

SECTION II

SCENARIO

Akash, an electronics engineer aged 48 years, is employed with ABC Ltd., Delhi from 1.4.2024. Prior to that, he has always been a freelance consultant, rendering consultancy services to various Indian companies. He has three children - two sons who are twins studying in class 10 in a reputed school in Delhi, and a daughter who is studying engineering in Delhi. Akash stays in a rented apartment in Munirka with his wife, Geetha and his children. Geetha plays violin in music concerts held in Delhi. Music is her passion and she does not charge for playing violin in the concerts. Akash's parents stay at Chennai in an apartment in Adyar owned by Akash, who purchased the same in the year 2020. Akash also owns an apartment in Bangalore which he has let out at ₹ 40,000 per month. Akash opts out of the default tax regime and pays tax under the optional tax regime as per the regular provisions of the Income-tax Act, 1961. Akash's nephew Arvind, aged 24 years, completed his graduation in the year 2022 and started the business of retail trade in garments in Pune. The turnover of the said business for the previous year 2023-24 is ₹ 2.10 crores and P.Y.2024-25 is ₹ 2.50 crores.

The scenario is continued below and divided into parts depicting the different components of salary and other income earned by Akash, Geetha and Arvind as well as transactions entered into by them during the previous year 2024-25. Column (2) indicates the "Points to Ponder" in respect of each component to urge you to put your thinking caps on and give your responses after reading the Units, comprehending the provisions under each head of income and analysing the tax consequences thereof.

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

(1) Scenario Component	(2) Point(s) to Ponder	(3) Relevant Unit	(4) Relevant Provision of law Section	(5) Write your response after reading the Units of this Chapter
(1) Akash's basic salary is ₹ 1,50,000 p.m. and dearness allowance (forming part of pay for retirement benefits) is ₹ 75,000 p.m. He also gets house rent allowance of ₹ 45,000 p.m. He lives in a rented house in Munirka and pays rent of ₹ 50,000 p.m.	Akash thinks that he is eligible for exemption of his entire HRA since the rent paid by him exceeds the HRA. Is he correct? If not, what is the amount of HRA that would be exempt?	1	10(13A)	No, he is not correct. HRA is exempt upto the least of the three limits – (i) HRA actually received i.e., ₹ 5,40,000. (ii) Rent paid (-)10% of salary = ₹ 6,00,000 – ₹ 2,70,000 = ₹ 3,30,000 (iii) 50% of salary, since the accommodation is located in Delhi = 50% of ₹ 27 lakh = ₹ 13.50 lakhs Accordingly, out of HRA of ₹ 5,40,000, only ₹ 3,30,000, being the least of the above limits, is exempt. The balance amount of ₹ 2,10,000 is taxable.

(2)	Akash also gets children education allowance of ₹ 3,000 per month per child from ABC Ltd.	Akash is aware that some portion of the allowance is exempt. Is he correct? If so, how much is the amount exempt?	1	10(14)	<p>Yes, he is correct. Children Education Allowance would be exempt upto ₹ 100 per month per child subject to a maximum of two children.</p> <p>Exempt Children Education Allowance = ₹ 100 x 12 months x 2 children = ₹ 2,400.</p> <p>The remaining amount of ₹ 1,05,600 (i.e., ₹ 1,08,000 – ₹ 2,400) is taxable.</p>
(3)	Akash's salary includes transport allowance of ₹ 5,000 per month for commuting from home to office.	Akash is of the opinion that the allowance would be exempt since his expenditure on commuting between home and office amounts to ₹ 8,000 per month. Is he correct?	1	10(14)	No, he is not correct. The entire transport allowance of ₹ 60,000 p.a. is taxable in his hands.
(4)	Akash is also entitled to an entertainment allowance of ₹ 5,000 per month.	Is Akash eligible for any deduction or exemption in respect of entertainment allowance?	1	16	No, he is not eligible for any exemption or deduction, since he is not a Government employee. The entire amount of ₹ 60,000 is taxable in his hands.

