvalued by 25% and closing stock was undervalued by 25%.
- Salary includes ₹ 15,000 paid as customary bonus on the occasion of Diwali over and above the bonus payable under the Payment of Bonus Act, 1956.
- Rent, rates & taxes include ₹ 3,000 on account of municipal taxes for property let out. It also includes ₹ 5,000 as customs penalty paid during the year.
- An amount of ₹ 20,000 from a customer was written off from the provision for bad debts
- An employee retired on 28-3-2025. Gratuity payable to him was ₹ 20,000. A provision was created for the same this year and it was paid on 2-4-2025.
- Mrs. Sonu is a law graduate and actively working in the assessee's firm.

### Solution

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

| Particulars   | Note | Details | Amount   |
|---|------|---------|----------|
| <i>Profits and gains of business or profession</i>                    |      |         |          |
| Net profit as per books of account                                    |      |         | 23,000   |
| <i>Add: Expenditure disallowed but debited in P/L A/c</i>             |      |         |          |
| Municipal tax   | 6    | 3,000   |          |
| Custom penalty  | 7    | 5,000   |          |
| Provision for bad debts   | 8    | 30,000  |          |
| Provision for income tax  | 11   | 40,000  | 78,000   |
|   |      |         | 1,01,000 |
| <i>Less: Expenditure allowed but not debited in P/L A/c:</i>          |      |         |          |
| Bad debts   | 8    | 20,000  |          |
| <i>Less: Income taxable under other heads but credited to P/L A/c</i> |      |         |          |

|   |   |          |                 |
|---|---|----------|-----------------|
| Dividend received from companies                |   | 9,000    |                 |
| Income from house property                      |   | 80,000   | 1,09,000        |
|   |   |          | (8,000)         |
| <u>Adjustment of stock</u>                      |   |          |                 |
| Add: Under valuation of closing stock           | 4 | 1,60,000 |                 |
| Add: Over valuation of opening stock            | 3 | 80,000   | 2,40,000        |
|   |   |          | 2,32,000        |
| <u>Income from house property</u>               |   |          |                 |
| Gross Annual Value (Actual rent received)       |   | 80,000   |                 |
| Less: Municipal Taxes                           |   | 3,000    |                 |
| Net Annual value (NAV)                          |   | 77,000   |                 |
| Less: Standard deduction u/s 24(a) @ 30% of NAV |   | 23,100   | 53,900          |
| <u>Income from other sources</u>                |   |          |                 |
| Dividend  |   |          | 9,000           |
| <b>Gross Total Income</b>                       |   |          | <b>2,94,900</b> |

#### Notes

1. Since the payment is made in cash of ₹ 1,00,000 to agriculturist, hence the provision of sec. 40A(3) do not attract.
2. Payment of compensation to supplier is a business expenditure and shall be allowed.
3. Overvaluation of opening stock by 25%  
 Stock at overvalued figure (i.e. at 125%) = ₹ 4,00,000  
 Stock at cost (i.e. at 100%) = ₹ 3,20,000 (i.e. ₹ 4,00,000/125%)  
 Overvaluation of stock = ₹ 80,000 (i.e. ₹ 4,00,000 - ₹ 3,20,000)
4. Under valuation of closing stock by 25%  
 Stock at undervalued figure (i.e. at 75%) = ₹ 4,80,000  
 Stock at cost (i.e. at 100%) = ₹ 6,40,000 (i.e. ₹ 4,80,000/75%)  
 Undervaluation of stock = ₹ 1,60,000 (i.e. ₹ 6,40,000 - ₹ 4,80,000)
5. Voluntary bonus to employee shall be allowed expenditure.
6. Municipal tax paid is allowed under the head income from house property.
7. Any payment for infringement of law is not allowed as deduction.
8. Provision for bad debt is disallowed. However, bad debt written off against the same is allowed expenditure.
9. Since the gratuity is paid before due date of filing of return, hence the same is allowed.
10. Payment to relative not being in excess shall be allowed as deduction. Further Mrs. Sonu is possessing technical or professional qualification. Hence, clubbing provision u/s 64(1) is not attracted.
11. Income tax is disallowed expenditure u/s 40(a).



## Work Book : Direct Taxation (Section A)

### Illustration 8

Bharat, owner of Great India Roadways, furnishes following details for the A.Y.2025-26:

|  | ₹           |
|--|-------------|
| Revenue from customers                             | 1,41,00,000 |
| <b>Less: Expenses</b>                              |             |
| Rent of office premises                            | 1,80,000    |
| Rent of godown                                     | 2,40,000    |
| Truck Driver salary                                | 5,00,000    |
| Allowance to truck driver                          | 1,20,000    |
| Cost of petrol, diesel, etc                        | 1,07,50,000 |
| Other expenses other than depreciation             | 2,00,000    |
| Income from business without charging depreciation | 21,10,000   |

Additional information

Great India Roadways have following details of its assets -

| <b>Assets</b>                               | <b>Written down value as on 1-4-2024</b> |
|---|--|
| Office Premises                             | ₹ 2,50,000                               |
| Machinery block (30%) consists of -         | ₹ 20,00,000                              |
| - 2 Diesel engine trucks of 13,000 kgs each |  |
| - 2 Diesel engine trucks of 10,000 kgs each |  |
| - 1 Petrol engine truck of 12,000 kgs       |  |

During the year, he purchased 2 medium-size-truck (petrol engine) for ₹ 3,50,000 each on 13-7-2024. However, petrol engine truck was sold on 9-9-2024 for ₹ 1,00,000.

Compute his income under the head Profits & gains of business or profession.

### Solution

Computation of Profits & gains of business or profession of Shri Bharat for the A.Y. 2025-26

| <b>Particulars</b>  | <b>Amount</b>    |
|---|------------------|
| Net profit as per Profit and Loss A/c                       | 21,10,000        |
| <b>Less: Expenditure allowed but not debited to P/L A/c</b> |                  |
| Depreciation u/s 32 (Note)                                  | 8,05,000         |
| <b>Profits &amp; gains of business or profession</b>        | <b>13,05,000</b> |

Note: Computation of depreciation allowed u/s 32

| <b>Particulars</b>                    | <b>Details</b> | <b>Amount</b> |
|---------------------------------------|----------------|---------------|
| <b>Block 1: Office Premises @ 10%</b> |                |               |
| W.D.V. as on 1/4/2024                 | 2,50,000       |               |
| Add: Purchase during the year         | Nil            |               |
|                                       | 2,50,000       |               |
| Less: Sale during the year            | Nil            |               |
|                                       | 2,50,000       |               |

|                               |           |          |
|-------------------------------|-----------|----------|
| Depreciation                  |           | 25,000   |
| Block 2: Trucks @ 30%         |           |          |
| W.D.V. as on 1/4/2024         | 20,00,000 |          |
| Add: Purchase during the year | 7,00,000  |          |
|                               | 27,00,000 |          |
| Less: Sale during the year    | 1,00,000  |          |
|                               | 26,00,000 |          |
| Depreciation                  |           | 7,80,000 |
| Depreciation allowed u/s 32   |           | 8,05,000 |

**Alternative II:** Computation of income u/s 44AE

| No. of vehicle                                    | Month including part of month | Details             | Income          |
|---|-------------------------------|---------------------|-----------------|
| 2 heavy goods vehicle                             | 12                            | 1,000 x 13 x 12 x 2 | 3,12,000        |
| 2 other goods vehicle                             | 12                            | 7,500 x 12 x 2      | 1,80,000        |
| 1 Petrol engine truck                             | 6                             | 7,500 x 6 x 1       | 45,000          |
| 2 medium size truck                               | 9                             | 7,500 x 9 x 2       | 1,35,000        |
| <b>Profit and gains of business or profession</b> |                               |                     | <b>6,72,000</b> |

Income of the assessee under the head Profits & gains of business or profession shall be ₹ 6,72,000 u/s 44AE.

**Illustration 9**

The following is the profit and loss account for the year ended 31<sup>st</sup> March, 2025 of Northern Sugar Mills of which Shri Daga is the owner:

| Particulars                           | Amount      | Particulars                 | Amount      |
|---------------------------------------|-------------|-----------------------------|-------------|
| Manufacturing expenses                | 1,49,93,795 | Sale of sugar and molasses  | 2,11,62,300 |
| Establishment charges                 | 49,200      | Revenue from fisheries      | 4,000       |
| Penalty paid to municipal corporation | 2,000       | Sale proceeds from canes    | 6,05,055    |
| Salary and wages                      | 1,21,445    | Profit on sale of motor     | 3,230       |
| General charges                       | 16,750      | Rent from agricultural land | 950         |
| Interest on bank loan                 | 7,21,000    |                             |             |
| Daga's remuneration                   | 1,38,750    |                             |             |
| Depreciation                          | 91,000      |                             |             |
| Income tax                            | 25,000      |                             |             |
| Cultivation expenses                  | 4,37,500    |                             |             |
| Net profit                            | 51,79,095   |                             |             |
|                                       | 2,17,75,535 |                             | 2,17,75,535 |

Compute the income from business of Shri Daga from the Sugar Mill for the assessment year 2025-26 after taking the following information into consideration:

- Sale proceeds of cane include ₹ 5,32,000 on account of cane produced and consumed in the factory and debited to manufacturing expenses, the average market price of such cane being ₹ 6,00,000.



## Work Book : Direct Taxation (Section A)

- b) The motor sold during the year for ₹ 7,230 was purchased in the past for ₹ 19,000. Depreciation claimed in respect thereof in past assessments was ₹ 15,000.
- c) General charges include (i) ₹ 2,000 being the legal expenses incurred in defending a suit regarding the company's title to certain agricultural lands and (ii) ₹ 10,000 paid to Shri Daga's son who is an employee in the Sugar Mill for a trip to Hawaii to study modern methods of manufacture.
- d) Depreciation in respect of all assets has been ascertained at ₹ 50,000 as per Income Tax Rules.

### Solution

Computation of Profits & gains of business or profession of Shri Daga for the A.Y. 2025-26

| Particulars   | Note | Details  | Amount           |
|---|------|----------|------------------|
| Net profit as per books of accounts                                   |      |          | 51,79,095        |
| <i>Add: Expenditure disallowed but debited in P/L A/c</i>             |      |          |                  |
| Penalty paid to municipal corporation                                 | 1    | 2,000    |                  |
| Daga's remuneration   | 2    | 1,38,750 |                  |
| Income tax  | 3    | 25,000   |                  |
| Cultivation expenses  | 4    | 4,37,500 |                  |
| Depreciation  | 5    | 91,000   |                  |
| Expenses of manufacturing cane  | 6    | 5,32,000 |                  |
| General charges   | 7    | 2,000    | 12,28,250        |
|   |      |          | 64,07,345        |
| <i>Less: Expenditure allowed but not debited in P/L A/c</i>           |      |          |                  |
| Average market price of cane produced                                 | 6    | 6,00,000 |                  |
| Depreciation as per I.T. Rules  | 5    | 50,000   |                  |
| <i>Less: Income not taxable but credited in P/L A/c</i>               |      |          |                  |
| Rent from agricultural land   | 8    | 950      |                  |
| Sale proceeds from canes  | 8    | 6,05,055 |                  |
| <i>Less: Income taxable under other heads but credited in P/L A/c</i> |      |          |                  |
| Revenue from fisheries  |      | 4,000    |                  |
| Profit on sale of motor   |      | 3,230    | 12,63,235        |
| <b>Profits and gains of business or profession</b>                    |      |          | <b>51,44,110</b> |

### Notes

- Any payment for infringement of law is disallowed.
- Any remuneration to proprietor is disallowed.
- Income tax paid is disallowed u/s 40(a).
- Cultivation expenditure is treated as expenses of agro-business.
- Depreciation is allowed as per Income tax Act.

6. Where income from a business having both agricultural as well as non-agricultural income, the market value of any agricultural produce, which is utilised as raw material in such business, is to be treated as revenue for agro-business and deductible expenditure for non agro-business. Hence, ₹ 6,00,000 (being average market value of sugarcane used in manufacturing sugar) is deductible expenditure.
7. Legal expenditure for defending a title suit on agricultural land is treated as an agricultural expenditure.
8. Rent from agro-land and sale of sugar cane is exempted u/s 10(1).

### Illustration 10

X, Y and Z are partners in a firm which is assessed as a firm. They share profit and losses in the ratio of 3 : 2 : 1. The firm's Profit and Loss Account for the year ended 31.03.2025 is given below:

| Particulars                                  |          | ₹         | Particulars                 | ₹         |
|--|----------|-----------|-----------------------------|-----------|
| To, Salary to partners:                      |          |           | By Gross Profit             | 10,00,000 |
| X —  | 2,00,000 |           | By Interest on Bank deposit | 1,40,000  |
| Y —  | 1,20,000 |           |                             |           |
| Z —  | 80,000   | 4,00,000  |                             |           |
| To, Interest on partner's capital @ 15% p.a. |          |           |                             |           |
| X —  | 60,000   |           |                             |           |
| Y —  | 40,000   |           |                             |           |
| Z —  | 20,000   | 1,20,000  |                             |           |
| To Depreciation                              |          | 4,40,000  |                             |           |
| To Sundry expenses                           |          | 1,00,000  |                             |           |
| To Net Profit                                |          | 80,000    |                             |           |
|  |          | 11,40,000 |                             | 11,40,000 |

Other information :

- (a) Depreciation as per IT rules ₹ 4,60,000.
- (b) Sundry expenses include fines of ₹ 14,000 paid to custom authority.

For the assessment year 2025-26 compute—

- (i) Total income of the firm.
- (ii) Tax liability of the firm.



## Work Book : Direct Taxation (Section A)

### Solution

Computation of Total Income of ..... for the A.Y.2025-26

| Particulars   | Amount   | Amount          |
|---|----------|-----------------|
| Net profit as per Profit and Loss Account                     |          | 80,000          |
| <u>Add: Expenditure disallowed but debited in books</u>       |          |                 |
| Remuneration to partner as per book                           | 4,00,000 |                 |
| Interest to partner   | 24,000*  |                 |
| Fine paid to the customs authority                            | 14,000   |                 |
| Depreciation as per Profit and Loss Account                   | 4,40,000 | 8,78,000        |
|   |          | 9,58,000        |
| <u>Less: Depreciation as per IT Rules</u>                     | 4,60,000 |                 |
| <u>Less: Interest on Bank Deposit</u>                         | 1,40,000 | 6,00,000        |
| Book profit   |          | 3,58,000        |
| <u>Less: Remuneration allowed to partner</u>                  |          | 3,22,200        |
| <b>Profits &amp; gains of Business or Profession</b>          |          | 35,800          |
| <u>Add: Income from Other Sources</u>                         |          |                 |
| Interest on Bank Deposit                                      |          | 1,40,000        |
| <b>Total Income</b>   |          | <b>1,75,800</b> |
| <b>Tax on above</b> [(₹ 1,75,800 x 30%) x 104%] [Rounded off] |          | <b>54,850</b>   |

\* Calculation of interest not allowed:

|   |            |
|---|------------|
| Interest paid to partners                   | ₹ 1,20,000 |
| Interest Allowable (₹ 1,20,000 x 12% / 15%) | ₹ 96,000   |
| Interest to partners not allowed            | ₹ 24,000   |

# Calculation of maximum allowable remuneration being minimum of the following

|  |          |          |
|--|----------|----------|
| a) <u>Remuneration as per IT Act</u><br>[Higher of ₹ 3,00,000 or 90% of book profit] |          | 3,22,200 |
| b) <u>Remuneration as per books</u>  |          |          |
| X  | 2,00,000 |          |
| Y  | 1,20,000 |          |
| Z  | 80,000   | 4,00,000 |



## Capital Gains

### Illustration 1

On 10-10-2024, Mr. Madhusudhan sold the following capital assets:

| Asset      | Sale Proceeds (₹) | Cost of acquisition (₹) | Date of acquisition (₹) | Fair Market value as on 01.04.2001 |
|------------|-------------------|-------------------------|-------------------------|------------------------------------|
| Debentures | 6,48,000          | 1,85,000                | 30.06.2008              | 1,68,000                           |
| Gold       | 18,22,000         | 8,42,400                | 25.08.2006              | 8,10,000                           |
| Building   | 25,11,900         | 9,00,000                | 10.05.2009              | 9,86,400                           |

Determine his capital gains for the A.Y. 2025-26 and also compute his tax on capital gain before cess and surcharge, assuming that his other income exceeds basic exemption limit

### Solution

Computation of Capital Gains of Mr. Madhusudhan for the A.Y.2025-26

| Particulars  | Debenture       | Gold            | Building         |
|--|-----------------|-----------------|------------------|
| Sale Proceeds  | 6,48,000        | 18,22,000       | 25,11,900        |
| Less: Expenses on transfer   | Nil             | Nil             | Nil              |
| Net sale consideration   | 6,48,000        | 18,22,000       | 25,11,900        |
| Less: Cost of acquisition  | 1,85,000        |                 |                  |
| Less: Cost of acquisition  |                 | 8,42,400        |                  |
| Less: Cost of acquisition  |                 |                 | 9,00,000         |
| <b>Long Term Capital Gain</b>  | <b>4,63,000</b> | <b>9,79,600</b> | <b>16,11,900</b> |
| <b>Tax on above @ 12.50%</b>   | <b>57,875</b>   | <b>1,22,450</b> | <b>-</b>         |
| <b>Tax on above [being lower of (12.50% of ₹16,11,900) or (₹ 38,059#)]</b> |                 |                 | <b>38,059</b>    |

# Option for tax on long term capital gain on transfer of building

| Particulars   | Details   | Amount          |
|---|-----------|-----------------|
| Sale consideration  |           | 25,11,900       |
| Less: Expenses on transfer                                    |           | Nil             |
| Net sale consideration  |           | 25,11,900       |
| Less: i) Indexed Cost of acquisition [₹ 9,00,000 x 363 / 148] | 22,07,432 |                 |
| ii) Indexed Cost of improvement                               | Nil       | 22,07,432       |
| <b>Long Term Capital Gain</b>                                 |           | <b>3,04,468</b> |
| <b>Tax on above @ 20%</b>                                     |           | <b>38,059</b>   |

### Illustration 2

On 15<sup>th</sup> November, 2024, Hashita sold a flat for ₹ 18,10,000. She acquired the flat on 11-12-2012 for ₹ 6,00,000. Expenses on sale of flat amounted to ₹ 10,000. She purchased a residential house on 25.01.2025 for ₹ 6,00,000.



## Work Book : Direct Taxation (Section A)

Compute the amount of taxable capital gain and tax thereon before surcharge and cess for the assessment year 2025-26 assuming her other income exceed basic exemption limit.

### Solution

Computation of Capital Gains of Harshita for the A.Y. 2025-26

| Particulars  | Amount           |
|--|------------------|
| <b>Flat</b>  |                  |
| Sale Proceeds  | 18,10,000        |
| Less: Expenses on transfer   | 10,000           |
| Net sale consideration   | 18,00,000        |
| Less: Cost of acquisition  | 6,00,000         |
| <b>Long Term Capital Gain</b>                                      | <b>12,00,000</b> |
| Less: Deduction u/s 54 [for purchase of another residential house] | 6,00,000         |
| Taxable Long Term Capital Gain                                     | 6,00,000         |
| <b>Tax on above @ 12.5%</b>  | <b>75,000</b>    |

# Option for tax on long term capital gain on transfer of flat

| Particulars  | Details   | Amount        |
|--|-----------|---------------|
| Sale consideration   |           | 18,10,000     |
| Less: Expenses on transfer   |           | 10,000        |
| Net sale consideration   |           | 18,00,000     |
| Less: i) Indexed Cost of acquisition [ $\text{₹ } 6,00,000 \times 363 / 200$ ] | 10,89,000 |               |
| ii) Indexed Cost of improvement  | Nil       | 10,89,000     |
| Long Term Capital Gain   |           | 7,11,000      |
| Less: Deduction u/s 54 [for purchase of another residential house]             |           | 6,00,000      |
| Taxable Long Term Capital Gain   |           | 1,11,000      |
| <b>Tax on above @ 20%</b>  |           | <b>22,200</b> |

Capital gains shall be ₹ 6,00,000. However, tax on capital gain shall be ₹ 22,200/-

### Illustration 3

On 15<sup>th</sup> November, 2024, Ishita sold a flat for ₹ 58,50,000. She acquired the flat on 11-12-2012 for ₹ 36,00,000. Expenses on sale of flat amounted to ₹ 50,000. She purchased a residential house on 25.01.2025 for ₹ 20,00,000.

Compute the amount of taxable capital gain and tax thereon before surcharge and cess for the assessment year 2025-26 assuming her other income exceed basic exemption limit.

### Solution

Computation of Capital Gains of Ishita for the A.Y. 2025-26

| Particulars  | Amount           |
|--|------------------|
| <b>Flat</b>  |                  |
| Sale Proceeds  | 58,50,000        |
| Less: Expenses on transfer   | 50,000           |
| Net sale consideration   | 58,00,000        |
| Less: Cost of acquisition  | 36,00,000        |
| <b>Long Term Capital Gain</b>                                      | <b>22,00,000</b> |
| Less: Deduction u/s 54 [for purchase of another residential house] | 20,00,000        |
| <b>Taxable Long Term Capital Gain</b>                              | <b>2,00,000</b>  |
| <b>Tax on above @ 12.5%</b>  | <b>25,000</b>    |

# Option for tax on long term capital gain on transfer of flat

| Particulars   | Details   | Amount            |
|---|-----------|-------------------|
| Sale consideration  |           | 58,50,000         |
| Less: Expenses on transfer  |           | 50,000            |
| Net sale consideration  |           | 58,00,000         |
| Less: i) Indexed Cost of acquisition [ $\text{₹ } 36,00,000 \times 363 / 200$ ] | 65,34,000 |                   |
| ii) Indexed Cost of improvement   | Nil       | 65,34,000         |
| <b>Long Term Capital Gain</b>   |           | <b>(7,34,000)</b> |
| <b>Tax on above @ 20%</b>   |           | <b>Nil</b>        |

Capital gains shall be ₹ 2,00,000. However, tax on such capital gains shall be nil considering the second proviso to sec. 112. Note that loss of ₹ 7,34,000 shall be ignored.