(5)	Akash gets a gift voucher of ₹ 20,000 on his birthday from ABC Ltd.	Akash thinks that the value of the voucher is not taxable, since it is a birthday gift and not his monthly salary. Is he correct?	1	17	No, he is not correct. Since the value of the gift voucher exceeds ₹ 5,000, the same is a taxable perquisite.
(6)	ABC Ltd. has given Akash a laptop, which he uses for both personal and official purposes. ABC Ltd. also pays mobile phone charges of Akash.	Would the use of laptop by Akash for his personal purposes and payment of his mobile phone charges by ABC Ltd. be treated as a perquisite and be included in his salary? If so, what would be the perquisite value?	1	17	No, the perquisite value for use of laptop is Nil. Also, there is no taxable perquisite in respect of mobile phone charges actually incurred by ABC Ltd. on behalf of Akash.
(7)	ABC Ltd. and Akash contribute ₹ 30,000 per month towards provident fund (RPF).	Akash wants to understand the tax implications of his and ABC Ltd.'s contribution to RPF. (i) Would any portion of ABC Ltd.'s contribution be included in his salary income? If so, how much?	1	17	Yes, ABC Ltd.'s contribution in excess of 12% of salary is includible in Akash's salary. ₹ 3,60,000 – ₹ 3,24,000 (being 12% of ₹ 27 lakh) = ₹ 36,000 is includible in Akash's salary.

		(ii)	Can he claim deduction in respect of his own contribution to RPF? If so, how much?	80C	Yes, he can claim deduction u/s 80C in respect of his own contribution, subject to a maximum of ₹ 1,50,000.
(8)	Akash pays EMI (Equated Monthly Installment) of ₹ 30,000 to SBI in respect of loan taken for purchase of Chennai apartment. The interest payment for the year was ₹ 2,50,000 and the principal repayment was ₹ 1,10,000.	Is Akash entitled for any deduction in respect of EMI paid by him during the year? If so, how much?	2	24 and 80C	Yes, Akash would be entitled to deduction of ₹ 2 lakh u/s 24 in respect of interest while computing Income from house property. As regards principal repayment of ₹ 1,10,000, the same is eligible for deduction u/s 80C. Deduction u/s 80C = ₹ 3,60,000 (Akash's Contribution to RPF) + ₹ 1,10,000 (Principal repayment of housing loan) = ₹ 4,70,000, restricted to ₹ 1,50,000.
(9)	During the year, Akash pays property taxes of ₹ 5,000 for his apartment in Chennai and his tenant pays property taxes of ₹ 4,000 for the apartment in Bangalore.	Akash wants to claim the property taxes paid in respect of his apartments in Chennai and Bangalore as deduction. Can he do so? If not, why?	2	23	No, he cannot do so. The annual value of Chennai apartment, being self-occupied, is Nil. Municipal taxes is not allowable as deduction therefrom.

					In respect of Bangalore apartment also, no deduction is allowable in respect of municipal taxes, since the same is paid by his tenant.
(10)	During the year, Akash received ₹ 48,000 from his tenant towards arrears of rent for the apartment in Bangalore for the years 2022-23 and 2023-24.	Akash is of the opinion that he would have to include the arrears in his income of the P.Y.2022-23 and P.Y.2023-24 by revising his tax returns for those years. Is he correct? If not, what would be the tax treatment for arrears of rent received this year?	2	25A	No, he is not correct. The arrears of rent is taxable in his hands in P.Y.2024-25, being the year of receipt, under section 25A after providing for deduction@30%. Amount taxable u/s 25A = ₹ 48,000 – ₹ 14,400 = ₹ 33,600.
(11)	Akash incurred ₹ 50,000 towards repairs of his Chennai apartment and ₹ 30,000 towards repairs of his Bangalore apartment.	Akash wants to claim deduction of amount incurred towards repair of his apartments in Chennai and Bangalore. Can he do so?	2	24	In respect of Bangalore apartment, deduction@30% of Net Annual Value is allowable u/s 24(a). Therefore, he would be eligible for deduction of ₹ 1,44,000, being 30% of ₹ 4,80,000 (Assuming actual rent is the Annual Value). This deduction is allowable irrespective of the actual expenditure incurred on repairs etc.

(12)	Akash is contemplating whether or not to gift his Bangalore apartment to Geetha.	Akash thinks that if he gifts the apartment to Geetha, the rental income therefrom would be assessed in her hands.			In respect of Chennai apartment, since the Annual value is Nil, no deduction is allowable u/s 24(a), irrespective of the expenditure incurred on repairs etc.
	(i)	What would be the tax implication of gift of Bangalore apartment by Akash to his wife Geetha?	5	56(2)(x)	There would be no tax implication in the hands of Geetha if she receives immovable property without consideration from her husband Akash, since he falls within the definition of "relative" u/s 56.
	(ii)	In case Akash transfers the apartment in Geetha's name, in whose hands would the income be taxable?	2	27	The income from Bangalore apartment would continue to be taxable in the hands of Akash, since he would be the deemed owner of apartment transferred to his wife without consideration.

(13)	Arvind pays rent of ₹ 40,000 per month for the premises in which he is carrying on his business without deducting tax at source.	Arvind is of the opinion that the entire rent paid by him would be allowed as deduction while computing his business income. Is he correct? If not, how much deduction would he be entitled to?	3	40(a)	No, he is not correct. Since Arvind's business turnover exceeds ₹ 1 crore in the P.Y.2023-24, he is liable to deduct tax at source from the rent paid in P.Y.2024-25 for the premises in which he is carrying on his business. Since he has failed to do so, 30% of such rent would be disallowed while computing business income. Accordingly, only ₹ 3,36,000 (i.e., ₹ 4,80,000 – ₹ 1,44,000, being 30% of ₹ 4,80,000) is allowable as deduction while computing business income of P.Y.2024-25.
(14)	Arvind has made cash payment of ₹ 20,000 on 1 st December to Mr. Vallish for purchase of stationery items. All other payments have been made through permissible electronic modes.	Would Arvind be eligible for deduction in respect of ₹ 20,000 paid to Vallish while computing his business income?	3	40A(3)	No, since the cash payment exceeds ₹ 10,000, disallowance u/s 40A(3) is attracted and the entire amount of ₹ 20,000 would be disallowed while computing Arvind's business income.

(15)	Arvind has purchased furniture worth ₹ 10 lakh during the year for his business premises.	<p>Arvind wants to know whether he can claim the value of furniture as deduction while computing business income.</p> <p>(i) Can he do so? If not, why?</p> <p>(ii) Would he be entitled to any other deduction in respect of the same?</p>	3	37 & 32	<p>No, he cannot do so, since it is a capital expenditure.</p> <p>He can however claim depreciation of ₹ 1 lakh, being 10% of ₹ 10 lakh, if the furniture is put to use for 180 days or more during the P.Y.2024-25. If it is put to use for less than 180 days, then ₹ 50,000, being 50% of ₹ 1 lakh is allowable as deduction in the P.Y.2024-25.</p>
(16)	Arvind recovered ₹ 40,000 from Mr. Balram, whose debt of ₹ 60,000 was written off by him last year as bad debts.	<p>Arvind is of the opinion that he need not pay tax on the amount recovered in respect of the bad debts written off.</p> <p>Is he correct?</p>	3	41	<p>Since Mr. Balram's entire debt of ₹ 60,000 was written off as bad debts in the P.Y.2023-24 and claimed as deduction u/s 36(1)(vii) in that year by Arvind, the amount of ₹ 40,000 recovered from him would be taxable in the hands of Arvind in the P.Y.2024-25.</p>

(17)	Arvind received ₹ 25 lakh turnover in cash during the year. The remaining amount was received through permissible electronic modes. Assume that turnover from business represents his total receipts.	(i)	Arvind wants to know whether he has to get his books of account audited. If so, why?	3	44AB	Yes, since his turnover exceeds ₹ 1 crore. The higher threshold limit of ₹ 10 crore u/s 44AB is not applicable to him, since his aggregate cash receipts of ₹ 25 lakh exceed 5% of his total receipts for the P.Y.2024-25. % of aggregate cash receipts to total receipts = ₹ 25 lakh/₹ 250 lakh x 100 = 10%
		(ii)	He wants to declare profits on presumptive basis. Can he do so? If not, why?		44AD	No, since his turnover exceeds ₹ 2 crore in the P.Y.2024-25. The higher threshold of ₹ 3 crore for declaring income on presumptive basis is not applicable to him since his aggregate cash receipts of ₹ 25 lakh exceeds 5% of his total turnover of ₹ 2.50 crore.
(18)	Akash's father sold the residential flat owned by him in Baroda. He wants to invest the capital gains of ₹ 40 lakhs in order to be exempt from capital gains tax.	Akash's father wants to know the options available to him for investment of capital gains so that he need not pay any capital gains tax. What are the options available?	4	54 & 54EC	If the residential flat was held by him for more than 24 months, the gain arising therefrom would be a long-term capital gain. He can invest the entire capital gains of ₹ 40 lakhs in purchase or construction of a residential property in India and avail the	

(19)	Geetha sells some of the gold jewellery gifted to her by her parents at the time of wedding for ₹ 80 lakhs	(i) Geetha is of the opinion that capital gains on sale of jewellery received as gift from parents has to be computed by taking the cost of acquisition as Nil. Is she correct?	4	49(1)	<p>benefit of section 54. The purchase can be within one year before or within two years from the date of transfer. The construction has to be within 3 years from the date of transfer. In the alternative, he can invest the amount of ₹ 40 lakhs in bonds of RECL or NHAI within six months from the date of transfer of residential flat, and claim the benefit of section 54EC.</p> <p>If the residential flat was held by him for a period not exceeding 24 months, the gain arising therefrom would be a short-term capital gains, in which case he would not be eligible for benefit of section 54 or section 54EC.</p>
					<p>No, she can take cost of jewellery to her parents as her cost of acquisition. If the same is before 1.4.2001, she can take the fair market value as on 1.4.2001 as the cost of acquisition.</p>