### Illustration 4

On 15<sup>th</sup> November, 2024, Nikita sold a residential building for ₹ 20,05,00,000. She acquired such property on 11-12-2001 for ₹ 4,00,00,000. Expenses on sale of such property amounted to ₹ 5,00,000. She purchased another residential house on 25.01.2025 for ₹ 16,00,00,000.

Compute the amount of taxable capital gain and tax thereon before surcharge and cess for the assessment year 2025-26 assuming her other income exceed basic exemption limit

### Solution

Computation of Capital Gains of Nikita for the A.Y. 2025-26

| Particulars                | Amount       |
|----------------------------|--------------|
| <b>Building</b>            |              |
| Sale Proceeds              | 20,05,00,000 |
| Less: Expenses on transfer | 5,00,000     |
| Net sale consideration     | 20,00,00,000 |
| Less: Cost of acquisition  | 4,00,00,000  |



## Work Book : Direct Taxation (Section A)

|  |                     |
|--|---------------------|
| <b>Long Term Capital Gain</b>  | <b>16,00,00,000</b> |
| Less: Deduction u/s 54 [for purchase of another residential house][sub. To max. of ₹ 10 crore] | 10,00,00,000        |
| Taxable Long Term Capital Gain   | 6,00,00,000         |
| <b>Tax on above @ 12.5%</b>  | <b>75,00,000</b>    |

# Option for tax on long term capital gain on transfer of building

| Particulars  | Details      | Amount       |
|--|--------------|--------------|
| Sale consideration   |              | 20,05,00,000 |
| Less: Expenses on transfer   |              | 5,00,000     |
| Net sale consideration   |              | 20,00,00,000 |
| Less: i) Indexed Cost of acquisition [₹ 4,00,00,000 x 363 / 100]   | 14,52,00,000 |              |
| ii) Indexed Cost of improvement                                    | Nil          | 14,52,00,000 |
| Long Term Capital Gain   |              | 5,48,00,000  |
| Less: Deduction u/s 54 [for purchase of another residential house] |              | 5,48,00,000  |
| Taxable Long Term Capital Gain                                     |              | Nil          |
| <b>Tax on above @ 20%</b>  |              | <b>Nil</b>   |

Capital gains shall be ₹ 6,00,00,000. However, tax on capital gain shall be Nil.

### Illustration 5

On 15<sup>th</sup> November, 2024, Babita sold shares of RIL, a listed company, for ₹ 20,50,000. She acquired such shares on 11-12-2020 for ₹ 4,00,000. Expenses on sale of such shares amounted to ₹ 50,000 excluding securities transaction tax of ₹ 20,000.

Compute the amount of taxable capital gain and tax thereon before surcharge and cess for the assessment year 2025-26 assuming her other income exceed basic exemption limit

### Solution

Computation of Capital Gains of Babita for the A.Y. 2025-26

| Particulars   | Amount           |
|---|------------------|
| <b>Listed Equity Shares</b>                                   |                  |
| Sale Proceeds   | 20,50,000        |
| Less: Expenses on transfer [STT is not an allowable expenses] | 50,000           |
| Net sale consideration  | 20,00,000        |
| Less: Cost of acquisition                                     | 4,00,000         |
| <b>Long Term Capital Gain</b>                                 | <b>16,00,000</b> |
| <b>Tax on above</b>   |                  |
| - First ₹ 1,25,000 @ 0%                                       | 0                |
| - Balance ₹ 14,75,000 @ 12.5%                                 | 1,84,375         |
| Tax before surcharge and cess                                 | 1,84,375         |

It is to be noted that option to calculate tax liability considering index benefit is not available in this case.

### Illustration 6

On 15<sup>th</sup> November, 2024, Amrita sold gold jewellery for ₹ 10,40,000. She acquired such jewellery on 11-12-2020 for ₹ 4,00,000. Expenses on sale of such jewellery amounted to ₹ 40,000.

Compute the amount of taxable capital gain and tax thereon before surcharge and cess for the assessment year 2025-26 assuming her other income exceed basic exemption limit

### Solution

Computation of Capital Gains of Amrita for the A.Y. 2025-26

| Particulars                   | Amount          |
|-------------------------------|-----------------|
| <b>Jewellery</b>              |                 |
| Sale Proceeds                 | 10,40,000       |
| Less: Expenses on transfer    | 40,000          |
| Net sale consideration        | 10,00,000       |
| Less: Cost of acquisition     | 4,00,000        |
| <b>Long Term Capital Gain</b> | <b>6,00,000</b> |
| <b>Tax on above @ 12.5%</b>   | <b>75,000</b>   |

It is to be noted that option to calculate tax liability considering index benefit is not available in this case.

### Illustration 7

Hemant transferred following assets on 1-10-2024

| Assets           | Acquired on                              | Cost of Acquisition | Value as on 1-04-2001 | Amount realized |
|------------------|--|---------------------|-----------------------|-----------------|
| Gold Bonds, 1999 | 1-04-2002                                | 50,000              | -                     | 75,000          |
| Gold             | 27-10-2000                               | 90,000              | 1,00,000              | 13,00,000       |
| Silver Rods      | 9-09-2005                                | 48,000              | -                     | 4,00,000        |
| Diamond          | Received on partition of HUF (9-06-1998) |                     | 55,000                | 3,00,000        |

Additional information

- Diamond was acquired by HUF on 1-04-95 for ₹ 25,000.
- On sale of gold, he paid commission @ 1%.
- He purchased NHAI Bond on 31-05-2024 worth ₹ 50,000. On 1-05-2024, he deposited ₹4,00,000 in Capital Gain Account for the purpose of availing benefit u/s 54F. Out of such deposit, he invested –
  - ₹ 50,000 in land on 1-05-2025;
  - ₹ 2,00,000 in construction of house on above land. Construction of such house was completed on 7-05-2026.
- On 1-10-2026, he withdrew the balance amount in deposit.

Compute capital gain. How shall your answer differ, if balance amount is withdrawn by legal heir on 1-10-2026 after his death.



## Work Book : Direct Taxation (Section A)

### Solution

Computation of capital gain of Hemant for A.Y. 2025-26

| Particulars                           | Gold            | Silver Rods     | Diamond         |
|---------------------------------------|-----------------|-----------------|-----------------|
| Sale consideration                    | 13,00,000       | 4,00,000        | 3,00,000        |
| Less: Expenses on transfer            | 13,000          | Nil             | Nil             |
| Net sale consideration                | 12,87,000       | 4,00,000        | 3,00,000        |
| Less: Cost of acquisition             | 1,00,000        | 48,000          | 55,000          |
| Less: Cost of improvement             | Nil             | Nil             | Nil             |
| Long term Capital gain                | 11,87,000       | 3,52,000        | 2,45,000        |
| Less: Exemption u/s 54EC              | Nil             | Nil             | Nil             |
| Less: Exemption u/s 54F               | 3,68,920        | Nil             | Nil             |
| <b>Taxable long term capital gain</b> | <b>8,18,080</b> | <b>3,52,000</b> | <b>2,45,000</b> |

### Notes

- Since investment in NHAI Bond has been made after 6 months from the date of transfer. Hence, exemption u/s 54EC is not available.
- Exemption u/s 54F is available on long term capital gain on sale of all long term capital asset to the extent of following percentage of investment -

$$\frac{\text{Capital gain} \times 100}{\text{Net sale consideration}}$$

Exemption u/s 54F shall be claimed from long term capital gain on sale of such asset, whose above mentioned ratio is higher. Hence, exemption available u/s 54F is deducted from long-term capital gain in following order -

- Gold (being 92.23%) ₹ 3,68,920
- Diamond (being 88%) ₹ 3,52,000
- Silver rods (being 81.67%) ₹ 3,26,667

- Gold Bonds, 1999 is not a capital asset, hence gain on transfer of such bonds is not liable to tax.

Computation of capital gain of Hemant for A.Y.2027-28

| Particulars                           | Working                              | Amount            |
|---------------------------------------|--------------------------------------|-------------------|
| Amount withdrawn                      |                                      | ₹ 1,50,000        |
| Earlier capital gain exempted u/s 54F |                                      |                   |
| From LTCG on sale of Gold             | ₹ 1,50,000 x ₹ 3,68,920 / ₹ 4,00,000 | ₹ 1,38,345        |
| <b>Taxable Long term capital gain</b> |                                      | <b>₹ 1,38,345</b> |

Money withdrawn by legal heir from Capital Gain Deposit Account is not taxable.

### Illustration 8

Mr. A, is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident in Aug. 2024. The value of stock lost (totally damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening WDV of the block as on 1-04-2024 was ₹ 10,80,000. During the process of safeguarding machinery and in the fire fighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2018 for ₹ 1,10,000. The market value of these two items as on the date of fire accident was ₹ 2,50,000. Mr. A received the following amounts from the insurance company:

|  |            |
|--|------------|
| i) Towards loss of stock                 | ₹ 4,80,000 |
| ii) Towards damage of machinery          | ₹ 6,00,000 |
| iii) Towards gold chain and diamond ring | ₹ 2,80,000 |

You are requested to briefly comment on the tax treatment of the above 3 items.

### Solution

Computation of depreciation on machinery

| Particulars                          | Amount        |
|--------------------------------------|---------------|
| W.D.V. as on 01-04-2024              | 10,80,000     |
| Add: Purchased during the year       | Nil           |
|                                      | 10,80,000     |
| Less: Insurance compensation         | 6,00,000      |
| W.D.V. as on 31-03-2025 <sup>#</sup> | 4,80,000      |
| <b>Depreciation on above @ 15%</b>   | <b>72,000</b> |

<sup>#</sup> As machinery is not completely lost, thus there is machine as well as value in the block. Hence, the provision of capital gain shall not be applicable.

Computation of capital gain

| Particulars                   | Jewellery       |
|-------------------------------|-----------------|
| Sale Consideration            | 2,80,000        |
| Less: Expenses on transfer    | Nil             |
|                               | 2,80,000        |
| Less: Cost of acquisition     | 1,10,000        |
| <b>Long term capital gain</b> | <b>1,70,000</b> |

Computation of income under the head profit and gains from business or profession

| Particulars   | Amount            |
|---|-------------------|
| Insurance compensation received                     | 4,80,000          |
| Less: Value of stock damaged                        | 6,50,000          |
| <b>Profit and gains from business or profession</b> | <b>(1,70,000)</b> |



## Work Book : Direct Taxation (Section A)

### Illustration 9

On 25-04-2024, A sold an urban agricultural land for ₹ 24,50,000 which he had been using for agricultural purposes for several years. He acquired that land in 2000 for ₹ 2,50,000. The market value of such land as on 1-04-2001 was ₹ 4,00,000. He purchased rural agricultural land for ₹ 8,00,000 on 25-06-2024 which was sold for ₹ 12,50,000 on 25-08-2024. A sum of ₹ 12,50,000 was also invested by him in purchase of residential property on 25-10-2024. He did not own any house property before this date. The new house property was sold on 28-03-2025 for ₹ 15,00,000. Compute the capital gains for the assessment year 2025-26.

### Solution

Computation of capital gain of A for the A.Y.2025-26

| Particulars   | Working                  | Details   | Amount          |
|---|--------------------------|-----------|-----------------|
| <i>Taxability on sale of land</i>   |                          |           |                 |
| Sale consideration  |                          |           | 24,50,000       |
| Less: Expenses on transfer  |                          |           | Nil             |
| Net sale consideration  |                          |           | 24,50,000       |
| Less: i) Indexed cost of acquisition [Since transaction was done before 23-07-2024] | ₹ 4,00,000 x (363 / 100) | 14,52,000 |                 |
| ii) Indexed cost of improvement   |                          | Nil       | 14,52,000       |
| Long Term Capital Gain  |                          |           | 9,98,000        |
| Less: Exemption u/s 54B   |                          |           | 9,98,000        |
| <b>Taxable Long term capital gain</b>   |                          |           | <b>Nil</b>      |
| <i>Taxability on sale of house property</i>   |                          |           |                 |
| Sale consideration  |                          |           | 15,00,000       |
| Less: Expenses on transfer  |                          |           | Nil             |
| Net sale consideration  |                          |           | 15,00,000       |
| Less: i) Cost of acquisition  |                          | 12,50,000 |                 |
| ii) Cost of improvement   |                          | Nil       | 12,50,000       |
| <b>Short Term Capital Gain</b>  |                          |           | <b>2,50,000</b> |

### Notes

- The new acquired agro-land is transferred before the end of 2 years. Hence, earlier exemption given shall be revoked and subtracted from cost of acquisition of new asset. However, no capital gain arises on sale of the rural agricultural land as it is not a capital asset. Hence, revocation is having no impact.
- No exemption is available to the assessee for purchase of a residential house property as he sold such house property in the same assessment year.



### Illustration 10

Ramesh, aged 66 years, sold a residential house at Pune for ₹ 20,00,000 on 1<sup>st</sup> October, 2024. This house was acquired by his father on 1<sup>st</sup> January, 1999 for ₹ 1,00,000. On the death of his father, he inherited the house on 5<sup>th</sup> July, 2006. Fair market value of the house as on 1<sup>st</sup> April, 2001 was ₹ 1,40,000. He paid brokerage @ 1% to the real estate agent at the time of sale. He purchased a residential house at Baramati on 7<sup>th</sup> March, 2025 for ₹ 8,00,000 and on 20<sup>th</sup> April, 2025 purchased bonds of ₹ 3,00,000 (redeemable after 3 years) of Rural Electrification Corporation Ltd.

Compute capital gain.

### Solution

Computation of capital gain of Ramesh for the A.Y. 2025-26

| Particulars                           | Residential House |
|---------------------------------------|-------------------|
| Sale consideration                    | 20,00,000         |
| Less: Expenses on transfer            | 20,000            |
| Net sale consideration                | 19,80,000         |
| Less: Cost of acquisition             | 1,40,000          |
| Less: Indexed cost of improvement     | Nil               |
| Long term capital gain                | 18,40,000         |
| Less: Exemption u/s 54                | 8,00,000          |
| <b>Taxable long term capital gain</b> | <b>10,40,000</b>  |

Exemption u/s 54EC is not available as investment is made after 6 months from the date of transfer.



## Income from Other Sources

### Illustration 1

Mr. Eshwar submits the following particulars for the previous year 2024-25:

- Dividend received from X Co. Ltd, an Indian company ₹ 4,000.
- Family Pension received ₹ 1,36,000
- Winnings from horse races ₹ 13,200; expenses incurred for the same ₹ 2,000.
- Dividend received from a foreign company ₹ 12,000.
- Winnings from lottery (after deduction of tax @ 30%) ₹ 8,400.
- Rent by way of letting plant and machinery along with a building (rent of building is not separable) ₹ 18,000; Rent collection charge ₹ 250; Insurance premium ₹ 1,200; Depreciation of building, plant and machinery ₹ 4,500.

Compute his income from other sources for the assessment year 2025-26

### Solution

Computation of income from other sources of Mr. Eshwar for A.Y. 2025-26

| Particulars   | Amount | Amount   | Amount          |
|---|--------|----------|-----------------|
| Family pension  |        | 1,36,000 |                 |
| Less: Standard Deduction (Being lower of the following) |        |          |                 |
| a. 1/3 <sup>rd</sup> of Pension                         | 45,333 |          |                 |
| b. Statutory limit considering default tax regime       | 25,000 | 25,000   | 1,11,000        |
| Dividend received from an Indian company                |        |          | 4,000           |
| Dividend received from Foreign company                  |        |          | 12,000          |
| Winning from race horses                                |        |          | 13,200          |
| Winning from lottery (₹ 8,400 / 70%)                    |        |          | 12,000          |
| Letting of Plant and Machinery with Building            |        | 18,000   |                 |
| Less: Expenses  |        |          |                 |
| - Rent Collection Charges                               | 250    |          |                 |
| - Insurance Premium                                     | 1,200  |          |                 |
| - Depreciation  | 4,500  | 5,950    | 12,050          |
| <b>Income from Other Sources</b>                        |        |          | <b>1,64,250</b> |

### Illustration 2

The following details have been furnished by Mrs. Jaya, pertaining to the year ended 31-3-2025:

- (i) Cash gift of ₹ 51,000 received from her friend on the occasion of her 25<sup>th</sup> wedding anniversary.
- (ii) On the above occasion, a diamond necklace worth ₹ 2 lacs was presented by her sister living in Dubai.
- (iii) When she celebrated her daughter's wedding on 21-2-2025, her friend assigned in Mrs. Jaya'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 ₹ 51,000.
- (iv) She acquired an immovable property through will of her deceased uncle. The value of said property is ₹ 35,00,000.

Compute her income from other sources

### Solution

Computation of Income from Other Sources of Mrs. Jaya for the A.Y. 2025-26

| Particulars  | Amount          |
|--|-----------------|
| Gift from friend   | 51,000          |
| Gift of diamond necklace from sister (Being a relative)                    | -               |
| Gift of fixed deposit (as gift is received by her and not by her daughter) | 51,000          |
| Acquisition of immovable property through will                             | -               |
| <b>Income from Other Sources</b>   | <b>1,02,000</b> |

Note: It may be argued that fixed deposit is not covered u/s 56(2)(x) as it is neither covered under the purview of money nor under property.

### Illustration 3

From the following particulars of Mahesh for the previous year ended 31-3-2025, compute the income under the head Income from other sources:

|                                     | ₹      |
|-------------------------------------|--------|
| i) Directors fee from a company     | 10,000 |
| ii) Interest on bank deposits       | 3,000  |
| iii) Income from undisclosed source | 12,000 |
| iv) Winning from lotteries (Net)    | 35,000 |
| v) Royalty on a book written by him | 8,000  |
| vi) Lectures in seminars            | 5,000  |



## Work Book : Direct Taxation (Section A)

|       |  |        |
|-------|--|--------|
| vii)  | Interest on loan given to a relative             | 7,000  |
| viii) | Interest on debentures of a company              | 2,500  |
| ix)   | Interest on Post Office Saving Bank Account      | 500    |
| x)    | Interest on Government Securities                | 2,200  |
| xi)   | Interest on Monthly Income Scheme of Post Office | 33,000 |

### Solution

Computation of Income from Other Sources of Mr. Mahesh for A.Y. 2025-26

| Particulars   | Amount          |
|---|-----------------|
| i) Directors Fee from a Company                                     | 10,000          |
| ii) Interest on bank Deposits                                       | 3,000           |
| iii) Income from undisclosed source                                 | 12,000          |
| iv) Winning from Lotteries [₹ 35,000 / 70%]                         | 50,000          |
| v) Royalty on a book written by him                                 | 8,000           |
| vi) Lectures in seminars  | 5,000           |
| vii) Interest on loan given to a relative                           | 7,000           |
| viii) Interest on Debentures of a Company                           | 2,500           |
| ix) Interest on post Office Saving Bank Account [Exempt u/s 10(15)] | Exempt          |
| x) Interest on Government Securities                                | 2,200           |
| xi) Interest on Monthly Income Scheme of Post Office                | 33,000          |
| <b>Income from Other Sources</b>                                    | <b>1,32,700</b> |

### Illustration 4

Shyam, ordinarily resident, furnishes the following particulars of his income for the financial year ending on 31-3-2025:

- Dividends received in May 2024 from UTI ₹ 4,000.
- Dividends being related to financial year ending on 31-3-2024 falls due and received in May 2024 from Assam Tea Co. Ltd. ₹ 3,000 (60% of income of the company is agricultural income) and incurred ₹ 100 as collection charges.
- Dividend from Microsoft Inc. (an American company) ₹ 50,000. He paid ₹ 1,000 for collection.
- Amount received on 1<sup>st</sup> December 2024 in connection with winning from a horse race ₹ 14,000.
- Amount received on 31<sup>st</sup> December 2024 in connection with winning from a camel race ₹ 6,000.
- Amount received on 1<sup>st</sup> December 2024 in connection with winning from lottery ₹ 21,000. Cost of lottery tickets purchased ₹ 1,000.

- g) Director's fees (gross) received in August, 2024 ₹ 20,000.
- h) He has taken a residence from Sri Mohan at a monthly rent of ₹ 2,000. Half portion of this house was sub-let on a monthly rent of ₹ 1,250 p.m. He also paid repair charges of ₹ 200 on property.
- i) Income from agricultural land in Nepal ₹ 10,000.
- j) Income from agricultural land in Jodhpur ₹ 2,000.
- k) He purchased 100 10% debenture of ₹ 100 each of X Ltd. on 1-10-2024 from open market @ ₹ 110. Company pays interest on 30 June and 31 December every year.
- l) On 1-10-2024, he subscribed for 100 12% debenture of ₹ 100 each (issued at premium of ₹ 10 each) of Y Ltd. Company pays interest on 31 March every year.
- m) He also received interest of ₹ 15,000 on 8% Government securities

Compute his Income from other source for the Assessment Year 2025-26.

### Solution

Computation of Income from Other Sources of Shyam for the A.Y. 2025-26

| Particulars                                       | Details                      | Details | Amount | Amount          |
|---|------------------------------|---------|--------|-----------------|
| Dividend from UTI                                 |                              |         |        | 4,000           |
| Dividend from a domestic company                  |                              |         |        | 3,000           |
| Dividend from foreign company                     |                              |         |        | 50,000          |
| Winning from horse races <sup>1</sup>             | 14,000/70%                   |         |        | 20,000          |
| Winning from camel race <sup>2</sup>              |                              |         |        | 6,000           |
| Winning from lotteries <sup>1</sup>               | 21,000/70%                   |         |        | 30,000          |
| Director's fees                                   |                              |         |        | 20,000          |
| <u>Income from sub-letting</u>                    |                              |         |        |                 |
| Rent received                                     |                              |         | 15,000 |                 |
| <u>Less: Expenses incurred</u>                    |                              |         |        |                 |
| - Rent paid                                       |                              | 12,000  |        |                 |
| - Repair charges                                  | 200 * ½                      | 100     | 12,100 | 2,900           |
| Income from agricultural land in Nepal            | Land is located out of India |         |        | 10,000          |
| Income from agricultural land in Jodhpur          | Exempted u/s 10(1)           |         |        | Nil             |
| Interest on debenture of X Ltd. <sup>3</sup>      | 100 * 100 * 10% * ½          |         |        | 500             |
| Interest on debenture of Y Ltd. <sup>4</sup>      | 100 * 100 * 12% * ½          |         |        | 600             |
| Interest on 8% Government securities <sup>5</sup> |                              |         |        | 15,000          |
| <b>Income from Other Sources</b>                  |                              |         |        | <b>1,62,000</b> |



## Work Book : Direct Taxation (Section A)

### Notes

1. Amount received as winning from horse races, lottery & interest from debenture of Z Ltd requires to be grossed up.
2. Since tax shall not be deducted on winning from camel races, hence amount received is gross income.
3. Interest due and received by the assessee from X Ltd. shall be charged to tax. Interest for 6 months i.e. from 1st July to 31st December only shall be taxable, even though the assessee has purchased such security on 1/10/2023. Further, interest shall not be grossed up because on such interest no TDS is deductible as the amount of interest does not exceed threshold limit.
4. Interest due and received by the assessee from Y Ltd. shall be charged to tax. Interest for 6 months i.e. from 1st October to 31st March only shall be taxable, as the assessee is the subscriber of such security. Further, interest shall not be grossed up because on such interest no TDS is deductible as the amount of interest does not exceed threshold limit.
5. No tax is deducted at source in case of Government securities.

### Illustration 5

From the following information, compute from other from other sources of Mrs Sabana for the assessment year 2025-26.

- a) Dividend received from a foreign company ₹ 16,000
- b) Dividend received from an Indian company ₹ 10,500
- c) Interest on loan taken for investment in shares ₹ 8,000
- d) Family pension received of ₹ 14,000 per month
- e) Rent received from Sub-letting a house ₹ 35,000, rent payable by Sabana for the above house ₹ 20,000, other expenses incurred in connection with the house amounted ₹ 7,500.

### Solution

Computation of income from other sources of Mrs. Sabana for A.Y. 2025-26

| Particulars   | Amount | Amount   | Amount   |
|---|--------|----------|----------|
| Family pension  |        | 1,68,000 |          |
| Less: Standard Deduction (Being lower of the following) |        |          |          |
| a. 1/3 <sup>rd</sup> of Pension                         | 56,000 |          |          |
| b. Statutory limit considering default tax regime       | 25,000 | 25,000   | 1,43,000 |

|   |        |        |                 |
|---|--------|--------|-----------------|
| Dividend received from an Indian company          |        | 10,500 |                 |
| Dividend received from Foreign company            |        | 16,000 |                 |
|   |        | 26,500 |                 |
| Less: Interest paid being lower of the following: |        |        |                 |
| - Interest incurred                               | 8,000  |        |                 |
| - 20% of dividend income [₹ 26,500 x 20%]         | 5,300  | 5,300  | 21,200          |
| Sub-letting of House                              |        | 35,000 |                 |
| Less: Expenses                                    |        |        |                 |
| - Payment of Rent                                 | 20,000 |        |                 |
| - Other Expenses                                  | 7,500  | 27,500 | 7,500           |
| <b>Income from Other Sources</b>                  |        |        | <b>1,71,700</b> |

\*under old tax regime the maximum statutory limit is ₹ 15,000

### Illustration 6

Mr. Janak receives the following gifts during the previous year 2024-2025:

| Date of gift | Details of gift and donor  | Amount of gift (₹) |
|--------------|--|--------------------|
| 01.07.2024   | Gift from Raju, a friend, by cheque  | 50,000             |
| 01.09.2024   | Cash gift from sister-in-law   | 1,00,000           |
| 01.12.2024   | Gift of diamond ring on his birthday, by his friend living in Dubai                    | 75,000             |
| 15.12.2024   | Cash gifts of ₹ 31,000 each made by four friends on the occasion of his son's marriage | 1,24,000           |
| 01.12.2024   | Gift of a rosewood cot made by friend on house opening ceremony                        | 51,000             |

Discuss the taxability of each of the above as income from other sources.

### Solution

Computation of Income from Other Sources of Mr. Janak for the A.Y. 2025-26

| Particulars   | Amount          |
|---|-----------------|
| <u>Cash Gift</u>  |                 |
| Gift from Raju  | 50,000          |
| Cash gift from sister-in-law (being a relative)                     | Nil             |
| Cash gifts from four friends on the occasion of his son's marriage  | 1,24,000        |
| <u>Gift of movable property</u>                                     |                 |
| Gift of diamond ring on his birthday, by his friend living in Dubai | 75,000          |
| Gift of a rosewood cot made by friend on house opening ceremony     | Nil             |
| <b>Income from Other Sources</b>                                    | <b>2,49,000</b> |



## Work Book : Direct Taxation (Section A)



# 3

## Total Income and Tax Liability of Individuals & HUF [Study Material - Module 3]

### Clubbing of Income

#### Illustration 1

In whose hand the following incomes will be taxable?

- a) Interest on Debentures of ABC Ltd. received by Mrs. Y when the Debentures were transferred by Mr. X to Mrs. Y assuming that:
  - i) Such transfer was made before marriage.
  - ii) Such transfer was made at a time when there is husband-wife relationship between Mr. X and Mrs. Y.
- b) Mr. P held 22% shares of Star Ltd. where Mrs. Q, wife of Mr. P, is employed as Finance Manager at a salary of ₹ 5,00,000 p.a. Mrs. Q is a Chartered Accountant and also holds MBA (Finance) degree.
- c) Nipa is the minor child of Mr. and Mrs. Zipa. Mr. Zipa has salary income of ₹ 4,00,000 and Mrs. Zipa has income from other sources of ₹ 5,00,000. Nipa earns income of ₹ 50,000 from a T.V. Reality show and ₹ 10,000 interest on fixed deposit with a bank.

#### Solution

- a. Interest shall be taxable in the hands of Mrs. Y; (ii) Interest shall be taxable in the hands of Mr. X.
- b. Remuneration shall be taxable in the hands of Mrs. Q as she possesses technical qualifications
- c. Income from TV Realty show shall be taxable in the hands of Nipa and interest on fixed deposit shall be taxable in the hands of Mrs. Zipa.

#### Illustration 2

From the particulars, compute the income of Sriram Mahato for the A.Y. 2025-26:

|       |  |             |
|-------|--|-------------|
| (i)   | Income from business   | ₹ 10,08,000 |
| (ii)  | Income of minor son (singer by profession)   | ₹ 15,000    |
| (iii) | Winnings from Lottery (Gross) (ticket purchased in the name of the Mr. M. Mahato's minor daughter) | ₹ 8,500     |



## Work Book : Direct Taxation (Section A)

|      |   |            |
|------|---|------------|
| (iv) | Mr. Mahato's wife is a government servant and her income computed under the head salaries | ₹ 7,00,000 |
| (v)  | Interest on fixed deposit with SBI in the name of minor daughter                          | ₹ 22,500   |

### Solution

Computation of Total Income for the A.Y. 2025-26

| Particulars   | Details | Amount           |                 |               |
|---|---------|------------------|-----------------|---------------|
|   |         | Mr. Mahato       | Mrs. Mahato     | Minor Son     |
| <u>Salaries</u>   |         |                  |                 |               |
| Salary of Mrs. Mahato   |         |                  | 7,00,000        |               |
| <u>Profits and gains of business or profession</u>                      |         |                  |                 |               |
| Business income   |         | 10,08,000        |                 |               |
| Income from singing   |         |                  |                 | 15,000        |
| <u>Income from other sources</u>  |         |                  |                 |               |
| Interest income of minor daughter                                       | 22,500  |                  |                 |               |
| Lottery Income  | 8,500   |                  |                 |               |
|   | 31,000  |                  |                 |               |
| Less: Exemption u/s 10(32) [Not available under the default tax regime] | NA      | 31,000           |                 |               |
| <b>Gross Total Income</b>   |         | 10,39,000        | 7,00,000        | 15,000        |
| Less: Deduction under Chapter VI A                                      |         | Nil              | Nil             | Nil           |
| <b>Total Income</b>   |         | <b>10,39,000</b> | <b>7,00,000</b> | <b>15,000</b> |

However, if Mr. Mahato has opted for the old tax regime, an exemption of ₹ 1,500 is available u/s 10(32) to Mr. Mahato.

### Illustration 3

The following details of the income of Mr. X and his wife, for the assessment year 2025-26 are made available to you :

|                                     | Mr. X     | Mrs. X    |
|-------------------------------------|-----------|-----------|
| Income from own business/profession | 11,20,000 | 10,90,000 |
| Income from other sources           | 2,10,000  | 1,10,000  |
| Interest received from Z & Co.      | 20,000    | 4,10,000  |
| Salary received from Z & Co.        | 96,000    | 84,000    |

Mr. X and Mrs. X are partners in Z & Co., each having 10% share in profits. Determine the total income of Mr. X and Mrs. X.

Will your answer be different,

(a) If each one of them holds 8% of shares in profit of Z & Co.?

(b) If Mr. X and Mrs. X both possess professional qualifications.

## Solution

Computation of Income of Mr. X and Mrs. X for the A.Y. 2025-26

| Particulars                                | Mr. X            | Mrs. X           |
|--|------------------|------------------|
| Own business income                        | 11,20,000        | 10,90,000        |
| Interest received from Z & Co.             | 20,000           | 4,10,000         |
| Income from other sources                  | 2,10,000         | 1,10,000         |
|  | 13,50,000        | 16,10,000        |
| Salary received from Z & Co.               |                  | 84,000           |
| Add: Salary received from Z & Co. by Mr. X |                  | 96,000           |
| <b>Gross Total Income</b>                  | <b>13,50,000</b> | <b>17,90,000</b> |

In both the alternative situations, clubbing provisions are not applicable. Accordingly, the income of Mr. X will be ₹ 14,46,000 (i.e. ₹ 13,50,000 + ₹ 96,000) and that of Mrs. X will be ₹ 16,94,000 (i.e. ₹ 17,90,000 – ₹ 96,000).

## Illustration 4

During the previous year 2024-25, the following transactions occurred in respect of Mr. A.

- Mr. A had a fixed deposit of ₹ 5,00,000 in Union Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 1-4-2024 to 31-3-2025 to the savings bank account of Mr. B, son of his brother, to help him in his education.
- Mr. A holds 75% share in a partnership firm. Mrs. A received a commission of ₹ 25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualifications.
- Mr. A gifted a flat to Mrs. A on April 1, 2024. During the previous year 2024-25, Mrs. A's "Income from house property" (computed) was ₹ 52,000.
- Mr. A gifted ₹ 2,00,000 to his minor son who invested the same in a business and he derived income of ₹ 20,000 from the investment.
- Mr. A's minor son derived an income of ₹ 20,000 through a business activity involving application of his skill and talent.
- During the year, Mr. A got a monthly pension of ₹ 20,000. He had no other income. Mrs. A received salary of ₹ 25,000 p.m. from a part-time job.

Discuss the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child.



## Work Book : Direct Taxation (Section A)

### Solution

Computation of Total Income for the A.Y. 2025-26

| Particulars   | Amount          |                 |               |
|---|-----------------|-----------------|---------------|
|   | Mr. A           | Mrs. A          | Minor Son     |
| <u>Salaries</u>   |                 |                 |               |
| Salary of Mrs. A  |                 | 3,00,000        |               |
| Pension income of Mr. A   | 2,40,000        |                 |               |
| Less: Standard Deduction u/s 16(ia)   | 75,000          | 75,000          |               |
|   | 1,65,000        | 2,25,000        |               |
| <u>Income from House Property</u>   |                 |                 |               |
| Income from house property given as gift to Mrs. A [Note 3]   | 52,000          |                 |               |
| <u>Profits and gains of business or profession</u>  |                 |                 |               |
| Income of the minor son from the investment made in the business out of the amount gifted by Mr. A [Note 4] | 20,000          |                 |               |
| Income of the minor son through a business activity involving application of his skill and talent [Note 5]  |                 |                 | 20,000        |
| <u>Income from other sources</u>  |                 |                 |               |
| Interest on fixed deposit [₹ 5,00,000 x 9%] [Sec. 60 – Note 1]  | 45,000          |                 |               |
| Commission received by Mrs. A from partnership firm [Note 2]  | 25,000          |                 |               |
| <b>Total Income</b>   | <b>3,07,000</b> | <b>2,25,000</b> | <b>20,000</b> |

### Note

- As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.
- As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply. In this case, the commission income of ₹ 25,000 received by Mrs. A from the partnership firm has to be included in the total income of Mr. A, as Mrs. A does not possess any technical or professional qualification for earning such commission and Mr. A has substantial interest in the partnership firm as he holds 75% share in the firm.
- According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart,

shall be deemed to be the owner of the house property so transferred. Hence, Mr. A shall be deemed to be the owner of the flat gifted to Mrs. A and hence, the income arising from the same shall be computed in the hands of Mr. A. Further, the provisions of section 56(2)(x) would not be attracted in the hands of Mrs. A, since she has received immovable property without consideration from a relative i.e., her husband.

- d) As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child, provided the assessee has opted for the old tax regime. Therefore, the income of ₹ 20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall be included in the income of Mr. A, since Mr. A's income of ₹ 2,87,000 (before including the income of the minor child) is greater than Mrs. A's income of ₹ 2,25,000. Therefore, ₹ 20,000 [exemption u/s 10(32) is not available as he has not opted for the old tax regime] shall be included in Mr. A's income. It is assumed that this is the first year in which clubbing provisions are attracted. Further, the provisions of section 56(2)(x) would not be attracted in the hands of the minor son, since he has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e., his father.
- e) In case the income earned by the minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.

### Illustration 5

Mr. Ram and his wife Mrs. Sita furnish the following information:

|   |            |
|---|------------|
| Salary income (computed) of Mrs. Sita   | ₹ 4,60,000 |
| Income of minor son 'K' who suffers from disability specified in section 80U                        | ₹ 1,08,000 |
| Income of minor daughter 'C' from singing   | ₹ 86,000   |
| Income from profession of Mr. Ram   | ₹ 7,50,000 |
| Cash gift received by 'C' on 2.10.2024 from friend of Mrs. Sita on winning of a singing competition | ₹ 48,000   |
| Income of minor married daughter 'A' from company deposit   | ₹ 30,000   |

Compute the total income of Mr. Ram and Mrs. Sita for the assessment year 2025-26.

### Solution

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

| Particulars   | Details | Mr. Ram  | Mrs. Sita |
|---|---------|----------|-----------|
| <i>Salaries</i>   |         |          |           |
| Salary of Mrs. Sita                                     |         |          | 4,60,000  |
| <i>Profits &amp; gains of business &amp; profession</i> |         | 7,50,000 |           |
| <i>Income from other sources</i>                        |         |          |           |
| Interest on company deposit                             | 30,000  |          |           |



## Work Book : Direct Taxation (Section A)

|  |    |                 |                 |
|--|----|-----------------|-----------------|
| Less: Exemption u/s 10(32) [available only under the old tax regime] | NA | 30,000          |                 |
| <b>Total</b>   |    | <b>7,80,000</b> | <b>4,60,000</b> |

### Note

The clubbing provision of sec. 64(1A) shall not apply where -

- the income arises or accrues to the minor child due to any manual work done by him; or
- the income arises or accrues to the minor child due to his skill, talent, specialised knowledge or experience; or
- the minor child is suffering from any disability of nature as specified u/s 80U.

### Illustration 6

Mr. C holds 25% shares of ABC Co. Ltd. where Mrs. C (wife of Mr. C) is employed as general manager without possessing any technical or professional qualification. They have furnished the following information for the financial year 2024-25:

|  | ₹         |
|--|-----------|
| (a) Salary income of Mrs. C (computed)   | 10,00,000 |
| (b) Income of their minor son Z from acting in a TV serial                                   | 1,00,000  |
| (c) Income of minor son Z from interest on fixed deposit with SBI, made by Mr. C             | 8,000     |
| (d) Profit from business of Mr. C  | 15,00,000 |
| (e) Income of their another minor son Y who suffers from disability specified in section 80U | 5,00,000  |

Compute the total income of Mr. C for the assessment year 2025-26.

### Solution

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

| Particulars  | Details | Amount           |
|--|---------|------------------|
| Salary income of Mrs. C [as Mr. C has substantial interest in ABC Co. Ltd and Mrs. C is getting remuneration without possessing any technical or professional qualification] |         | 10,00,000        |
| Profits and gains of business or profession  |         | 15,00,000        |
| Income of minor son Z from acting [as income is generated by minor child from his own skill]   |         | Nil              |
| Income of minor son Z from interest  | 8,000   |                  |
| Less: Exemption u/s 10(32) is not available under default tax regime   | NA      | 8,000            |
| Income of minor son Y [He is suffering from disability specified u/s 80U]  |         | Nil              |
| <b>Total Income</b>  |         | <b>25,08,000</b> |

However, if assessee has opted for the old tax regime, he is entitled for exemption u/s 10(32) to the extent of ₹ 1,500/-

## Computation of Total Income

### Illustration 1

Smt. Sonam (age 40 years), a resident individual of India, furnished the following details of her income during the P.Y. 2024-25, compute her total income and tax payable for the A.Y. 2025-26 under the old tax regime

| Particulars  | Amount (₹) |
|--|------------|
| Business Income  | 2,50,000   |
| Income from winning from lottery (net) TDS @ 30%   | 70,000     |
| Salary income (computed)   | 8,00,000   |
| Long term Capital gain on transfer of jewellery on 10-12-2024  | 1,00,000   |
| Life insurance premium paid (policy taken 1.1.2025 and sum assured ₹ 5,00,000)                                 | 80,000     |
| Investment in NSC  | 50,000     |
| Payment of school fees for her son   | 30,000     |
| Medical Insurance Premium paid for himself   | 10,000     |
| Medical Insurance Premium paid for her father (Age 65 years)   | 19,000     |
| She incurred expenditure for medical treatment of her dependent brother suffering from cerebral palsy (severe) | 25,000     |
| Donation to a recognized political party   | 20,000     |

### Solution

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

| Particulars  | Amount | Amount   | Amount           |
|--|--------|----------|------------------|
| <u>Salaries</u>                                      |        |          |                  |
| Salary income  |        |          | 8,00,000         |
| <u>Profits &amp; Gains of Business or Profession</u> |        |          |                  |
| Income from business                                 |        |          | 2,50,000         |
| <u>Capital Gains</u>                                 |        |          |                  |
| Long term capital gain                               |        |          | 1,00,000         |
| <u>Income from other sources</u>                     |        |          |                  |
| Lottery income [₹ 70,000 / 70%]                      |        |          | 1,00,000         |
| <b>Gross Total Income</b>                            |        |          | <b>12,50,000</b> |
| <u>Less: Deductions</u>                              |        |          |                  |
| - u/s 80C  |        |          |                  |
| LIC (Lower of 10% of sum assured and premium paid)   | 50,000 |          |                  |
| Investment in NSC                                    | 50,000 |          |                  |
| Payment of school fees                               | 30,000 | 1,30,000 |                  |
| - u/s 80D (mediclaim) [₹ 10,000 + ₹ 19,000]          |        | 29,000   |                  |
| - u/s 80DD   |        | 1,25,000 |                  |
| - u/s 80GGC  |        | 20,000   | 3,04,000         |
| <b>Total Income</b>                                  |        |          | <b>9,46,000</b>  |



## Work Book : Direct Taxation (Section A)

Computation of Tax liability of Smt. Sonam for the A.Y. 2025-26

| Particulars                   | Rate             | On       | Details | Amount   |
|-------------------------------|------------------|----------|---------|----------|
| <b>Long Term Capital Gain</b> | 12.50%           | 1,00,000 |         | 12,500   |
| <b>Lottery Income</b>         | 30%              | 1,00,000 |         | 30,000   |
| <b>Other Income (Note)</b>    |                  |          |         |          |
| Upto ₹ 2,50,000               | -                |          | -       |          |
| From ₹ 2,50,001 to ₹ 5,00,000 | 5%               | 2,50,000 | 12,500  |          |
| From ₹ 5,00,001 to ₹ 7,46,000 | 20%              | 2,46,000 | 49,200  | 61,700   |
| <b>Tax Liability</b>          |                  |          |         | 1,04,200 |
| Less: Rebate u/s 87A          |                  |          |         | -        |
|                               |                  |          |         | 1,04,200 |
| Add: Health & Education cess  | 4% of ₹ 1,04,200 |          |         | 4,168    |
| <b>Final tax liability</b>    |                  |          |         | 1,08,368 |
| Rounded off u/s 288B          |                  |          |         | 1,08,370 |

### Illustration 2

Ms. Komal (36 yrs), a resident individual of India, finished the following details of her income during the Previous year 2024-25. Compute Total Income & tax payable under the old regime for the A.Y. 2025-26.