		(ii) Would Geetha be entitled to any exemption on capital gains computed if she invests the capital gains in purchase of a residential apartment?	54F	She would be entitled to deduction u/s 54F in respect of the entire capital gains, if she invests the net consideration in purchase of a residential apartment in India. If she invests only the capital gains, she would be entitled to proportionate deduction u/s 54F.
		(iii) If she delays the purchasing the residential apartment to next year, what should she do in the meanwhile to be eligible for exemption from capital gains?		She should deposit the net consideration in Capital Gains Account Scheme on or before the due date of filing return of income to claim exemption of the entire capital gains.
(20)	Akash transfers the listed shares of XYZ Ltd. for ₹ 20 lakhs in June this year. These shares were purchased by him in the year 2020 for ₹ 12 lakhs. He also transfers the listed shares of PQR Ltd. for ₹ 8 lakhs in August	Akash wants to know the capital gains tax payable by him on the transaction of purchase and sale of shares. He informs that he has paid securities transaction tax both at the time of purchase and sale of the shares.	4 112A & 111A	The capital gains of ₹ 8 lakhs on transfer of listed shares of XYZ Ltd. is a long-term capital gains, since these shares were held by Akash for a period of more than 12 months. He has to pay tax@10% plus surcharge@10% (since his total income exceeds ₹ 50 lakhs but does not exceed

	<p>this year. These shares were purchased by him in December 2023 for ₹ 5 lakhs.</p>			<p>₹ 1 crore) and cess@4% on ₹ 7 lakhs, being the long-term capital in excess of ₹ 1.25 lakhs. The tax payable by him is ₹ 77,220.</p> <p>The capital gains of ₹ 3 lakhs on transfer of shares of PQR Ltd., held for a period of less than 12 months is a short-term capital gains chargeable to tax@20% plus surcharge@10% plus cess@4%. The tax payable by him on such capital gains is ₹ 68,640.</p>
(21)	<p>Akash's father wins ₹ 5 lakh from lottery. He had borrowed money for purchase of the ticket and he paid interest of ₹ 20,000 on such borrowings.</p>	5	58(4) 115BB	<p>No, he is not correct. No deduction is allowable from lottery winnings. The same is taxable@30% plus cess@4%.</p>
(22)	<p>Akash earns dividend income of ₹ 20 lakh from Indian companies. He has paid interest of ₹ 5</p>	5	56(2)(i) & 57	<p>No, he is not correct. Dividend income is taxable as Income from Other Sources. The deduction for interest is</p>

	lakh on money borrowed to invest in shares of such companies.				restricted to 20% of dividend income. Accordingly, net dividend of ₹ 16 lakhs (i.e., ₹ 20 lakhs – ₹ 4 lakhs, being 20% of ₹ 20 lakhs) is taxable under the head "Income from Other Sources".
(23)	Akash gifts a sum of ₹ 1 lakh to Geetha on her birthday.	Geetha is of the opinion that the gift of sum of money and value of car is not includible in her income. Is she correct?	5	56(2)(x)	Yes, sum of money received without consideration from Akash is not taxable in the hands of Geetha, since the same is received from her husband, who falls within the definition of relative.
(24)	Arvind gifts a car to Geetha on her birthday.				Yes, since car is not included in the definition of property. Hence, its value is not chargeable to tax in her hands.
(25)	Arvind gives a cash gift of ₹ 1 lakh to Akash on Diwali.	Akash is of the opinion that the amount gifted is not includible in his income since Arvind is his relative. Is he correct?	5	56(2)(x)	No, Nephew is not included in the definition of relative. Therefore, the sum of ₹ 1 lakh received from Arvind is taxable in the hands of Akash.



CROSSWORD PUZZLE – II

Crossword puzzle grid with the following words filled in:

- 1. RELEVANT
- 2. REDEMPTION
- 3. FAMILY
- 4. FINANCIAL
- 5. ADVERTISING
- 6. SERVICE
- 7. TEA
- 8. PRESUMPTIVE
- 9. SLUMP
- 10. VRS
- 11. INTANGIBLE
- 12. REALTY
- 13. BUILDING
- 14. DIVIDEND
- 15. FMV
- 16. SAVINGS
- 17. SCIENTIFIC
- 18. LTCG