- Gross salary ₹ 15,41,000 (Professional Tax paid ₹ 2,000).
- Income from Business owned by her ₹ 2,10,000 and allowable expenses ₹ 1,20,000.
- Received family pension ₹ 10,000 p.m. w.e.f. 1.04.2024.
- Long term Capital gain [10-12-2024] on sale of jewellery ₹ 80,000.
- She received her share of income from Hindu Undivided Family (HUF) as member ₹ 40,000.
- She deposited to PPF ₹ 80,000 during the year.
- Donation to National Relief Fund ₹ 25,000.
- Repayment of house building loan taken from HDFC Bank (purchased during 2024-25) ₹ 2,50,000 (of which ₹ 50,000 is for principal repayment).
- Paid premium on Mediciam Insurance Policy on own health by cheque ₹ 16,000.

Recompute her income and tax liability if she has not opted for the old tax regime.



### Solution

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

| Particulars  | Amount | Amount    | Amount           |
|--|--------|-----------|------------------|
| <u>Salaries</u>  |        |           |                  |
| Gross Salary   |        | 15,41,000 |                  |
| Less: Standard Deduction   | 50,000 |           |                  |
| Less: Professional Tax   | 2,000  | 52,000    | 14,89,000        |
| <u>Income from House Property</u>  |        |           |                  |
| Net annual value of self-occupied property                               |        | Nil       |                  |
| Less: Deduction u/s 24(b) (Interest on loan)                             |        | 2,00,000  | (2,00,000)       |
| <u>Profits &amp; Gains of Business or Profession</u>                     |        |           |                  |
| Income from business   |        | 2,10,000  |                  |
| Less: Allowable Expenses   |        | 1,20,000  | 90,000           |
| <u>Capital Gains</u>   |        |           |                  |
| Long term capital gain   |        |           | 80,000           |
| <u>Income from other sources</u>   |        |           |                  |
| Family Pension   |        | 1,20,000  |                  |
| Less: Std. Deduction [Lower of 1/3 <sup>rd</sup> of pension or ₹ 15,000] |        | 15,000    | 1,05,000         |
| <b>Gross Total Income</b>  |        |           | <b>15,64,000</b> |
| <u>Less: Deductions</u>  |        |           |                  |
| - u/s 80C  |        |           |                  |
| PPF  | 80,000 |           |                  |
| Repayment of housing loan  | 50,000 | 1,30,000  |                  |
| - u/s 80D [mediclaime]   |        | 16,000    |                  |
| - u/s 80G [Donation to National Relief Fund]                             |        | 25,000    | 1,71,000         |
| <b>Total Income</b>  |        |           | <b>13,93,000</b> |

Share of income from HUF is exempt u/s 10(2)

Computation of Tax liability of Ms. Komal for the A.Y. 2025-26

| Particulars                            | Rate   | On       | Details | Amount |
|--|--------|----------|---------|--------|
| <b>Long Term Capital Gain</b> ₹ 80,000 | 12.50% | 80,000   |         | 10,000 |
| <b>Other Income</b> (Note)             |        |          |         |        |
| Upto ₹ 2,50,000                        | -      |          | -       |        |
| From ₹ 2,50,001 to ₹ 5,00,000          | 5%     | 2,50,000 | 12,500  |        |



## Work Book : Direct Taxation (Section A)

|   |                 |          |          |          |
|---|-----------------|----------|----------|----------|
| From ₹ 5,00,001 to ₹ 10,00,000          | 20%             | 5,00,000 | 1,00,000 |          |
| From ₹ 10,00,001 to ₹ 13,13,000         | 30%             | 3,13,000 | 93,900   | 2,06,400 |
| <b>Tax Liability</b>                    |                 |          |          | 2,16,400 |
| <i>Less: Rebate u/s 87A</i>             |                 |          |          | NA       |
|   |                 |          |          | 2,16,400 |
| <i>Add: Health &amp; Education cess</i> | 4% of ₹2,16,400 |          |          | 8,656    |
| <b>Final tax liability</b>              |                 |          |          | 2,25,056 |
| Rounded off u/s 288B                    |                 |          |          | 2,25,060 |

If she has not opted for the old tax regime

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

| Particulars  | Amount | Amount    | Amount           |
|--|--------|-----------|------------------|
| <u><i>Salaries</i></u>   |        |           |                  |
| Gross Salary   |        | 15,41,000 |                  |
| <i>Less: Standard Deduction</i>  | 75,000 |           |                  |
| <i>Less: Professional Tax</i>  | NA     | 75,000    | 14,66,000        |
| <u><i>Income from House Property</i></u>   |        |           |                  |
| Net annual value of self-occupied property   |        | Nil       |                  |
| <i>Less: Deduction u/s 24(b) (Interest on loan) [Not available under default tax regime]</i> |        | NA        | -                |
| <u><i>Profits &amp; Gains of Business or Profession</i></u>                                  |        |           |                  |
| Income from business   |        | 2,10,000  |                  |
| <i>Less: Allowable Expenses</i>  |        | 1,20,000  | 90,000           |
| <u><i>Capital Gains</i></u>  |        |           |                  |
| Long term capital gain   |        |           | 80,000           |
| <u><i>Income from other sources</i></u>  |        |           |                  |
| Family Pension   |        | 1,20,000  |                  |
| <i>Less: Std. Deduction [Lower of 1/3<sup>rd</sup> of pension or ₹ 25,000]</i>               |        | 25,000    | 95,000           |
| <b>Gross Total Income</b>  |        |           | <b>17,31,000</b> |
| <i>Less: Deductions</i>  |        |           |                  |
| - u/s 80C [Not available under default tax regime]   |        | NA        |                  |
| - u/s 80D [Not available under default tax regime]   |        | NA        |                  |
| - u/s 80G [Not available under default tax regime]   |        | NA        | -                |
| <b>Total Income</b>  |        |           | <b>17,31,000</b> |

Share of income from HUF is exempt u/s 10(2).

Computation of Tax liability of Ms. Komal for the A.Y. 2025-26

| Particulars                            | Rate             | On       | Details | Amount   |
|--|------------------|----------|---------|----------|
| <b>Long Term Capital Gain</b> ₹ 80,000 | 12.5%            | 80,000   |         | 10,000   |
| <b>Other Income</b> (Note)             |                  |          |         |          |
| Upto ₹ 3,00,000                        | -                |          | -       |          |
| From ₹ 3,00,001 to ₹ 7,00,000          | 5%               | 4,00,000 | 20,000  |          |
| From ₹ 7,00,001 to ₹ 10,00,000         | 10%              | 3,00,000 | 30,000  |          |
| From ₹ 10,00,001 to ₹ 12,00,000        | 15%              | 2,00,000 | 30,000  |          |
| From ₹ 12,00,001 to ₹ 15,00,000        | 20%              | 3,00,000 | 60,000  |          |
| From ₹ 15,00,001 to ₹ 16,51,000        | 30%              | 1,51,000 | 45,300  | 1,85,300 |
| <b>Tax Liability</b>                   |                  |          |         | 1,95,300 |
| Less: Rebate u/s 87A                   |                  |          |         | -        |
|  |                  |          |         | 1,95,300 |
| Add: Health & Education cess           | 4% of ₹ 1,95,300 |          |         | 7,812    |
| <b>Final tax liability</b>             |                  |          |         | 2,03,112 |
| Rounded off u/s 288B                   |                  |          |         | 2,03,110 |

### Illustration 3

For the previous year 2024-25, Mr. Raj has furnished the following information:

|                                | ₹        |
|--------------------------------|----------|
| Income from salary (computed)  | 5,20,000 |
| Income from house property     | 95,000   |
| Bank Interest on fixed deposit | 18,000   |
| Long-term capital gains        | 30,000   |
| Short-term capital loss        | 5,000    |

He made the following payments:

|       |   | ₹      |
|-------|---|--------|
| (i)   | LIP on own life (sum assured ₹ 2,00,000)                                    | 22,000 |
| (ii)  | LIP on wife's life (sum assured ₹ 1,00,000)                                 | 10,000 |
| (iii) | Deposit in PPF  | 18,000 |
| (iv)  | Paid for mediclaim (on own health)  | 12,000 |
| (v)   | Medical expenses on treatment of dependent (Physically handicapped brother) | 25,000 |
| (vi)  | Donation to Prime Minister's Cares Fund                                     | 10,000 |
| (vii) | Donation to notified charitable institution                                 | 12,000 |



## Work Book : Direct Taxation (Section A)

Determine his total income & tax payable for the A.Y. 2025-26 assuming he has opted for the old regime.

### Solution

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

| Particulars  | Amount | Amount | Amount   |
|--|--------|--------|----------|
| Income from salary   |        |        | 5,20,000 |
| Income from house property   |        |        | 95,000   |
| <u>Capital Gains</u>   |        |        |          |
| Long-term capital gains  |        | 30,000 |          |
| Short-term capital loss  |        | 5,000  | 25,000   |
| <u>Income from other sources</u>   |        |        |          |
| Bank Interest on fixed deposit   |        |        | 18,000   |
| Gross Total Income   |        |        | 6,58,000 |
| <u>Less: Deductions</u>  |        |        |          |
| - u/s 80C  |        |        |          |
| LIP on own life (Subject to max. of 10% of sum assured)                            | 20,000 |        |          |
| LIP on wife's life   | 10,000 |        |          |
| Deposit in PPF   | 18,000 | 48,000 |          |
| - u/s 80D (mediclaim)  |        | 12,000 |          |
| - u/s 80DD (Medical expenses on treatment of dependent)                            |        | 75,000 |          |
| - u/s 80G  |        |        |          |
| Donation to Prime Minister's Cares Fund  | 10,000 |        |          |
| Donation to notified charitable institution (50%#)                                 | 6,000  | 16,000 | 1,51,000 |
| Total Income   |        |        | 5,07,000 |
| <b>Tax on above (Rounded off)</b>  |        |        | 15,310   |
| <b>[104% of {(₹ 25,000 x 12.50%)} + {(₹ 2,50,000 x 0%)} + {(₹ 2,32,000 x 5%)}]</b> |        |        |          |

# As payment is within limit

### Illustration 4

Mrs. Naina attains the age of 65 years on 26.10.2024. From the following information compute her total income under the old tax regime and tax payable by Mrs. Naina relating to the previous year 2024-25.

- Pension ₹ 15,000 per month
- Dividend from RIL ₹ 14,000
- Dividend from Microsoft (a foreign company) ₹ 70,000.

- iv) Agricultural Income from Nepal ₹ 56,000
- v) Interest from Bank Fixed Deposit ₹ 80,000
- vi) Winning from lottery (net) ₹ 35,000 [Tax Deducted at Source @ 30%]
- vii) Interest from Govt Securities ₹ 50,000

Mrs. Naina has made the following payments during the previous year:

- i) Premium on Life Insurance (own life) paid ₹ 24,000 (Policy value ₹ 2,00,000)
- ii) Mediciam premium on son's health ₹ 6,000.
- iii) Paid ₹ 20,000 to notified charitable institution.
- iv) Paid ₹ 15,000 to Prime Minister's Cares Fund.
- v) Incurred ₹ 30,000 for treatment of dependent father aged 88 years old suffering from cancer.

### Solution

Computation of Taxable Income of Mrs. Naina for the A.Y.2025-26

| Particulars   | Amount   | Amount          |
|---|----------|-----------------|
| <u>Salaries</u>   |          |                 |
| Pension   | 1,80,000 |                 |
| Less: Standard Deduction u/s 16(ia)                             | 50,000   | 1,30,000        |
| <u>Income from other sources</u>                                |          |                 |
| Dividend from RIL   | 14,000   |                 |
| Dividend from Microsoft [A Foreign Company]                     | 70,000   |                 |
| Agricultural Income from Nepal                                  | 56,000   |                 |
| Interest from Bank Fixed Deposit                                | 80,000   |                 |
| Interest from Govt Securities                                   | 50,000   |                 |
| Winning from lottery [₹ 35,000 / 70%]                           | 50,000   | 3,20,000        |
| <b>Gross Total Income</b>                                       |          | <b>4,50,000</b> |
| Less: <u>Deduction u/s</u>                                      |          |                 |
| 80C [LIP paid subject to max. of 10% of sum assured]            | 20,000   |                 |
| 80D [Mediciam] (Assuming son is dependent on Mrs. Naina)        | 6,000    |                 |
| 80DDB [Expenditure on medical treatment of father]              | 30,000   |                 |
| 80G [Donation]  |          |                 |
| - Donation to Prime Minister's Cares Fund                       | 15,000   |                 |
| - Donation to notified charitable institution [50% of ₹ 20,000] | 10,000   | 81,000          |
| <b>Total Income</b>   |          | <b>3,69,000</b> |



## Work Book : Direct Taxation (Section A)

### Computation of Deduction u/s 80G

Calculation of Adj. GTI for qualifying amount:

| Particulars                       | Amount        |
|-----------------------------------|---------------|
| Salaries                          | 1,30,000      |
| Income from other sources         | 3,20,000      |
| Gross Total Income                | 4,50,000      |
| Less: Other deduction             | 56,000        |
| Adjusted Gross Total Income       | 3,94,000      |
| <b>Limit (being 10% of above)</b> | <b>39,400</b> |

Computation of Tax Liability of Mrs. Naina for A.Y. 2025-26

| Particulars                   | Rate         | On     | Details | Amount        |
|-------------------------------|--------------|--------|---------|---------------|
| Casual income                 |              |        |         |               |
| ₹ 50,000                      | 30%          |        |         | 15,000        |
| Other Income                  |              |        |         |               |
| Upto ₹ 3,00,000               | -            |        | -       |               |
| From ₹ 3,00,001 to ₹ 3,19,000 | 5%           | 19,000 | 950     | 950           |
| Tax                           |              |        |         | 15,950        |
| Less: Rebate u/s 87A          |              |        |         | 12,500        |
|                               |              |        |         | 3,450         |
| Add: Health & Education cess  | ₹ 3,450 x 4% |        |         | 138           |
| Final tax liability           |              |        |         | 3,588         |
| Less: TDS                     |              |        |         | 15,000        |
| <b>Tax Refundable</b>         |              |        |         | <b>11,410</b> |

### Illustration 5

Mr. Sigma, a resident in India (age 32 years) has joined as State Government employee on April 8, 2019. He furnished the following particulars for the year ended March 31, 2025.

- Basic Salary ₹ 2,49,000
- Dearness allowance (not forming part of salary) ₹ 1,49,400
- Other taxable allowances ₹ 1,44,000
- He owns a house at Pune which is let out at monthly rent of ₹ 18,000 per month. Municipal value of the house is ₹ 2,00,000. Repairing expenses of ₹ 28,000 are incurred during the year. Municipal tax is paid @ 10% of municipal value. The house remains vacant for 2 months during the year.

- e) He sold an urban land on January 20, 2025 for ₹ 18,40,000, which has been purchased on July 25, 2024 for ₹ 9,70,000.
- f) He has earned savings bank interest of ₹ 9,200, interest from fixed deposits with bank ₹ 37,300 and lottery income ₹ 42,000 (net of tax @ 30%).
- g) He has paid medical insurance premium as follows:  
On his own health ₹ 15,700, on his wife's health ₹ 20,300, on his father's health (father's age 84 years) ₹ 42,250.
- h) He paid life insurance premium on his own life taken on 01-08-20 ₹ 18,000 (Policy value ₹ 1,50,000).
- i) He has deposited ₹ 55,000 to PPF and his contribution to R.P.F. ₹ 15,000.
- j) He donated ₹ 10,000 to PM's National Relief Fund.

Compute his total income and tax liability for the assessment year 2025-26 under the old tax regime

Recompute his income if he has not opted for the old tax regime

### Solution

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

| Particulars                       | Details  | Amount    | Amount   |
|-----------------------------------|----------|-----------|----------|
| <u>Salaries</u>                   |          |           |          |
| Basic Salary                      |          | 2,49,000  |          |
| <u>Allowance</u>                  |          |           |          |
| Dearness Allowance                | 1,49,400 |           |          |
| Other Taxable Allowance           | 1,44,000 | 2,93,400  |          |
| Gross Salary                      |          | 5,42,400  |          |
| Less: Standard Deduction          |          | 50,000    | 4,92,400 |
| <u>Income from House Property</u> |          |           |          |
| Gross Annual Value                |          | 1,80,000  |          |
| Less: Municipal Tax               |          | 20,000    |          |
| Net Annual Value                  |          | 1,60,000  |          |
| Less: Deduction u/s 24            |          |           |          |
| (a) Standard Deduction            | 48,000   |           |          |
| (b) Interest on loan              | Nil      | 48,000    | 1,12,000 |
| <u>Capital Gains</u>              |          |           |          |
| Full value of consideration       |          | 18,40,000 |          |
| Less: Cost of acquisition         |          | 9,70,000  | 8,70,000 |



## Work Book : Direct Taxation (Section A)

|  |        |        |                  |
|--|--------|--------|------------------|
| <u>Income from Other Sources</u>                   |        |        |                  |
| Saving Bank Interest                               |        | 9,200  |                  |
| Interest on fixed bank deposit                     |        | 37,300 |                  |
| Lottery income [₹ 42,000 / 70%]                    |        | 60,000 | 1,06,500         |
| Gross Total Income                                 |        |        | 15,80,900        |
| <u>Less: Deductions</u>                            |        |        |                  |
| U/s 80C  |        |        |                  |
| - LIC Premium [Sub. to max. of 10% of sum assured] | 15,000 |        |                  |
| - PPF  | 55,000 |        |                  |
| - Contribution to RPF                              | 15,000 | 85,000 |                  |
| U/s 80D  |        |        |                  |
| - Mediclaim for own and wife (sub. to max limit)   | 25,000 |        |                  |
| - Mediclaim for father's health                    | 42,250 | 67,250 |                  |
| U/s 80G [Donation]                                 |        | 10,000 |                  |
| U/s 80TTA [Saving Bank Interest]                   |        | 9,200  | 1,71,450         |
| <b>Total Income</b>                                |        |        | <b>14,09,450</b> |

### Computation of tax liability

| Particulars                        | Rate             | On       | Details  | Amount          |
|------------------------------------|------------------|----------|----------|-----------------|
| <b>Lottery Income</b>              | 30%              | 60,000   |          | 18,000          |
| <b>Other Income</b>                |                  |          |          |                 |
| Upto ₹ 2,50,000                    | -                |          | -        |                 |
| From ₹ 2,50,001 to ₹ 5,00,000      | 5%               | 2,50,000 | 12,500   |                 |
| From ₹ 5,00,001 to ₹ 10,00,000     | 20%              | 5,00,000 | 1,00,000 |                 |
| From ₹ 10,00,001 to ₹ 13,49,450    | 30%              | 3,49,450 | 1,04,835 | 2,17,335        |
| <b>Tax Liability</b>               |                  |          |          | 2,35,335        |
| Less: Rebate u/s 87A               |                  |          |          | Nil             |
|                                    |                  |          |          | 2,35,335        |
| Add: Health & Education cess       | 4% of ₹ 2,35,335 |          |          | 9,413           |
| <b>Final tax liability</b>         |                  |          |          | 2,44,748        |
| Less: TDS                          |                  |          |          | 18,000          |
| <b>Tax after TDS (Rounded off)</b> |                  |          |          | <b>2,26,750</b> |



If he has not opted for the old tax regime

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

| Particulars  | Details  | Amount    | Amount           |
|--|----------|-----------|------------------|
| <u>Salaries</u>                                    |          |           |                  |
| Basic Salary                                       |          | 2,49,000  |                  |
| <u>Allowance</u>                                   |          |           |                  |
| Dearness Allowance                                 | 1,49,400 |           |                  |
| Other Taxable Allowance                            | 1,44,000 | 2,93,400  |                  |
| Gross Salary                                       |          | 5,42,400  |                  |
| Less: Standard Deduction                           |          | 75,000    | 4,67,400         |
| <u>Income from House Property</u>                  |          |           |                  |
| Gross Annual Value                                 |          | 1,80,000  |                  |
| Less: Municipal Tax                                |          | 20,000    |                  |
| Net Annual Value                                   |          | 1,60,000  |                  |
| Less: Deduction u/s 24                             |          |           |                  |
| (a) Standard Deduction                             | 48,000   |           |                  |
| (b) Interest on loan                               | Nil      | 48,000    | 1,12,000         |
| <u>Capital Gains</u>                               |          |           |                  |
| Full value of consideration                        |          | 18,40,000 |                  |
| Less: Cost of acquisition                          |          | 9,70,000  | 8,70,000         |
| <u>Income from Other Sources</u>                   |          |           |                  |
| Saving Bank Interest                               |          | 9,200     |                  |
| Interest on fixed bank deposit                     |          | 37,300    |                  |
| Lottery income [₹ 42,000 / 70%]                    |          | 60,000    | 1,06,500         |
| Gross Total Income                                 |          |           | 15,55,900        |
| <u>Less: Deductions</u>                            |          |           |                  |
| U/s 80C [Not available under default tax regime]   |          | NA        |                  |
| U/s 80D [Not available under default tax regime]   |          | NA        |                  |
| U/s 80G [Not available under default tax regime]   |          | NA        |                  |
| U/s 80TTA [Not available under default tax regime] |          | NA        | -                |
| <b>Total Income</b>                                |          |           | <b>15,55,900</b> |

Computation of tax liability

| Particulars           | Rate | On     | Details | Amount |
|-----------------------|------|--------|---------|--------|
| <b>Lottery Income</b> | 30%  | 60,000 |         | 18,000 |
| <b>Other Income</b>   |      |        |         |        |



## Work Book : Direct Taxation (Section A)

|                                    |                  |          |        |                 |
|------------------------------------|------------------|----------|--------|-----------------|
| Upto ₹ 3,00,000                    | -                |          | -      |                 |
| From ₹ 3,00,001 to ₹ 7,00,000      | 5%               | 4,00,000 | 20,000 |                 |
| From ₹ 7,00,001 to ₹ 10,00,000     | 10%              | 3,00,000 | 30,000 |                 |
| From ₹ 10,00,001 to ₹ 12,00,000    | 15%              | 2,00,000 | 30,000 |                 |
| From ₹ 12,00,001 to ₹ 14,95,900    | 20%              | 2,95,900 | 59,180 | 1,39,180        |
| <b>Tax Liability</b>               |                  |          |        | 1,57,180        |
| Less: Rebate u/s 87A               |                  |          |        | Nil             |
|                                    |                  |          |        | 1,57,180        |
| Add: Health & Education cess       | 4% of ₹ 1,57,180 |          |        | 6,287           |
| <b>Final tax liability</b>         |                  |          |        | 1,63,467        |
| Less: TDS                          |                  |          |        | 18,000          |
| <b>Tax after TDS (Rounded off)</b> |                  |          |        | <b>1,45,470</b> |

### Illustration 6

Sri Daga furnished the following information for the P.Y. 2024-25:

|  | ₹        |
|--|----------|
| Income from Salary (Gross)   | 6,02,400 |
| Professional tax deducted by employer from salary                        | 2,400    |
| Income from house property   | 1,40,000 |
| Short term capital loss on sale of gold                                  | 15,000   |
| Long term capital gain on sale of jewellery                              | 40,000   |
| Interest on Bank Deposit (including interest on savings bank of ₹ 8,000) | 25,000   |
| Dividend from an Indian company  | 10,000   |
| Received from lottery (after TDS @ 30%)                                  | 70,000   |

He made the following payments:

- (a) Life Insurance Premium on own life ₹ 25,000 (Sum assured ₹ 2,00,000 taken on 15.10.2022)
- (b) Deposit in PPF ₹ 1,40,000
- (c) Own contribution to RPF ₹ 20,000
- (d) Medical Insurance Premium on own health ₹ 10,000 and on the health of spouse ₹ 8,000 paid by cheque
- (e) Donation to P.M's National Relief Fund ₹ 20,000

Compute his total income and tax payable for the A.Y. 2025-26 under the old tax regime

### Solution

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

| Particulars                                       | Amount   | Amount   | Amount          |
|---|----------|----------|-----------------|
| <b><u>Salaries</u></b>                            |          |          |                 |
| Gross Salary                                      |          | 6,02,400 |                 |
| Less: Deduction u/s 16                            |          |          |                 |
| - Standard Deduction u/s 16(ia)                   | 50,000   |          |                 |
| - Deduction u/s 16(iii) [Professional Tax paid]   | 2,400    | 52,400   | 5,50,000        |
| <b><u>Income from house property</u></b>          |          |          | 1,40,000        |
| <b><u>Capital Gains</u></b>                       |          |          |                 |
| Long term capital gain                            |          | 40,000   |                 |
| Less: Short term capital loss                     |          | 15,000   | 25,000          |
| <b><u>Income from other sources</u></b>           |          |          |                 |
| Interest on saving bank account                   |          | 8,000    |                 |
| Interest on other bank deposit                    |          | 17,000   |                 |
| Dividend from Indian companies                    |          | 10,000   |                 |
| Winning from lotter [Gross]                       |          | 1,00,000 | 1,35,000        |
| <b>Gross Total Income</b>                         |          |          |                 |
| Less: Deductions                                  |          |          |                 |
| - u/s 80C   |          |          |                 |
| LIC (Lower of 10% of sum assured or premium paid) | 20,000   |          |                 |
| Deposit in PPF                                    | 1,40,000 |          |                 |
| Own Contribution to RPF                           | 20,000   |          |                 |
| Max. Limit  |          | 1,50,000 |                 |
| - u/s 80D [mediclaime]                            |          | 18,000   |                 |
| - u/s 80G [Donation]                              |          | 20,000   |                 |
| - u/s 80TTA (Interest from saving bank account)   |          | 8,000    | 1,96,000        |
| <b>Total Income</b>                               |          |          | <b>6,54,000</b> |

Computation of Tax liability of Sri Daga for the A.Y. 2025-26

| Particulars                                   | Rate  | On | Details | Amount |
|---|-------|----|---------|--------|
| <b><u>Long Term Capital Gain</u></b> ₹ 25,000 | 12.5% |    |         | 3,125  |
| <b><u>Winning from Lottery</u></b> ₹ 1,00,000 | 30%   |    |         | 30,000 |
| <b><u>Other Income</u></b>                    |       |    |         |        |



## Work Book : Direct Taxation (Section A)

|                                |                |          |        |               |
|--------------------------------|----------------|----------|--------|---------------|
| Upto ₹ 2,50,000                | -              |          | -      |               |
| From ₹ 2,50,001 to ₹ 5,00,000  | 5%             | 2,50,000 | 12,500 |               |
| From ₹ 5,00,001 to ₹ 5,29,000  | 20%            | 29,000   | 5,800  | 18,300        |
| <b>Tax Liability</b>           |                |          |        | 51,425        |
| Less: Rebate u/s 87A           |                |          |        | -             |
|                                |                |          |        | 51,425        |
| Add: Health and Education cess | 4% of ₹ 51,425 |          |        | 2,057         |
| <b>Final tax liability</b>     |                |          |        | <b>53,482</b> |
| Rounded off u/s 288B           |                |          |        | <b>53,480</b> |

### Illustration 7

James took voluntary retirement from State Bank of India on 1st March, 2024 under the Voluntary Retirement Scheme (VRS) and received a sum of ₹ 25 lakh on account of VRS benefits. Later, he started a business of plying, hiring and leasing of goods carriages from 1st June, 2024 by acquiring 3 heavy vehicles (unladen weight 15 MT each) for ₹ 12 lakh, 2 medium goods vehicle (unladen weight 10 MT each) for ₹ 5 lakh and 3 light commercial vehicles (unladen weight 8 MT each) for ₹ 6 lakh. Although, he did not maintain regular books of account for his business, the diary maintained by him revealed gross receipts of ₹ 22,12,000 for the financial year ended 31st March, 2025 and he incurred an expenditure of ₹ 11,78,300 on the business towards salaries of drivers, repairs, fuel, etc. Depreciation on vehicle is not included in the said expenditure.

During the financial year 2024-25, he received a sum of ₹1,72,000 on account of pension from bank and he contributed a sum of ₹ 50,000 to his PPF account maintained with the said bank in the same year. His PPF account was credited with interest of ₹ 35,000 during the financial year 2024-25.

Further, he had two residential properties, one is self occupied and other is let out. During the financial year 2024-25, he was able to let out his property only for 11 months on a monthly rent of ₹ 7,000. The total municipal taxes on the let out property was ₹ 8,000, 50% of which was paid by the tenant and 50% by him during the financial year 2024-25. The interest on loan taken for renovation of the house paid by him during the year was ₹ 14,000. The insurance premium on the house and actual repairs and collection charges paid are ₹ 1,600 and ₹ 18,000 respectively and the entire expenditure is borne by him. During the financial year 2024-25, he was able to recover the unrealized rent of ₹ 13,000 from old tenant who vacated the house during the July, 2022 after spending litigation expenses of ₹ 5,000.

From the aforesaid information, you are required to compute the total income of James for the A.Y.2025-26 assuming that he has opted for the old tax regime

## Solution

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

| Particulars  | Working           | Amount | Amount | Amount   | Amount          |
|--|-------------------|--------|--------|----------|-----------------|
| <u>Salaries</u>                                    |                   |        |        |          |                 |
| Pension  |                   |        |        | 1,72,000 |                 |
| Less: Standard Deduction                           |                   |        |        | 50,000   | 1,22,000        |
| <u>Income from House Property</u>                  |                   |        |        |          |                 |
| <u>Let out</u>                                     |                   |        |        |          |                 |
| Gross Annual Value                                 | ₹ 7,000 x 11      |        | 77,000 |          |                 |
| Less: Municipal tax                                | ₹ 8000 x 50%      |        | 4,000  |          |                 |
| Net Annual Value                                   |                   |        | 73,000 |          |                 |
| Less: <u>Deduction u/s 24</u>                      |                   |        |        |          |                 |
| (a) Standard Deduction                             | ₹ 73,000 * 30%    | 21,900 |        |          |                 |
| (b) Interest on loan                               |                   | 14,000 | 35,900 | 37,100   |                 |
| <u>Self occupied</u>                               |                   |        |        |          |                 |
| Net Annual value                                   |                   |        | Nil    |          |                 |
| Less: Interest on loan                             |                   |        | Nil    | Nil      |                 |
| Recovery of unrealized rent                        |                   |        | 13,000 |          |                 |
| Less: Standard Deduction                           |                   |        | 3,900  | 9,100    | 46,200          |
| <u>Profits and gains of business or profession</u> |                   |        |        |          |                 |
| <u>Income of transport business</u>                |                   |        |        |          |                 |
| - Heavy vehicle                                    | ₹ 15,000 × 3 × 10 |        |        | 4,50,000 |                 |
| - Medium vehicle                                   | ₹ 7,500 × 2 × 10  |        |        | 1,50,000 |                 |
| - Light vehicle                                    | ₹ 7,500 × 3 × 10  |        |        | 2,25,000 | 8,25,000        |
| Gross Total Income                                 |                   |        |        |          | 9,93,200        |
| Less: Deduction u/s 80C                            | Deposit in PPF    |        |        |          | 50,000          |
| <b>Total Income</b>                                |                   |        |        |          | <b>9,43,200</b> |

## Notes

1. Amount received, as compensation under VRS shall be taxable in A.Y. 2024-25.
2. Assessee does not maintain books of accounts, thus his income from transport business shall be computed u/s 44AE.
3. Interest on PPF is exempt u/s 10(11).



## Work Book : Direct Taxation (Section A)

### Illustration 8

Mr. Rajan is serving in a public limited company as General Manager (Finance). His total emoluments for the year ended 31-03-2025 are as follows:

|                     |            |
|---------------------|------------|
| Basic salary        | ₹ 5,40,000 |
| HRA (Computed)      | ₹ 1,80,000 |
| Transport Allowance | ₹ 12,400   |

Apart from the above, his employer has sold the following assets to him on 01-01-2025:

- (i) Laptop computers for ₹ 20,000 (acquired in September 2023 for ₹ 1,20,000)
- (ii) Car 1800cc for ₹ 3,20,000 (purchased in April 2022 for ₹ 8,50,000)

He also owns a residential house, let out for a monthly rent of ₹ 15,000. The fair rental value of the property for the let out period is ₹ 1,50,000. The house was self-occupied by him from 01-01-2025 to 31-03-2025. He has taken a loan of ₹20 lacs for construction of the property, and has repaid ₹1,05,000 (including interest ₹ 40,000) during the year.

Mr. Rajan sold shares of different Indian companies on 14-10-2024:

| Name   | Sale Value per share | Purchase Price per share | Acquired on | No. of shares |
|--------|----------------------|--------------------------|-------------|---------------|
| A Ltd. | ₹ 250                | ₹ 120                    | 2-5-2021    | 200           |
| B Ltd. | ₹ 112                | ₹ 65                     | 16-4-2024   | 125           |

Sale proceeds were subject to brokerage of 0.3%. Further, securities transaction tax @ 0.10% on sale and purchase value is charged separately. He received I.T. refund of ₹ 5,750 (including interest of ₹ 753) relating to earlier assessment year.

Compute the total income of Mr. Rajan for the A.Y. 2025-26 assuming he has opted for the old tax regime.

### Solution

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

| Particulars           | Working | Amount | Amount   | Amount   | Amount |
|-----------------------|---------|--------|----------|----------|--------|
| <u>Salaries</u>       |         |        |          |          |        |
| Basic salary          |         |        |          | 5,40,000 |        |
| <u>Allowances</u>     |         |        |          |          |        |
| HRA                   |         |        | 1,80,000 |          |        |
| Transport allowance   |         |        | 12,400   | 1,92,400 |        |
| <u>Perquisite:</u>    |         |        |          |          |        |
| <u>Sale of Laptop</u> |         |        |          |          |        |

## Work Book : Direct Taxation (Section A)



|  |                 |          |          |          |          |
|--|-----------------|----------|----------|----------|----------|
| <u>Original cost to the employer</u>                   |                 | 1,20,000 |          |          |          |
| <u>Less: Depreciation @ 50% for first year</u>         | 60,000          |          |          |          |          |
| <u>Less: Amount recovered</u>                          | 20,000          | 80,000   | 40,000   |          |          |
| <u>Sale of Motor car</u>                               |                 |          |          |          |          |
| <u>Original cost to the employer</u>                   |                 | 8,50,000 |          |          |          |
| <u>Less: Depreciation @ 20% for first year</u>         |                 | 1,70,000 |          |          |          |
|  |                 | 6,80,000 |          |          |          |
| <u>Less: Depreciation @ 20% for second year</u>        | 1,36,000        |          |          |          |          |
| <u>Less: Amount recovered</u>                          | 3,20,000        | 4,56,000 | 2,24,000 | 2,64,000 |          |
|  |                 |          |          | 9,96,000 |          |
| <u>Less: Standard Deduction</u>                        |                 |          |          | 50,000   | 9,46,000 |
| <u>Income from House Property</u>                      |                 |          |          |          |          |
| Gross Annual Value (Higher of the following)           |                 |          |          |          |          |
| - Fair Rent p.a.                                       | 1,50,000 x 12/9 |          | 2,00,000 |          |          |
| - Rent received  | 15,000 x 9      |          | 1,35,000 | 2,00,000 |          |
| <u>Less: Municipal Tax</u>                             |                 |          |          | Nil      |          |
| <u>Net Annual Value</u>                                |                 |          |          | 2,00,000 |          |
| <u>Less: Deduction u/s</u>                             |                 |          |          |          |          |
| 24(a) Standard deduction @ 30%                         | 2,00,000 * 30%  |          | 6,0000   |          |          |
| 24(b) Interest on loan                                 |                 |          | 40,000   | 1,00,000 | 1,00,000 |
| <u>Capital Gains</u>                                   |                 |          |          |          |          |
| Long term capital gain on transfer of shares of A Ltd. |                 |          |          |          |          |
| Sale Consideration                                     | 200 x ₹ 250     |          | 50,000   |          |          |
| <u>Less: Brokerage</u>                                 | ₹ 50,000 x 0.3% |          | 150      |          |          |
|  |                 |          | 49,850   |          |          |
| <u>Less: Cost of acquisition</u>                       | 200 x ₹ 120     |          | 24,000   | 25,850   |          |



## Work Book : Direct Taxation (Section A)

|   |                 |  |        |       |        |
|---|-----------------|--|--------|-------|--------|
| Short term capital gain on transfer of shares of B Ltd. |                 |  |        |       |        |
| Sale Consideration                                      | 125 x 112       |  | 14,000 |       |        |
| Less: Brokerage   | ₹ 14,000 x 0.3% |  | 42     |       |        |
|   |                 |  | 13,958 |       |        |
| Less: Cost of acquisition                               | 65 x 125        |  | 8,125  | 5,833 | 31,683 |

|  |  |                  |
|--|--|------------------|
| <b>Income from other sources</b>           |  |                  |
| Interest on Income Tax Refund              |  | 753              |
| Gross Total Income                         |  | 10,78,436        |
| Less: Deduction                            |  |                  |
| U/s 80C [Repayment of housing loan]        |  | 65,000           |
| <b>Total Income (Rounded off u/s 288A)</b> |  | <b>10,13,440</b> |

Note: No deduction is allowed for securities transaction tax paid while computing capital gain.

### Illustration 9

Mrs. Kavita born on 01.07.1972. She is a Deputy Manager in a Company in Mumbai. She is getting a monthly salary and dearness allowance of ₹ 45,000 and ₹ 12,000 respectively. She also gets a house rent allowance of ₹ 6,000 per month. She is a member of recognized provident fund wherein she contributes 15% of her salary and half dearness allowance. Her employer also contributes an equal amount.

She is living in the house of her minor son in Mumbai. During the previous year 2024-2025 her minor son has earned an income of ₹ 30,000 (computed) as rent from a house property, which had been transferred to him by Mrs. Kavita without consideration a few years back.

On 10-10-2024, she sold a piece of land for ₹ 5,00,000, which she purchased on 01.07.2009 for ₹ 1,70,000.

Her employer gave her an interest free loan of ₹ 1,50,000 on 01.10.2024 to one of her son's wife for the purchase of an Alto Maruti Car. Nothing has been repaid to the company towards the loan. SBI Rate of interest on similar type of loan is 8%

During the previous year 2024-2025, she paid ₹ 15,000 by cheque to GIC towards Medical Insurance Premium for her dependant mother.

Compute the taxable income and tax liability of Mrs. Kavita for the A.Y. 2025-26 assuming that she has opted for old tax regime.



## Solution

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

| Particulars   | Amount   | Amount   | Amount        |
|---|----------|----------|---------------|
| <b><u>Salaries</u></b>  |          |          |               |
| Basic pay [₹ 45,000 x 12]   |          | 5,40,000 |               |
| <b><u>Allowances</u></b>  |          |          |               |
| Dearness allowance [₹ 12,000 x 12]  | 1,44,000 |          |               |
| House rent allowance [₹ 6,000 x 12] (as she does not pay rent)  | 72,000   | 2,16,000 |               |
| <b><u>Perquisites</u></b>   |          |          |               |
| Interest free loan to relative [₹ 1,50,000 x 6/12 x 8%]   |          | 6,000    |               |
| Employers contribution to RPF [15% (₹ 5,40,000 + ₹ 72,000)]   | 91,800   |          |               |
| Less: Exemption up to [12% (₹ 5,40,000 + ₹ 1,44,000 <sup>1</sup> )]   | 82,080   | 9,720    |               |
|   |          | 7,71,720 |               |
| Less: Standard Deduction  |          | 50,000   | 7,21,720      |
| <b><i>Income from house property</i></b> as per provision of sec. 27(i)<br>[Deemed owner]                   |          |          | 30,000        |
| <b><u>Capital gains</u></b>   |          |          |               |
| Sale consideration  |          | 5,00,000 |               |
| Less: Cost of acquisition   |          | 1,70,000 | 3,30,000      |
| Gross Total Income  |          |          | 10,81,720     |
| Less: Deduction u/s 80C (Contribution to RPF)   |          |          | 91,800        |
| Less: Deduction u/s 80D Medical insurance premium   |          |          | 15,000        |
| <b>Total Income</b> (Rounded off u/s 288A)  |          |          | 9,74,920      |
| Tax on LTCG [₹ 3,30,000 x 12.50%] subject to maximum of ₹ 16,608 [see note below]<br>[option given u/s 112] |          |          | 16,608        |
| Tax on other income   |          |          | 41,484        |
| Tax   |          |          | 58,092        |
| Add: Cess @ 4%  |          |          | 2,324         |
| <b>Tax liability</b> (Rounded off u/s 288B)   |          |          | <b>60,420</b> |

<sup>1</sup> Salary for the purpose of RPF means Basic + Dearness Allowance (which forms a part of retirement benefit) + Commission on turnover. Here, we assume that Dearness Allowance forms a part of retirement benefit.



## Work Book : Direct Taxation (Section A)

Option for tax on long term capital gain

| Particulars  | Details  | Amount   |
|--|----------|----------|
| Sale consideration   |          | 5,00,000 |
| Less: Expenses on transfer   |          | Nil      |
| Net sale consideration   |          | 5,00,000 |
| Less: i) Indexed Cost of acquisition [ $\text{₹ } 1,70,000 \times 363 / 148$ ] | 4,16,959 |          |
| ii) Indexed Cost of improvement  | Nil      | 4,16,959 |
| Long Term Capital Gain   |          | 83,041   |
| Tax on above @ 20%   |          | 16,608   |

### Illustration 10

Dr. Dilip furnishes you the following Income and Expenditure Account for the year ended 31st March, 2025

| Expenditure                | Amount    | Income                            | Amount    |
|----------------------------|-----------|-----------------------------------|-----------|
| To Medicine consumed       | 2,42,000  | By Fee receipts                   | 18,47,500 |
| To Staff salary            | 1,65,000  | By Rent                           | 27,000    |
| To Hospital consumables    | 47,500    | By Dividend from Indian companies | 9,000     |
| To Rent paid               | 60,000    |                                   |           |
| To Administrative expenses | 1,23,000  |                                   |           |
| To Net Income              | 12,46,000 |                                   |           |
|                            | 18,83,500 |                                   | 18,83,500 |

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

(b) Hospital equipment (eligible for depreciation @ 15%)

|                            |            |
|----------------------------|------------|
| 01.04.2024 Opening WDV     | ₹ 5,00,000 |
| 07.12.2024 Acquired (Cost) | ₹ 2,00,000 |

(c) Medicines consumed include medicines (Cost) ₹ 10,000 used for Dr. Dilip's family.

(d) Rent received relates to a property situated at Mysore (Gross Annual Value). The municipal tax of ₹ 2,000 paid in December, 2024 has been included in the administrative expenses.

(e) He received ₹ 80,000 per month as salary from Full Cure Hospital. This has not been included in the fee receipts credited to income and expenditure account.

(f) He sold a vacant site in August, 2024 for ₹ 5,00,000. The site was acquired by him in December, 2015 for ₹ 50,000.

(g) During the year he paid premium for medical insurance ₹15,000 for his own health

Compute Dr. Dilip's income for the year ended 31.03.2025.

## Solution

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

| Particulars  | Amount | Amount    | Amount    |
|--|--------|-----------|-----------|
| <b><u>Salaries</u></b>   |        |           |           |
| Salary (₹ 80,000 x 12)   |        | 9,60,000  |           |
| Less: Standard Deduction   |        | 75,000    | 8,85,000  |
| <b><u>Income from house property</u></b>                           |        |           |           |
| Gross annual value (Rent received)                                 |        | 27,000    |           |
| Less: Municipal Tax  |        | 2,000     |           |
| Net annual value   |        | 25,000    |           |
| Less: Standard deduction u/s 24(a) [30% of NAV]                    |        | 7,500     | 17,500    |
| <b><u>Profit &amp; gains of business or profession</u></b>         |        |           |           |
| Net profit as per books of account                                 |        | 12,46,000 |           |
| Add: Expenses disallowed but debited in A/c                        |        |           |           |
| Rent paid for own residence  | 30,000 |           |           |
| Medicine consumed for own family                                   | 10,000 |           |           |
| Municipal tax  | 2,000  | 42,000    |           |
|  |        | 12,88,000 |           |
| Less: Expenses allowed but not debited in A/c                      |        |           |           |
| Depreciation [(₹5,00,000 x 15%) + (₹2,00,000 x 15% x ½)]           | 90,000 |           |           |
| Less: Income taxable under other head but credited in A/c          |        |           |           |
| Dividend from Indian companies                                     | 9,000  |           |           |
| Rent   | 27,000 | 1,26,000  | 11,62,000 |
| <b><u>Capital gains</u></b>  |        |           |           |
| Long term capital gain on sale of vacant land                      |        |           |           |
| Sale consideration   |        | 5,00,000  |           |
| Less: Expenses on transfer   |        | Nil       |           |
| Net sale consideration   |        | 5,00,000  |           |
| Less: Cost of acquisition  |        | 50,000    | 4,50,000  |
| <b><u>Income from Other Sources</u></b>                            |        |           |           |
| Dividend from Indian companies                                     |        |           | 9,000     |
| <b>Gross Total Income</b>  |        |           | 25,23,500 |
| Less: Deduction u/ch VIA [he has not opted for the old tax regime] |        |           | NA        |



## Work Book : Direct Taxation (Section A)

|   |                  |
|---|------------------|
| <b>Total income</b> (Rounded off u/s 288A)  | <b>25,23,500</b> |
| Tax on LTCG [₹4,50,000 x 12.50%] subject to maximum of ₹85,709 [see note below]<br>[option given u/s 112] | 56,250           |
| Tax on other income   | 3,12,050         |
| Tax   | 3,68,300         |
| Add: Cess @ 4%  | 14,732           |
| <b>Tax liability (Rounded off u/s 288B)</b>   | <b>3,83,032</b>  |

Option for tax on long term capital gain

| Particulars   | Details | Amount   |
|---|---------|----------|
| Sale consideration  |         | 5,00,000 |
| Less: Expenses on transfer                                  |         | Nil      |
| Net sale consideration                                      |         | 5,00,000 |
| Less: i) Indexed Cost of acquisition [₹ 50,000 x 363 / 254] | 71,457  |          |
| ii) Indexed Cost of improvement                             | Nil     | 71,457   |
| Long Term Capital Gain                                      |         | 4,28,543 |
| Tax on above @ 20%  |         | 85,709   |

## Set-off & Carry Forward

### Illustration 1

X, a resident individual, submits the following information relevant to the P.Y. 2024-25:

- a) Income from salary (computed) ₹ 11,50,000
- b) Income from house property (computed)
  - House I (let out) ₹ (-) 70,000
  - House II (self occupied) ₹ (-) 1,50,000
- c) Profit and gains of business or profession (computed)
  - Business I ₹ (-) 1,00,000
  - Business II (speculative) ₹ (-) 36,000

Compute the net income/loss of the assessee for the relevant A.Y. and determine the loss if any to be carried forward giving reasons for the same, if he has opted the old tax regime.

How shall your answer differ if he has not opted for old tax regime.

### Solution

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

| Particulars   | Amount       | Amount          |
|---|--------------|-----------------|
| Salaries  |              | 11,50,000       |
| Income from house property  |              |                 |
| - House I   | (-) 70,000   |                 |
| - House II  | (-) 1,50,000 |                 |
| House property loss upto ₹ 2,00,000 can be adjusted with income taxable under other head            | (-) 2,20,000 | (-) 2,00,000    |
| Profit and gains of business or profession  |              |                 |
| - Business I  | (-) 1,00,000 | Nil             |
| - Business II (speculative)   | (-) 36,000   |                 |
| <b>Total income</b>   |              | <b>9,50,000</b> |
| <b>Losses to be carried forward</b>   |              |                 |
| - Loss from Business I ₹ 1,00,000 (Business loss shall not be adjusted with salary income.)         |              |                 |
| - Loss from speculative business (As speculative loss can be set off with speculative gain) ₹36,000 |              |                 |
| - House property Loss ₹ 20,000  |              |                 |

If he is under default tax regime



## Work Book : Direct Taxation (Section A)

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

| Particulars   | Amount       | Amount           |
|---|--------------|------------------|
| Salaries  |              | 11,50,000        |
| Income from house property  |              |                  |
| - House I   | (-) 70,000   |                  |
| - House II  | (-) 1,50,000 |                  |
| House property loss cannot be adjusted with income under other heads of income                      | (-) 2,20,000 | Nil              |
| Profit and gains of business or profession  |              |                  |
| - Business I  | (-) 1,00,000 | Nil              |
| - Business II (speculative)   | (-) 36,000   |                  |
| <b>Total income</b>   |              | <b>11,50,000</b> |
| <b>Losses to be carried forward</b>   |              |                  |
| - Loss from Business I ₹ 1,00,000 (Business loss shall not be adjusted with salary income.)         |              |                  |
| - Loss from speculative business (As speculative loss can be set off with speculative gain) ₹36,000 |              |                  |
| - House property Loss ₹ 2,20,000  |              |                  |

### Illustration 2

Following are the details of incomes/losses of Mr. Saha for the financial year 2024-25:

|  | Amount (₹) |
|--|------------|
| Income from Salaries                         | 16,00,000  |
| Income from House Property:                  |            |
| —from let-out House A                        | 1,50,000   |
| —from let-out House B                        | (3,75,000) |
| Profits and Gains of Business or Profession: |            |
| —Business I                                  | 3,00,000   |
| —Business II                                 | (50,000)   |
| —Business III (Speculative business)         | 10,000     |
| —Business IV (Speculative business)          | (20,000)   |
| Income from other sources:                   |            |
| —Interest on fixed deposit account           | 5,000      |
| —Winning from lottery (Gross)                | 15,000     |
| —Owning and maintaining race horses          | (10,000)   |
| (Figures in brackets represent losses)       |            |

You are required to determine the Gross Total Income and losses to be carried forward by Mr. Saha for the A.Y. 2025-26, if he has opted for the old tax regime

### Solution

Computation of Total Income of Mr. Saha for the A.Y. 2025-26

| Particulars  | Details    | Amount           |
|--|------------|------------------|
| <b><i>Salaries</i></b>   |            | 16,00,000        |
| <b><i>Income from House Property</i></b>                         |            |                  |
| Income from House A  | 1,50,000   |                  |
| Less: Loss from House B  | (3,75,000) | (2,00,000)       |
| Loss to be c/f   | (25,000)   |                  |
| <b><i>Profits and Gains of Business or Profession</i></b>        |            |                  |
| Income from Business I   | 3,00,000   |                  |
| Loss from Business II  | (50,000)   | 2,50,000         |
| Income from Business III (speculative)                           | 10,000     |                  |
| Loss from Business IV (speculative)                              | (20,000)   | -                |
| Loss to be c/f   | (10,000)   |                  |
| <b><i>Income from Other Sources</i></b>                          |            |                  |
| Interest on FD   | 5,000      |                  |
| Winning from Lottery   | 15,000     | 20,000           |
| Loss from owning and maintaining of race horses (loss to be c/f) | (10,000)   |                  |
| <b>Gross Total Income</b>  |            | <b>16,70,000</b> |
| <b><i>Losses to be carried forward:</i></b>                      |            |                  |
| Loss from Owning and Maintaining Racehorses                      |            | 10,000           |
| Loss from House Property   |            | 25,000           |
| Speculation Loss   |            | 10,000           |

### Illustration 3

M K Gandhi submits the following particulars of his incomes and losses for the A.Y. 2025-26:

|  |            |
|--|------------|
| Income from house property   | ₹ 2,12,800 |
| Income from textile business   | ₹ 2,35,700 |
| Loss from stationery business  | ₹ 1,10,000 |
| Speculation loss   | ₹ 52,000   |
| Long term capital gains  | ₹ 25,000   |
| Short term capital gains   | ₹ 10,000   |
| Income from the activity of owning and maintaining race horses                                   | ₹ 13,000   |
| Winning from lottery   | ₹ 12,000   |
| The losses of Mr. Gandhi brought forward from the assessment year 2024-25 are as follows:        |            |
| Loss from house property   | ₹ 1,08,000 |
| Loss from stationery business  | ₹ 1,07,000 |
| Loss under the head capital gains  | ₹ 4,300    |
| Loss from the activity of owning an maintaining race horses                                      | ₹ 14,700   |
| Above losses were first computed in the A.Y. 2024-25. Compute total income for the A.Y. 2025-26. |            |



## Work Book : Direct Taxation (Section A)

### Solution

Computation of Gross Total Income of Mr. M K Gandhi for the A.Y. 2025-26

| Particulars   | Details               | Amount          |
|---|-----------------------|-----------------|
| <b>Income from house property</b>   | 2,12,800              |                 |
| Less: Brought forward loss from house property  | 1,08,000              | 1,04,800        |
| <b>Profits and gains of business or profession</b>  |                       |                 |
| - Profit from textile business  | 2,35,700              |                 |
| - Loss from stationery business   | (1,10,000)            |                 |
|   | 1,25,700              |                 |
| Less: Brought forward loss from stationery business   | (1,07,000)            | 18,700          |
| Speculative Business  | (52,000) <sup>1</sup> |                 |
| <b>Capital gains</b>  |                       |                 |
| - Short term capital gain   |                       | 10,000          |
| - Long term capital gain  | 25,000                |                 |
| Less: Brought forward capital loss  | 4,300                 | 20,700          |
| <b>Income from Other sources</b>  |                       |                 |
| Income from activity of owning & maintaining race horses  | 13,000                |                 |
| Less: Brought forward loss from such activity   | 13,000                | Nil             |
| Winning from lottery (Gross)  |                       | 12,000          |
| <b>Gross Total Income</b>   |                       | <b>1,66,200</b> |
| <b>Loss to be carried forward for subsequent assessment years:</b>  |                       |                 |
| 1. Speculation loss of ₹ 52,000 shall be carried forward to next year.  |                       |                 |
| 2. Brought forward loss from activity of owning & maintaining race-horses of ₹ 1,700 (i.e. ₹14,700 – ₹ 13,000) shall be carried forward to the next year. |                       |                 |

### Illustration 4

M/s. Viswas & Co., a partnership firm, with four partners A, B, C and D having equal shares, furnishes the following details, summarized from the valid returns of income filed by it:

| Assessment year | Item eligible for carry forward and set off |
|-----------------|---|
| 2023-24         | Unabsorbed business loss ₹ 1,20,000         |
| 2024-25         | Unabsorbed business loss ₹ 1,90,000         |
| 2024-25         | Unabsorbed depreciation ₹ 1,20,000          |
| 2024-25         | Unabsorbed long-term Capital losses:        |
| - from shares   | ₹ 1,10,000                                  |
| - from building | ₹ 1,90,000                                  |

C who was a partner during the last three years, retired from the firm with effect from 1.4.2024. The summarized results of the firm for the assessment year 2025-26 are as under:



|                                     |              |
|-------------------------------------|--------------|
| Income from house property          | ₹ 70,000     |
| <b>Income from business:</b>        |              |
| - Speculation                       | ₹ 2,20,000   |
| - Non-speculation                   | (-) ₹ 50,000 |
| <b>Capital gains</b>                |              |
| - Short-term (from sale of shares)  | ₹ 40,000     |
| - Long-term (from sale of building) | ₹ 2,10,000   |
| Income from other sources           | ₹ 60,000     |

Briefly discuss, how the items brought forward from earlier years can be set off in the hands of the firm for the assessment year 2025-26, in the manner most beneficial to the assessee. Also show the items to be carried forward.

### Solution

Statement showing eligible losses for set-off after applying sec. 78

| Particular                          | Total Loss | Shares of C in the loss which cannot be adjusted by the firm | Loss eligible for set off |
|-------------------------------------|------------|--|---------------------------|
|                                     | A          | B = A x 25%  | C = A - B                 |
| Unabsorbed business loss            | 1,20,000   | 30,000   | 90,000                    |
| Unabsorbed business loss            | 1,90,000   | 47,500   | 1,42,500                  |
| Unabsorbed depreciation             | 1,20,000   | Nil <sup>1</sup>   | 1,20,000                  |
| Unabsorbed long-term Capital losses | 3,00,000   | 75,000   | 2,25,000                  |

1. Sec. 78 is not applicable on unabsorbed depreciation.

Computation of total income of M/s. Viswas & Co. for the A.Y. 2025-26

| Particulars  | Details    | Amount |
|--|------------|--------|
| <i>Income from house property</i>                            | 70,000     |        |
| Less: Unabsorbed Depreciation                                | 70,000     | Nil    |
| <i>Profits and gains of business or profession</i>           |            |        |
| Speculative business   | 2,20,000   |        |
| Less: Loss from non-speculative business                     | (-) 50,000 |        |
|  | 1,70,000   |        |
| Less: Brought forward business loss of A.Y. 2023-24          | 90,000     |        |
|  | 80,000     |        |
| Less: Brought forward business loss of A.Y. 2024-25          | 80,000     | Nil    |
| <i>Capital Gains</i>   |            |        |
| Long-term capital gain (from sale of building)               | 2,10,000   |        |
| Less: Brought forward Long term capital loss of A.Y. 2024-25 | 2,10,000   |        |
|  | Nil        |        |
| Short-term capital gain (from sale of shares)                | 40,000     | 40,000 |



## Work Book : Direct Taxation (Section A)

|   |        |               |
|---|--------|---------------|
| <u>Income from Other Sources</u>  | 60,000 |               |
| Less: Unabsorbed Depreciation   | 50,000 | 10,000        |
| <b>Gross Total Income</b>   |        | <b>50,000</b> |
| <u>Losses to be carried forward</u>   |        |               |
| 1. Brought forward loss of business (A.Y. 2024-25) of ₹ 62,500 (i.e. ₹ 1,42,500 – ₹ 80,000) shall be carried forward to next assessment year.         |        |               |
| 2. Brought forward long term capital loss (A.Y. 2024-25) of ₹ 15,000 (i.e. ₹ 2,25,000 – ₹ 2,10,000) shall be carried forward to next assessment year. |        |               |

### Illustration 5

Ms. Reeta is a resident individual, provides the following details of her income/losses for the year ended 31.3.2025

- (a) Salary received as a partner from a partnership firm ₹ 7,50,000
- (b) Long term capital gain on sale of land ₹ 5,00,000
- (c) ₹ 51,000 received in cash from friends in party
- (d) ₹ 55,000 received towards dividend on listed equity shares of domestic companies.
- (e) Brought forward business loss of assessment year 2024-25 ₹ 12,50,000. The return for assessment year 2024-25 was filed within due date

Compute gross total income of Ms. Reeta for the assessment year 2025-26 and ascertain the amount of loss that can be carried forward.

### Solution

Computation of gross total income of Ms Reeta for A.Y. 2025-26

| Particulars  | Amount   | Amount          |
|--|----------|-----------------|
| <u>Profits and Gains of Business or Profession</u> |          |                 |
| Remuneration received from a partnership firm      | 7,50,000 |                 |
| Less: Brought forward business loss                | 7,50,000 | Nil             |
| <u>Capital Gains</u>                               |          |                 |
| Long term capital gain on sale of land             |          | 5,00,000        |
| <u>Income from Other Sources</u>                   |          |                 |
| Gift received from Friends                         | 51,000   |                 |
| Dividend from domestic company                     | 55,000   | 1,06,000        |
| <b>Gross Total Income</b>                          |          | <b>6,06,000</b> |
| <u>Loss to be carried forward</u>                  |          |                 |
| - Business Loss of A.Y. 2024-25                    |          | 5,00,000        |

It is assumed that remuneration received by Ms Reeta is within the allowable limit of the remuneration in hands of the firm.

### Illustration 6

The summarised profit & loss account of Y (from his grocery stores) for the previous year ended 31-3-2025 is as under:

| Particulars | Amount   | Particulars     | Amount   |
|-------------|----------|-----------------|----------|
| Expenses    | 4,20,000 | Gross profit    | 6,00,000 |
| Net profit  | 2,80,000 | Interest on PPF | 1,00,000 |
|             | 7,00,000 |                 | 7,00,000 |

The following further information was provided for the same previous year:

Y had other business (proprietary)

|   |          |
|---|----------|
| Cloth trade (loss)  | ₹ 42,000 |
| Speculation (profit)  | ₹ 30,000 |
| Loss in proprietary business carried on in the name of his minor son  | ₹ 45,000 |
| He had carried forward loss in electrical spares for assessment year 2024-25, which business was closed down (return filed in time) | ₹ 39,000 |
| Income of Mrs. Y  | ₹ 55,000 |

Compute the assessable income of Y for the A.Y. 2025-26 under the head “Profits & gains from business or profession”.

### Solution

Computation of Profits & gains of business or profession of Mr. Y for the A.Y. 2025-26

| Particulars  | Amount        |
|--|---------------|
| Net profit as per Profit and Loss account  | 2,80,000      |
| <i>Less: Income not taxable credited to P/L A/c</i>  |               |
| Interest on PPF  | 1,00,000      |
| Profits and gains of business of grocery shop  | 1,80,000      |
| <i>Add: Income from speculation business</i>   | 30,000        |
| <i>Less: Loss from cloth trade</i>   | (42,000)      |
| <i>Less: Loss from business of minor clubbed u/s 64(1A)</i>                                | (45,000)      |
| Profits & gains of business after application of sec. 70 but before application of sec. 72 | 1,23,000      |
| <i>Less: Brought forward loss of electric spare business</i>                               | (39,000)      |
| <b>Profits &amp; gains of business or profession</b>                                       | <b>84,000</b> |

### Illustration 7

Mr. S. K. Singh, a businessman, furnishes the following particulars of his income and loss for the previous year 2024-25, if he has opted for the old tax regime:



## Work Book : Direct Taxation (Section A)

|  | ₹        |
|--|----------|
| Income from house property in Dehradun               | 2,30,000 |
| Loss from self-occupied house property               | 2,10,000 |
| Profits from speculation business in jute            | 1,30,000 |
| Loss from speculation business in grains             | 1,00,000 |
| Profits from retail business in cloth                | 2,20,000 |
| Loss from stationery business                        | 2,30,000 |
| Long-term capital gain on transfer of house property | 5,35,000 |
| Long-term capital loss on sale of land               | 4,20,000 |
| Short-term capital loss on sale of gold              | 1,20,000 |

Compute his total income for the assessment year 2025-26.

Solution

Computation of Total Income of Mr. S K Singh for the A.Y. 2025-26

| Particulars  | Details  | Details  | Amount        |
|--|----------|----------|---------------|
| <b>Income from house property</b>  |          |          |               |
| Income from house property in Dehradun   |          | 2,30,000 |               |
| Less: Loss from self occupied property   |          | 2,10,000 | 20,000        |
| <b>Profits and gains of business or profession</b>   |          |          |               |
| Profits from speculation business in jute  | 1,30,000 |          |               |
| Loss from speculation business in grains   | 1,00,000 | 30,000   |               |
| Profits from retail business in cloth  | 2,20,000 |          |               |
| Loss from stationery business  | 2,30,000 | (10,000) | 20,000        |
| <b>Capital gains</b>   |          |          |               |
| Long-term capital gain on transfer of house property                                       | 5,35,000 |          |               |
| Long-term capital loss on sale of land   | 4,20,000 | 1,15,000 |               |
| Short-term capital loss on sale of gold (Balance loss of ₹ 5,000 shall be carried forward) |          | 1,15,000 | Nil           |
| <b>Total Income</b>  |          |          | <b>40,000</b> |

### Illustration 8

Smt. Maheshwari furnished the following information for the previous year 2024-25:

|                                      |     |        |
|--------------------------------------|-----|--------|
| <b>A. Income from Business</b>       |     |        |
| Toy business                         | (+) | 20,000 |
| Cloth business                       | (+) | 46,000 |
| Readymade garments business          | (-) | 12,000 |
| Speculative business                 | (+) | 18,000 |
| <b>B. Income from House Property</b> | (+) | 38,000 |
| <b>C. Income from Capital Gain</b>   |     |        |

|  |     |        |
|--|-----|--------|
| Long-term on sale of Land  | (+) | 44,000 |
| Short-term on sale of Gold   | (-) | 21,000 |
| <b>D. Income from other Sources</b>  |     |        |
| Interest on Bank Deposit   | (+) | 12,000 |
| Winning from Lottery (Gross)   | (+) | 12,000 |
| <b>E. Brought forward losses</b>   |     |        |
| Speculation loss from 2023-24  |     | 20,000 |
| Loss from Cloth business   |     | 8,000  |
| Unabsorbed depreciation of Cosmetics business (discontinued from 2020-21) for the P.Y. 2020-21 |     | 5,000  |

Compute total income of Smt. Maheshwari for the A.Y. 2025-26.

### Solution

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

| Particulars  |       | Amount   | Amount          |
|--|-------|----------|-----------------|
| <u>Income from House Property</u>                                |       |          | 38,000          |
| <u>Profits and Gains of Business or Profession</u>               |       |          |                 |
| - Toy business   |       | 20,000   |                 |
| - Cloth business   |       | 46,000   |                 |
| - Readymade garments business                                    |       | (12,000) |                 |
|  |       | 54,000   |                 |
| Less: B/f loss from cloth business                               | 8,000 |          |                 |
| Less: Unabsorbed depreciation                                    | 5,000 | 13,000   | 41,000          |
| Speculative business   |       | 18,000   |                 |
| Less: B/f speculation loss (Balance loss of ₹2,000 shall be c/f) |       | 18,000   | Nil             |
| <u>Capital Gains</u>   |       |          |                 |
| Long term Capital gain   |       | 44,000   |                 |
| Less: Short Term Capital Loss                                    |       | 21,000   | 23,000          |
| <u>Income from Other Sources</u>                                 |       |          |                 |
| Interest on fixed bank deposit                                   |       | 12,000   |                 |
| Winning from lottery   |       | 12,000   | 24,000          |
| <b>Total Income</b>  |       |          | <b>1,26,000</b> |



## Deductions

### Illustration 1

Mr. Kanji (aged 42 years) submits the following particulars for the assessment year 2025-26:

|  | ₹        |
|--|----------|
| Income from House Property   | 50,400   |
| Income from Business   | 5,72,600 |
| Long-term capital gains on sale of building                              | 21,840   |
| Interest from fixed deposit with a bank                                  | 18,000   |
| Donations made to:   |          |
| — Approved University of national eminence                               | 3,600    |
| — Prime Minister's Drought Relief Fund (in kind)                         | 1,800    |
| — Prime Minister's National Relief Fund                                  | 4,500    |
| — Prime Minister's Drought Relief Fund (paid by cheque)                  | 2,500    |
| — Approved charitable Institution (paid by cheque)                       | 76,200   |
| — Approved Political Party   | 10,000   |
| Payment of medical insurance premium on his own health to GICI by cheque | 31,600   |

Compute total income if he has opted for the old tax regime

### Solution

Computation of Total Income of Kanji for the A.Y. 2025-26

| Particulars                               | Details              | Amount          |
|---|----------------------|-----------------|
| Income from House Property                |                      | 50,400          |
| Profits & gains of business or profession |                      | 5,72,600        |
| Capital gains: Long term capital gains    |                      | 21,840          |
| Income from Other Sources                 |                      | 18,000          |
| <b>Gross Total Income</b>                 |                      | <b>6,62,840</b> |
| <b>Less: Deduction under chapter VIA</b>  |                      |                 |
| Sec. 80D (Medical Insurance) (Max Limit)  | 25,000               |                 |
| Sec. 80GGC (Donation to political party)  | 10,000               |                 |
| Sec. 80G (Donation)                       | 39,650 <sup>\$</sup> | 74,650          |
| <b>Total Income</b>                       |                      | <b>5,88,190</b> |

<sup>\$</sup> Statement showing amount of deduction u/s 80G:

| Donation made to                                      | Amount  | Rate | Deduction     |
|---|---------|------|---------------|
| Approved University of national eminence              | 3,600   | 100% | 3,600         |
| Prime Minister's Drought Relief Fund (in kind)        | 1,800   | -    | -             |
| Prime Minister's National Relief Fund                 | 4,500   | 100% | 4,500         |
| Prime Minister's Drought Relief Fund (paid by cheque) | 2,500   | 50%  | 1,250         |
| Approved charitable Institution (paid by cheque)      | 60,600* | 50%  | 30,300        |
| <b>Total amount of donation u/s 80G</b>               |         |      | <b>39,650</b> |

\* Calculation of Deduction for donation on which limit is applicable:

| Computation of limit |  |  |
|----------------------|--|--|
| Adjusted GTI         | GTI – LTCG – Deductions other than deduction u/s 80G | ₹ 6,62,840 – ₹21,840 – ₹25,000 - ₹10,000<br>= ₹ 6,06,000 |
| Limit                | 10% of Adjusted GTI                                  | 10% of ₹ 6,06,000 = ₹ 60,600                             |

### Illustration 2

Mr. Sharma (aged 38 years) pays health insurance premium for the health of the following persons during the previous year 2024-25:

| Particulars       | Amount (₹) |
|-------------------|------------|
| Self              | 8,000      |
| Dependent Brother | 8,000      |
| Spouse            | 8,000      |
| Son               | 5,000      |
| Father (65 years) | 34,000     |
| Mother (60 years) | 26,000     |

Calculate the amount of deduction u/s 80D (old regime) for the assessment year 2025-26.

### Solution

Computation of deduction u/s 80D available to Mr. Sharma

| Particulars                                   | Amount | Amount        |
|---|--------|---------------|
| Mediclaime Insurance premium paid for himself |        | 8,000         |
| Mediclaime Insurance premium paid for brother |        | Not eligible  |
| Mediclaime Insurance premium paid for spouse  |        | 8,000         |
| Mediclaime Insurance premium paid for son     |        | 5,000         |
| Deductible amount (A)                         |        | 21,000        |
| <u>Add: Additional deduction for parents</u>  |        |               |
| Mediclaime Insurance premium paid for mother  | 26,000 |               |
| Mediclaime Insurance premium paid for father  | 34,000 | 60,000        |
| Deductible amount (B) [Max Limit]             |        | 50,000        |
| <b>Deduction u/s 80D (A + B)</b>              |        | <b>71,000</b> |

### Illustration 3

Priya (Age 42 years) submits the following information for the previous year 2024-25:

|  | ₹         |
|--|-----------|
| (a) Gross Total Income   | 10,00,000 |
| (b) Life insurance premium paid (Policy taken on 01.01.2010 and sum assured ₹1,00,000) | 25,000    |
| (c) Payment to LIC Pension Fund  | 10,000    |



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|   |          |
|---|----------|
| (d) Contribution to Public Provident Fund                         | 1,00,000 |
| (e) Repayment of housing loan (including interest ₹ 40,000)       | 50,000   |
| (f) Medical insurance premium paid for self, husband and children | 35,000   |
| (g) Medical insurance premium paid for parents (senior citizens)  | 60,000   |
| (h) Donation to a temple (notified)                               | 80,000   |
| (i) Donation to PM Cares Fund                                     | 20,000   |

Compute the eligible amount of deduction available to Priya under Chapter VI-A of the IT Act, 1961 for the A.Y. 2025-26, if she has opted for the old tax regime

### Solution

Computation of Total Income of Priya for the A.Y. 2025-26

| Particulars  | Amount   | Amount   | Amount          |
|--|----------|----------|-----------------|
| Gross Total Income   |          |          | 10,00,000       |
| Less: Deduction u/s 80C  |          |          |                 |
| - Deposit in PPF   | 1,00,000 |          |                 |
| - LIC Premium paid [subject to max. of 20% of sum assured]   | 20,000   |          |                 |
| - Repayment of housing loan  | 10,000   | 1,30,000 |                 |
| Less: Deduction u/s 80CCC  |          |          |                 |
| - Payment to LIC Pension Fund  |          | 10,000   |                 |
| Less: Deduction u/s 80D  |          |          |                 |
| - Medclaim premium paid for self, spouse and children [Max.]   | 25,000   |          |                 |
| - Medclaim premium paid for parents [Max.]   | 50,000   | 75,000   |                 |
| Less: Deduction u/s 80G  |          |          |                 |
| - Donation to PM Cares Fund  | 20,000   |          |                 |
| - Donation to a notified Temple [50% of (Donation or 10% of Adjusted GTI#)] i.e., 50% of ₹ 78,500]                             | 39,250   | 59,250   | 2,74,250        |
| <b>Total Income</b>  |          |          | <b>7,25,750</b> |
| # Adjusted GTI = Gross total income – Other deduction under 80's = ₹ 10,00,000 - ₹ 1,30,000 - ₹ 10,000 - ₹ 75,000 = ₹ 7,85,000 |          |          |                 |

### Illustration 4

Compute amount of deductions available to the assessee under chapter VIA (under old regime) in the following cases:

- (a) Shubharaj incurred medical expenditure of ₹ 75,000 for treatment of his dependent father who is 66 years old and suffering from cancer (certified by an approved doctor). He recovered ₹ 50,000 from the insurance company.



- (b) Suvankar has deposited ₹ 50,000 under a scheme framed by LIC for maintenance of his dependent brother with severe disability (90%). The disability is certified by the competent medical authority.
- (c) Saswata had taken a loan from bank for doing MBA. During the previous year he repaid ₹50,000 including interest ₹ 10,000.

### Solution

- (a) ₹ 25,000 (i.e., ₹ 75,000 – ₹ 50,000) is allowable u/s 80DDB
- (b) ₹ 1,25,000 is allowable u/s 80DD
- (c) ₹ 10,000 is allowable u/s 80E.

### Illustration 5

Karan has made the following investments/payments during the previous year 2024-25:

|  | ₹        |
|--|----------|
| Contribution to Recognised Provident Fund  | 25,000   |
| Deposit in Public Provident Fund   | 1,00,000 |
| Life insurance premium paid on own life (Sum assured ₹ 1,00,000 taken on 10.10.2010)       | 25,000   |
| Life insurance premium on daughter (Policy value ₹ 1,20,000 taken on 01.01.2015)           | 15,000   |
| Life insurance premium paid on mother's life (Policy value ₹ 2,00,000 taken on 15.12.2018) | 20,000   |
| Purchase of NSC (VIII issue)   | 10,000   |
| Accrued interest on NSC (including last year's interest of ₹ 1,000)                        | 6,000    |
| Repayment of home loan to SBI (including principal ₹ 10,000)                               | 50,000   |
| Calculate the amount of deduction under section 80C if he has opted for the old tax regime |          |

### Solution

Computation of Deduction u/s 80C

| Particulars   | Amount       |
|---|--------------|
| Contribution to Recognised Provident Fund                           | 25,000       |
| Deposit in Public Provident Fund                                    | 1,00,000     |
| Life insurance premium paid on own life [upto 20% of sum assured]   | 20,000       |
| Life insurance premium on daughter [upto 10% of sum assured]        | 12,000       |
| Life insurance premium paid on mother's life                        | Not Eligible |
| Purchase of NSC (VIII issue)  | 10,000       |
| Accrued interest on NSC (excluding 6 <sup>th</sup> year's interest) | 5,000        |
| Repayment of home loan to SBI – Principal Amount                    | 10,000       |
| Qualifying amount   | 1,82,000     |
| Deduction u/s 80C (Maximum Limit)                                   | 1,50,000     |



## Work Book : Direct Taxation (Section A)

### Illustration 6

From the following information, calculate the amount of deduction allowable under section 80GG of Mr. Rohan for the assessment year 2025-26

|  | ₹          |
|--|------------|
| Business income  | 8,50,000   |
| Rent paid by Mr. Rohan for house occupied for his residential purpose in Chennai | 7,500 p.m. |
| Deduction u/s 80C  | 1,67,500   |
| Neither he nor his wife or children owns any house in Chennai.                   |            |

### Solution

Computation of deduction u/s 80GG

| Particulars  | Working                      | Details  | Amount   |
|--|------------------------------|----------|----------|
| Least of the following shall be deductible u/s 80GG: |                              |          |          |
| 1. ₹ 5,000 per month                                 | ₹ 5,000 x 12                 | 60,000   |          |
| 2. 25% of Adjusted Gross total income                | 25% of ₹ 7,00,000            | 1,75,000 |          |
| 3. Excess of rent paid over 10% of Adj. GTI          | ₹90,000 - (10% of ₹7,00,000) | 20,000   | 20,000   |
| # Computation of Adjusted Gross Total Income         |                              |          |          |
| Particulars  |                              |          | Amount   |
| Profits & gains of business or profession            |                              |          | 8,50,000 |
| <b>Gross Total Income</b>                            |                              |          | 8,50,000 |
| Less: Deduction u/s 80C [Max limit]                  |                              |          | 1,50,000 |
| <b>Adjusted Gross Total Income</b>                   |                              |          | 7,00,000 |

Note: Deduction u/s 80GG is available only if assessee has opted for the old tax regime

### Illustration 7

From the following information calculate total income and deduction allowable u/s 80GG of Mr. Mathew for the assessment year 2025-26 under the old tax regime:

|  |                 |
|--|-----------------|
| Business Income  | ₹ 11,80,000     |
| Interest on Bank Fixed Deposit   | ₹ 20,000        |
| Deduction u/s 80C  | ₹ 30,000        |
| Rent paid by Mr. Mathew for house occupied for his residential purpose | @ ₹ 13,000 p.m. |

### Solution

Calculation of Total Income of Mr. Mathews for the A.Y. 2025-26

| Particulars  | Amount  | Amount           |
|--|---|------------------|
| Profits & gains of business or profession                                      |   | 11,80,000        |
|  |   | 20,000           |
| Income from other sources [Bank Interest]                                      |   |                  |
| <b>Gross Total Income</b>  |   | <b>12,00,000</b> |
| Less: Deduction u/s 80C  | 30,000  |                  |
| Deduction u/s 80GG <sup>#</sup>  | 39,000  | 69,000           |
| <b>Total Income</b>  |   | <b>11,31,000</b> |
| <b># Computation of Deduction u/s 80GG</b>                                     |   |                  |
| Particulars  | Working   | Amount           |
| Least of the following shall be deductible:                                    |   |                  |
| 1. ₹5,000 per month  | ₹5,000 x 12                                     | 60,000           |
| 2. 25% of Adjusted Gross total income  | 25% of ₹ 11,70,000 <sup>#</sup>                 | 2,92,500         |
| 3. Excess of rent paid over 10% of Adj. GTI                                    | ₹ 1,56,000 - (10% of ₹ 11,70,000 <sup>#</sup> ) | 39,000           |
| <b>Deduction u/s 80GG</b>  |   | <b>39,000</b>    |
| # Adjusted GTI = Gross total income – Other deduction under 80's = ₹ 11,70,000 |   |                  |

### Illustration 8

Mr. X owns an industrial undertaking engaged in the manufacture of articles and started production on 1-4-2024. On 31<sup>st</sup> March, 2025, it has 180 workmen out of which 20 are casual workmen. All of regular workers has worked through out the year for a monthly wages of ₹ 14,000. Further on 1<sup>st</sup> June, 2025, the company appoints 30 regular workmen and paid same wages to each such workman. Find out the amount of deduction u/s 80JJAA for the assessment year 2025-26 and assessment year 2026-27.

### Solution

Computation of deduction u/s 80JJAA

|  |             |
|--|-------------|
| <b>F.Y. 2024-25</b>                              |             |
| No. of workmen employed excluding casual workmen | 160         |
| Deduction u/s 80JJAA [₹ 14,000 x 160 x 12 x 30%] | ₹ 80,64,000 |
| <b>F.Y. 2025-26</b>                              |             |
| No. of Additional workmen                        | 30          |
| Deduction u/s 80JJAA [₹ 14,000 x 30 x 10 x 30%]  | ₹ 12,60,000 |



## ADVANCE TAX, TDS & TCS

### Illustration 1

From the following information, compute the amount of instalments of advance tax payable by Ram and Shyam along with the due dates as per the Income Tax Act for the assessment year 2025-26:

|   | <b>Ram</b> | <b>Shyam</b> |
|---|------------|--------------|
| Tax payable (including health and education cess) | 25,000     | 30,000       |
| Tax deducted at source                            | 20,000     | 10,000       |

### Solution

Computation of Advance Tax Liability for the Previous Year 2024-25

| <b>Income</b>                | <b>Ram</b>   | <b>Shyam</b>  |
|------------------------------|--------------|---------------|
| Tax Payable (including HEC)  | 25,000       | 30,000        |
| Less: Tax Deducted at Source | 20,000       | 10,000        |
| <b>Advance Tax Payable</b>   | <b>5,000</b> | <b>20,000</b> |

Advance tax to be paid on specified dates –

| <b>Ram:</b> Since the amount of advance tax payable is less than ₹ 10,000, he is not liable to pay advance tax. |                 |        |                                 |        |
|---|-----------------|--------|---------------------------------|--------|
| <b>Shyam:</b>   |                 |        |                                 |        |
| Date  | Alternate 1     |        | Alternate 2                     |        |
|   | Working         | Amount | Working                         | Amount |
| 15-06-2024  | 15% of ₹ 20,000 | 3,000  | 15% of ₹ 20,000                 | 3,000  |
| 15-09-2024  | 30% of ₹ 20,000 | 6,000  | [(45% of ₹ 20,000) – (₹ 3,000)] | 6,000  |
| 15-12-2024  | 30% of ₹ 20,000 | 6,000  | [(75% of ₹ 20,000) – (₹ 9,000)] | 6,000  |
| 15-03-2025  | 25% of ₹ 20,000 | 5,000  | [(100% ₹ 20,000) – (₹ 15,000)]  | 5,000  |
| Total   |                 | 20,000 | Total                           | 20,000 |

### Illustration 2

The following Particulars are furnished by Mr. D Chaturvedi for the previous year 2024-25:

|                                    | ₹        |
|------------------------------------|----------|
| Income from Salary                 | 9,40,000 |
| Income from let out House Property | 3,20,000 |
| Income from Business               | 5,80,000 |
| Income from other sources          | 60,000   |

He is entitled to a deduction u/s 80C for ₹ 1,50,000, u /s 80G ₹ 30,000 and u/s 80D ₹ 20,000. Tax Deducted at Source is ₹ 1,80,000.

Compute the advance tax payable by him (if he opts for the old tax regime) with the due dates of payment of instalments assuming he is (i) 45 years old (ii) 65 years old .

How shall your answer differ if he did not opt for old tax regime.

## Solution

Computation of the total income of Mr. D Chaturvedi for the previous year 2024-25

| Particulars                  | Details  | Amount           |
|------------------------------|----------|------------------|
| Income from Salary           |          | 9,40,000         |
| Income from let out property |          | 3,20,000         |
| Income from Business         |          | 5,80,000         |
| Income from Other Sources    |          | 60,000           |
| Gross Total Income           |          | 19,00,000        |
| Less: Deduction u/s 80C      | 1,50,000 |                  |
| Less: Deduction u/s 80D      | 20,000   |                  |
| Less: Deduction u/s 80G      | 30,000   | 2,00,000         |
| <b>Total Income</b>          |          | <b>17,00,000</b> |

Computation of tax liability of Mr. D Chaturvedi for the previous year 2024-25

| Income                           | Case 1<br>45 Years | Case 2<br>65 Years |
|----------------------------------|--------------------|--------------------|
| Tax                              | 3,22,500           | 3,20,000           |
| Less: Rebate u/s 87A             | Nil                | Nil                |
|                                  | 3,22,500           | 3,20,000           |
| Add: Health & Education cess     | 12,900             | 12,800             |
|                                  | 3,35,400           | 3,32,800           |
| Less: Tax Deducted at Source     | 1,80,000           | 1,80,000           |
| <b>Total Advance tax payable</b> | <b>1,55,400</b>    | <b>1,52,800</b>    |

Advance tax to be paid on specified dates –

| Date         | Case 1 [45 Years] |                 | Case 2 [65 Years] |                 |
|--------------|-------------------|-----------------|-------------------|-----------------|
|              | Working           | Amount          | Working           | Amount          |
| 15-06-2024   | 15% of ₹ 1,55,400 | 23,310          | 15% of ₹ 1,52,800 | 22,920          |
| 15-09-2024   | 30% of ₹ 1,55,400 | 46,620          | 30% of ₹ 1,52,800 | 45,840          |
| 15-12-2024   | 30% of ₹ 1,55,400 | 46,620          | 30% of ₹ 1,52,800 | 45,840          |
| 15-03-2025   | 25% of ₹ 1,55,400 | 38,850          | 25% of ₹ 1,52,800 | 38,200          |
| <b>Total</b> |                   | <b>1,55,400</b> | <b>Total</b>      | <b>1,52,800</b> |

Alternative Solution

| Date       | Case 1 [45 Years] |        | Case 2 [65 Years] |        |
|------------|-------------------|--------|-------------------|--------|
|            | Working           | Amount | Working           | Amount |
| 15-06-2024 | 15% of ₹ 1,55,400 | 23,310 | 15% of ₹ 1,52,800 | 22,920 |



## Work Book : Direct Taxation (Section A)

|            |   |        |   |        |
|------------|---|--------|---|--------|
| 15-09-2024 | [(45% of ₹ 1,55,400) – ₹23,310]                       | 46,620 | [(45% of ₹ 1,52,800) – ₹22,920]                       | 45,840 |
| 15-12-2024 | [(75% of ₹ 1,55,400) – (₹23,310 + ₹ 46,620)]          | 46,620 | [(75% of ₹ 1,52,800) – (₹22,920 + ₹ 45,840)]          | 45,840 |
| 15-03-2025 | [100% of ₹ 1,55,400 – (₹23,310 + ₹ 46,620 + ₹46,620)] | 38,850 | [100% of ₹ 1,52,800 – (₹22,920 + ₹ 45,840 + ₹45,840)] | 38,200 |

If he is under default tax regime i.e., he is paying tax u/s 115BAC(1A)

Computation of the total income of Mr. D Chaturvedi for the previous year 2024-25

| Particulars                  | Details | Amount           |
|------------------------------|---------|------------------|
| Income from Salary           |         | 9,40,000         |
| Income from let out property |         | 3,20,000         |
| Income from Business         |         | 5,80,000         |
| Income from Other Sources    |         | 60,000           |
| <b>Gross Total Income</b>    |         | <b>19,00,000</b> |
| Less: Deduction u/s 80C      | NA      |                  |
| Less: Deduction u/s 80D      | NA      |                  |
| Less: Deduction u/s 80G      | NA      | Nil              |
| <b>Total Income</b>          |         | <b>19,00,000</b> |

Computation of tax liability of Mr. D Chaturvedi for the previous year 2024-25

| Income                           | Case 1 & 2    |
|----------------------------------|---------------|
| Tax                              | 2,60,000      |
| Less: Rebate u/s 87A             | Nil           |
|                                  | 2,60,000      |
| Add: Health & Education cess     | 10,400        |
|                                  | 2,70,400      |
| Less: Tax Deducted at Source     | 1,80,000      |
| <b>Total Advance tax payable</b> | <b>90,400</b> |

Advance tax to be paid on specified dates –

| Date         | Working         | Amount        |
|--------------|-----------------|---------------|
| 15-06-2024   | 15% of ₹ 90,400 | 13,560        |
| 15-09-2024   | 30% of ₹ 90,400 | 27,120        |
| 15-12-2024   | 30% of ₹ 90,400 | 27,120        |
| 15-03-2025   | 25% of ₹ 90,400 | 22,600        |
| <b>Total</b> |                 | <b>90,400</b> |

### Illustration 3

Mr. Kabra working in Y Ltd. furnishes the following details, compute the tax to be deducted at source by Y Ltd.

|  |             |
|--|-------------|
| Gross salary   | ₹ 15,50,000 |
| Interest paid on borrowed capital for self-occupied property | ₹ 50,000    |
| Loss from business   | ₹ 1,00,000  |
| Gross Interest Income (TDS ₹ 5,000)                          | ₹ 60,000    |
| Investment in PPF  | ₹ 1,00,000  |
| Tax Regime declared by Mr. X                                 |             |
| <b>Case i:</b>   | Old         |
| <b>Case ii:</b>  | Default     |

### Solution

Case (i): He has opted for the old tax regime

Computation of tax to be deducted at source by Y Ltd

| Particulars   | Tax on income including other income | Tax on income excluding other income |
|---|--------------------------------------|--------------------------------------|
| Gross Salary  | 15,50,000                            | 15,50,000                            |
| Less: Standard Deduction  | 50,000                               | 50,000                               |
|   | 15,00,000                            | 15,00,000                            |
| Loss from House Property  | (50,000)                             | (50,000)                             |
| Interest Income   | 60,000                               | Nil                                  |
| Gross Total Income  | 15,10,000                            | 14,50,000                            |
| Less: Deduction u/s 80C [Investment in PPF]                       | 1,00,000                             | 1,00,000                             |
| Total Income  | 14,10,000                            | 13,50,000                            |
| Tax on above  | 2,35,500                             | 2,17,500                             |
| Less: Rebate u/s 87A  | Nil                                  | Nil                                  |
| Tax after rebate  | 2,35,500                             | 2,17,500                             |
| Add: Health & Education cess @ 4%                                 | 9,420                                | 8,700                                |
| Tax and cess payable  | 2,44,920                             | 2,26,200                             |
| Less: Tax deducted at source on other income                      | 5,000                                | 5,000                                |
| Balance   | 2,39,920                             | 2,21,200                             |
| Tax to be deducted by Y Ltd. (Higher of ₹ 2,39,920 or ₹ 2,21,200) | 2,39,920                             |                                      |



## Work Book : Direct Taxation (Section A)

Case (i): He has opted for the default tax regime

Computation of tax to be deducted at source by Y Ltd

| Particulars   | Tax on income including other income | Tax on income excluding other income |
|---|--------------------------------------|--------------------------------------|
| Gross Salary  | 15,50,000                            | 15,50,000                            |
| Less: Standard Deduction  | 75,000                               | 75,000                               |
|   | 14,75,000                            | 14,75,000                            |
| Loss from House Property  | -                                    | -                                    |
| Interest Income   | 60,000                               | Nil                                  |
| Gross Total Income  | 15,35,000                            | 14,75,000                            |
| Less: Deduction u/s 80C [Investment in PPF]                       | -                                    | -                                    |
| Total Income  | 15,35,000                            | 14,75,000                            |
| Tax on above  | 1,50,500                             | 1,35,000                             |
| Less: Rebate u/s 87A  | Nil                                  | Nil                                  |
| Tax after rebate  | 1,50,500                             | 1,35,000                             |
| Add: Health & Education cess @ 4%                                 | 6,020                                | 5,400                                |
| Tax and cess payable  | 1,56,520                             | 1,40,400                             |
| Less: Tax deducted at source on other income                      | 5,000                                | 5,000                                |
| Balance   | 1,51,520                             | 1,35,400                             |
| Tax to be deducted by Y Ltd. (Higher of ₹ 1,51,520 or ₹ 1,35,400) | 1,51,520                             |                                      |

### Illustration 4

Y Ltd. has credited the following party for various contracts, determine whether tax is required to be deducted or not:

| Cases             |              |                    |          | Solution             |             |               |
|-------------------|--------------|--------------------|----------|----------------------|-------------|---------------|
| Name of the party | Contract No. | Nature of contract | Amount   | Applicability of TDS | Rate of TDS | Amount of TDS |
| Mr. A             | 5282         | Transport          | ₹ 18,000 | No                   | NA          | NA            |
| Mr. A             | 5277         | Advertisement      | ₹ 8,000  | No                   | NA          | NA            |
| Mr. A             | 5267         | Transport          | ₹ 35,000 | No <sup>@</sup>      | NA          | NA            |
| Mr. B             | 5825         | Advertisement      | ₹ 35,000 | Yes                  | 1%          | ₹ 350         |
| Mr. C             | 5826         | Catering           | ₹ 42,000 | Yes                  | 1%          | ₹ 420         |
| D Ltd.            | 5880         | Catering           | ₹ 37,000 | Yes                  | 2%          | ₹ 740         |
| Mr. E             | 5883         | Advertisement      | ₹ 27,000 | No                   | NA          | NA            |
| Mr. E             | 5890         | Advertisement      | ₹ 26,000 | No                   | NA          | NA            |
| Mr. E             | 5893         | Advertisement      | ₹ 25,000 | No                   | NA          | NA            |
| Mr. E             | 5895         | Advertisement      | ₹ 28,000 | Yes <sup>#</sup>     | 1%          | ₹ 1,060       |



Assuming all the payee provides their PAN.

@ Prescribed conditions are fulfilled

# In the first three invoices, the value per transaction does not exceed ₹ 30,000 and the aggregate amount does not exceed ₹ 1,00,000/- hence, provisions of TDS are not applicable. However, after considering the fourth invoice, the aggregate value exceeds ₹ 1,00,000 during the previous year, hence, the provisions of TDS are applicable from the very first invoice. The TDS @ 1% shall apply to all transactions; in such case, tax shall be deducted from the last invoice.

### Illustration 5

Z Ltd. is engaged in the business of plastic bottles. Z Ltd. has an arrangement with John that he will manufacture the plastic bottles as per the specifications given by it. For this purpose, John issued the following bills on Z Ltd. Z Ltd. requested you to advise on the applicability of TDS:

| Date       | Bill No. | Gross Amount | Deduction for material | Other Details   |
|------------|----------|--------------|------------------------|---|
| 10-10-2024 | 132      | 10,00,000    | 9,50,000               | Raw material has been supplied by Z Ltd. and such value is shown separately |
| 15-11-2024 | 145      | 2,00,000     |                        | Raw material of ₹ 1,65,000/- has been supplied by Z Ltd.                    |
| 23-12-2024 | 185      | 1,50,000     |                        | Raw material has been procured from others                                  |

### Solution

Work as defined in sec.194C covered manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer. However, it does not include manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from a person, other than such customer. Accordingly tax is required to be deducted at the time of crediting John or making payment to him, whichever is earlier.

| Date       | Gross Amount | Deduction for material | Net amount on which tax is required to be deducted | Rate of TDS | Amount of TDS |
|------------|--------------|------------------------|--|-------------|---------------|
| 10-10-2024 | 10,00,000    | 9,50,000               | 50,000   | 1%          | 500           |
| 15-11-2024 | 2,00,000     | Nil (Note 1)           | 2,00,000   | 1%          | 2,000         |
| 23-12-2024 | 1,50,000     | Nil                    | 1,50,000   | NA (Note 2) | NA            |

### Note

1. Since ₹ 1,65,000 is not mentioned separately in the invoice of John.
2. Since raw-material for manufacturing articles as per specifications of Z Ltd. is acquired from other person, hence, it is not covered in the definition of work.

It is assumed that Z Ltd. has credited the account of John on the bill-date.



## Work Book : Direct Taxation (Section A)

### Illustration 6

Examine the applicability & the amount of TDS to be deducted in the following cases for F.Y. 2024-25:

- MSP Ltd. paid ₹ 22,000 to one of its Directors as sitting fees on 07-09-2024.
- On 27-12-2024, the Rajasthan Government paid ₹ 2,00,000 to Mr. Ramesh, a resident individual, against compulsory acquisition of an urban land.
- Rent paid for plant and machinery ₹ 1,50,000 by a partnership firm having turnover of ₹ 55 lakh
- Mr. Anil, a resident Indian, dealing in food grains has a turnover of ₹ 11 crores in the previous year 2023-24. He purchased goods from Mr. Ram, a resident seller, regularly in the course of his business. The aggregate purchase made during the previous year 2024-25 on various dates is ₹ 75 lakhs which are as under:

06-08-2024                ₹ 23,00,000

11-09-2024                ₹ 28,00,000

27-01-2025                ₹ 24,00,000

He credited Mr. Ram's account in the books of accounts on the same date and made the payment on the 27-01-2025 ₹ 75 lakh. Mr. Ram's turnover for the financial year 2023-24 is ₹ 13 crores.

### Solution

- ₹ 2,200 (being 10% of ₹ 22,000) is required to be deducted u/s 194J. The threshold limit of ₹ 30,000 is not applicable in respect of sum paid to a director.
- Since the compensation amount does not exceed ₹ 2,50,000, hence the provision of sec. 194LA is not applicable.
- Since the amount of rent does not exceed ₹ 2,40,000, hence the provision of sec. 194-I is not applicable.
- Since turnover of Mr. Anil for F.Y.2023-24 exceeds ₹ 10 crores, and value of goods purchased from Mr. Ram, a resident seller, exceeds ₹ 50 lakhs in the P.Y.2024-25, he is liable to deduct tax @ 0.1% on ₹ 25 lakhs (being the sum exceeding ₹ 50 lakhs), at the time of credit or payment, whichever is earlier.

| Date       | Value       | TDS  | Reason  |
|------------|-------------|--|---|
| 06-08-2024 | ₹ 23,00,000 | Nil  | As aggregate purchase value during the P.Y. 2024-25 does not exceed ₹ 50 lakhs  |
| 11-09-2024 | ₹ 28,00,000 | ₹100 [i.e., 0.1% of {(₹23,00,000 + ₹ 28,00,000) – (₹50,00,000)}] | As aggregate purchase value during the P.Y. 2024-25 exceeds ₹ 50 lakhs. TDS is required to be deducted on amounts in excess of ₹ 50 lakhs |
| 27-01-2025 | ₹ 24,00,000 | ₹ 2,400 [i.e., 0.1% of ₹24,00,000]                               |   |

## RETURN OF INCOME & ASSESSMENT

### Illustration 1

State the time allowed u/s 139(4) to submit a belated return for the P.Y. 2024-25 in the following cases -

- No assessment is made u/s 144.
- Assessee failed to respond to notice u/s 142(1), served on 5/11/2025 (time allowed in such notice to submit return is 5/12/2025) but no assessment is made u/s 144.
- Assessee failed to respond to notice u/s 142(1), served on 5/10/2025 (time allowed in such notice to submit return is 5/11/2025) and assessment u/s 144 is completed on 7/12/2025.
- Assessee failed to respond to notice u/s 142(1), served on 5/10/2025 (time allowed in such notice to submit return is 5/11/2025) and assessment u/s 144 is completed on 7/12/2025. However, the assessee has received the assessment order on 5/1/2026.

### Solution

- a) 31/12/2025      b) 31/12/2025      c) 7/12/2025      d) 7/12/2025

### Illustration 2

Santu furnishes the following information for the previous year 2024-25:

- Loss from business : ₹ 8,00,000
- Long-term capital loss : ₹ 5,00,000
- Loss from House property : ₹ 1,00,000

Does Santu require to submit return? Also state the consequences for non filing of return. What is the due date of submission of such return?

### Solution

An individual assessee is not compulsorily required to furnish a return of loss. However, the following losses cannot be carried forward if the return of loss is not submitted within the time allowed u/s 139(1):

- Business loss (speculative or otherwise);
- Capital loss;
- Loss from the activity of owning and maintaining race horses
- Loss from business specified u/s 35AD

Santu is required to file his return of income by 31-07-2024 (if audit is not required) else 31-10-2024 (if audit is compulsory)<sup>1</sup>

1 In some case he is required to file his return on or before 30<sup>th</sup> day of November of the assessment year



## Work Book : Direct Taxation (Section A)

### Illustration 3

Write the correct answer from the following statements as per provision of 139(1) of the Income Tax Act, 1961.

- (i) Mr. Sunil, a salaried employee of Calcutta University having Taxable Income ₹ 14,00,000 for the Previous year 2024–25, whose due date of filing the income tax return is 30<sup>th</sup> November, 2025.
- (ii) Mr. Raghav, a salaried employee of Tata Motors having taxable income ₹ 18,00,000 for the previous year 2024–25, he fails to file his income tax return within due date. He wants to file a belated return. The time limit of filing the belated return is 31<sup>st</sup> March 2026.
- (iii) Mr. Akhil, a businessman filed a belated return for the Previous year 2024–25. He wants to submit a revised return on 31<sup>st</sup> Dec. 2025, after he discovered that he failed to claim a deduction allowable u/s 80.
- (iv) M/s ABC, a Kolkata based partnership firm is required to get its Accounts Audited under the Income Tax Act. The Due Date of filing Income Tax Return of the firm for the Previous Year 2024–25 is within 31<sup>st</sup> July 2025.
- (v) Ms. Ankita is a partner of a partnership firm and the accounts of the firm is required to be audited. Due Date of filing the Income Tax Return of Ms. Ankita for the Previous Year 2024–25 is within 31<sup>st</sup> December, 2025.

### Solution

- (i) Due Date of filing Income Tax Return shall be 31<sup>st</sup> July, 2025.
- (ii) He can file a belated return upto 31-12-2025 provided the assessment is not already completed
- (iii) A belated return can be revised provided the assessment is not already completed
- (iv) Partnership firm, whose accounts are required to be audited, is required to submit the return of income by 31-10-2025
- (v) Due date of filing return shall be 31-10-2025.

### Illustration 4

State whether the following persons have to mandatorily furnish their return of income for the assessment year 2025-26:

- (i) Mr. Rajesh, aged 45 years whose gross total income is ₹ 3,50,000 and total income after deduction u/s 80C is ₹ 2,00,000.
- (ii) M/S VMA, a partnership firm, whose total income during the previous year 2024-25 ₹ 50,000.
- (iii) Smt. S. Maheshwari aged 62 years, having total income ₹ 2,80,000.
- (iv) Maxco India Ltd., a registered company in India, has incurred loss during the previous year 2024-25 ₹ 2,20,000.

### Solution

- (i) Yes, as his gross total income exceeds the basic exemption limit
- (ii) Yes, the partnership firm is required to file its return of income irrespective of its size of turnover or income
- (iii) No, as her gross total income does not exceed the basic exemption limit
- (iv) Yes, the company is required to file its return of income irrespective of its size of turnover or income

### Illustration 5

Tax payable on total income of Mr. V Mundhra for the assessment year 2025-26 computed at ₹ 3,50,000. He paid advance tax of ₹ 45,000 during the previous year 2024-25. Tax of ₹ 15,000 has been deducted at source. Interest u/s 234A, 234B and 234C calculated as per provisions of the Income Tax Act amounted to ₹ 12,500, ₹ 16,800 and ₹ 9,800 respectively. Calculate self-assessment tax payable by Mr Mundhra u/s 140A.

### Solution

Computation of self-assessment tax payable u/s 140A by Mr. V Mundhra for the A.Y. 2025-26

| Particulars                        | Amount | Amount          |
|------------------------------------|--------|-----------------|
| Tax payable on total income        |        | 3,50,000        |
| Add: Interest u/s 234A             | 12,500 |                 |
| Add: Interest u/s 234B             | 16,800 |                 |
| Add: Interest u/s 234C             | 9,800  | 39,100          |
|                                    |        | 3,89,100        |
| Less: TDS                          | 15,000 |                 |
| Less: Advance Tax                  | 45,000 | 60,000          |
| <b>Self-assessment tax payable</b> |        | <b>3,29,100</b> |

### Illustration 6

Mr. Raman has a total income of ₹ 65,00,000 from salary, bank FD interest and two house properties during the previous year 2024-25. State with the reason(s) which ITR Form Mr. Raman should fill-up for filing his income tax return for the assessment year 2025-26.

### Solution

Mr. Raman is required to furnish his return of income in ITR 2 due to the following reasons

| He cannot file his return of income in | Reason  |
|--|---|
| ITR 1                                  | a. His total income exceeds ₹ 50 lakhs; and<br>b. He has more than one house property             |
| ITR 3 and ITR 4                        | His total income does not include income under the head Profits & Gains of Business or Profession |



## Work Book : Direct Taxation (Section A)

### Illustration 7

Sri Sen, 22 years, went to England from India for higher education on 1st December, 2021. So long he was in England, he had a residence in India. In winter vacations, he came twice to India. First time he came on 1st January, 2023 and stayed for 20 days, and second time he came on 15th December, 2023 and stayed for 25 days. After completing the education, he came back to India forever on 30th December, 2024.

On 01/01/2025, he got the job in Ram Ltd. for a monthly salary of ₹ 1,25,000. His salary has credited into his bank account on the last day of the month.

During the previous year 2024-25, he also earned saving bank interest of ₹ 13,360/-. In order to save tax, during the year, he has also invested ₹ 50,000 in PPF.

On the basis of aforesaid information, you are requested to answer the following:

- What is the residential status of Sri Sen for the previous year 2024-25
- What is his total income, if he has opted for old tax regime?
- Is he required file return of income for the A.Y. 2025-26
- If in case, he is required to file return of income, please suggest, in which ITR he is required to file his return of income.

### Solution

Determination of his residential status

During past few previous years, Sri Sen was in India as under:

| P.Y.           | Apr | May | June | July | Aug | Sep | Oct | Nov | Dec | Jan | Feb      | Mar | Total      |
|----------------|-----|-----|------|------|-----|-----|-----|-----|-----|-----|----------|-----|------------|
| 24-25          | -   | -   | -    | -    | -   | -   | -   | -   | 2   | 31  | 28       | 31  | 92         |
| 23-24          | -   | -   | -    | -    | -   | -   | -   | -   | 17  | 8   | -        | -   | 25         |
| 22-23          | -   | -   | -    | -    | -   | -   | -   | -   | -   | 20  | -        | -   | 20         |
| 21-22          | 30  | 31  | 30   | 31   | 31  | 30  | 31  | 30  | 1   | -   | -        | -   | 245        |
| 20-21 and back | 30  | 31  | 30   | 31   | 31  | 30  | 31  | 30  | 31  | 31  | 28 or 29 | 31  | 365 or 366 |

Accordingly, his residential status can be decided as under:

| Previous Year    | Presence in India<br>(In Days) | Resident (R) or<br>Non-resident (NR) | Condition satisfied to<br>became a resident |
|------------------|--------------------------------|--------------------------------------|---|
| 2024-2025        | 92                             | R                                    | 6(1)(c)                                     |
| 2023-2024        | 25                             | NR                                   | None  |
| 2022-2023        | 20                             | NR                                   | None  |
| 2021-2022        | 245                            | R                                    | Both  |
| 2020-2021 & back | 365 or 366                     | R                                    | Both  |

From the above working, it is apparently clear that Sri Sen is satisfying sec. 6(1) and both conditions of sec. 6(6). Hence, he is resident and ordinarily resident in India for the previous year 2024-25.

### Computation of total income

| Particulars   | Amount   | Amount          |
|---|----------|-----------------|
| <b><u>Salaries</u></b>  |          |                 |
| Salary from Ram Ltd. [₹ 1,25,000 x 3]                             | 3,75,000 |                 |
| Less: Standard Deduction  | 50,000   | 3,25,000        |
| <b><u>Income from Other Sources</u></b>                           |          |                 |
| Interest from SB Account  |          | 13,360          |
| <b>Gross Total Income</b>   |          | <b>3,38,360</b> |
| Less: Deductions  |          |                 |
| - U/s 80C [Investment in PPF]                                     | 50,000   |                 |
| - U/s 80TTA [Interest from SB Account subject to max of ₹ 10,000] | 10,000   | 60,000          |
| <b>Total Income</b>   |          | <b>2,78,360</b> |
| <b>Tax on above</b>   |          | <b>Nil</b>      |

### Filing of return

As per sec. 139(1), an individual is required to file his return of income where income before giving effect to sec. 54, 54B, 54D, 54EC, 54F, 54G, 54GA, 54GB and chapter VIA (i.e., deduction u/s 80C to 80U) exceeds the maximum amount which is not chargeable to income tax. In other words, if his gross total income (without considering deductions under section 54's) exceeds the basic exemption limit, he is required to file his return of income mandatorily.

In the instant case, the gross total income of Sri Sen is more than the basic exemption limit, hence he is required to file his return of income mandatorily.

### Form of ITR

He can file his return of income in ITR 1 as his income consists of salary and saving bank interest only

### Illustration 8

Mr. Prajapati, an individual, earns Income from Salary and 'Income from other sources' totalling ₹ 16,00,000 during the previous year 2024-25. You are asked to answer the following questions:

- In which 'Form' he is required to file his return of income?
- What is the due date for filing the return of income?
- If he fails to file his return of income by the due date, how much 'fees' will he have to pay?
- If his gross total income is ₹ 2,40,000 and he is filing a belated return, how much 'fees' will he have to pay?
- If his total income is ₹ 2,70,000 (after considering deduction under chapter VIA ₹ 50,000) and he is filing a belated return, how much 'fees' will he have to pay?

[Ans.: (i) ITR 1; (ii) 31-07-2025; (iii) ₹ 5,000; (iv) Nil; and (v) ₹ 1,000]



# The Institute of Cost Accountants of India

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**Behind Every Successful Business Decision, there is always a CMA**