

INCOME TAX LIABILITY - COMPUTATION AND OPTIMISATION

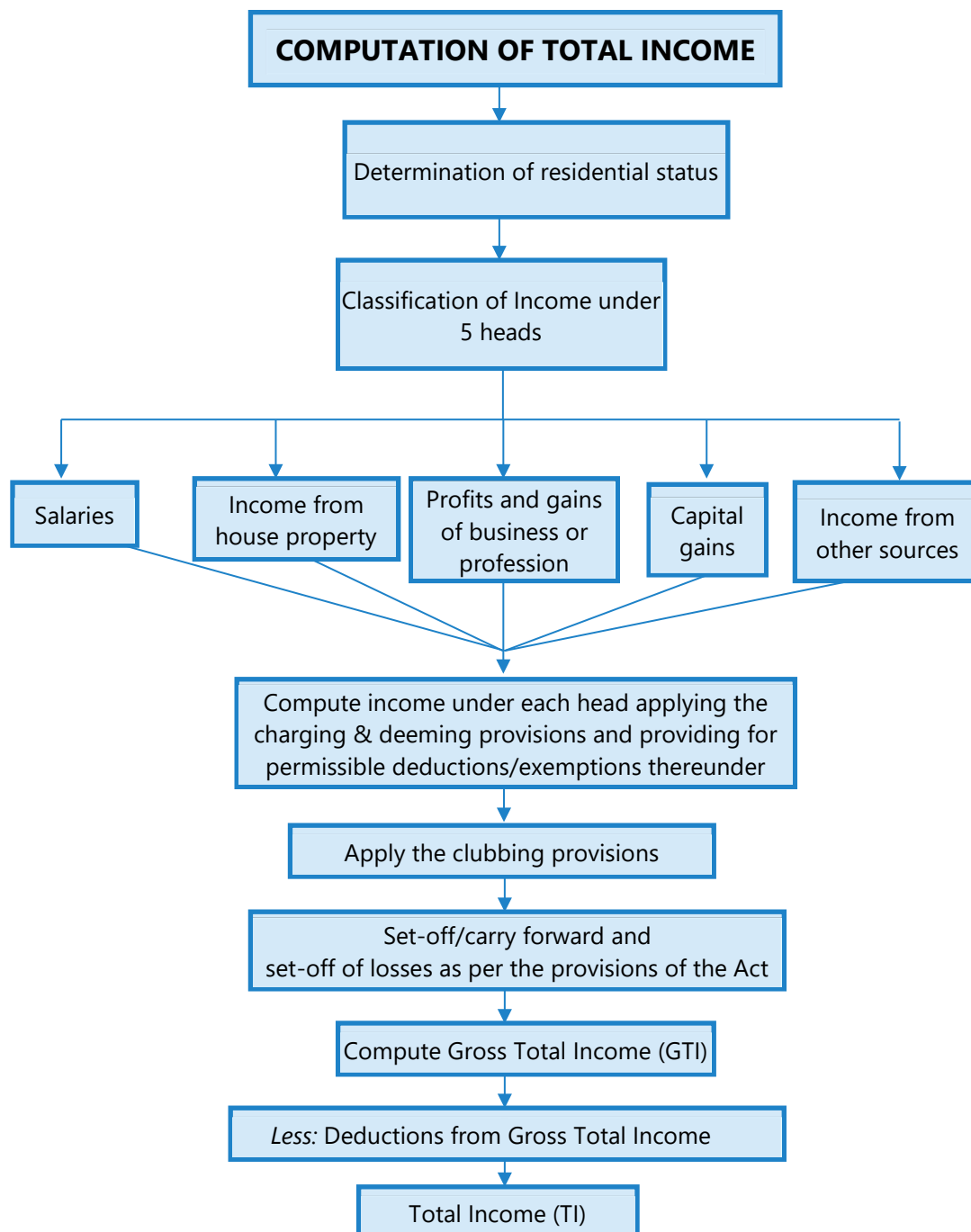


LEARNING OUTCOMES

After studying this chapter, you would be able to–

- ◆ **compute** the tax liability of an individual under the default tax regime under section 115BAC;
- ◆ **compute** the tax liability of an individual as per the regular provisions of the Income-tax Act, 1961;
- ◆ **examine** the applicability of the provisions of Alternate Minimum Tax (AMT), if applicable and compute the tax liability applying such provisions and determine the tax credit, if any, to be carried forward;
- ◆ **compare** the tax liability computed under the default tax regime under section 115BAC with the tax liability under the regular provisions of the Act (including provisions relating to AMT, if applicable) and determine which is more beneficial to the individual.

CHAPTER OVERVIEW



1. MEANING OF TOTAL INCOME

The total income of an individual is arrived at after making deductions under Chapter VI-A from the Gross Total Income. As we have learnt earlier, Gross Total Income is the aggregate of the income computed under the 5 heads of income, after giving effect to the provisions for clubbing of income and set-off and carry forward & set-off of losses.

2. INCOME TO BE CONSIDERED WHILE COMPUTING TOTAL INCOME OF INDIVIDUALS

	Capacity in which income is earned by an individual	Treatment of income earned in each capacity
(1)	In his personal capacity (under the 5 heads of income)	Income from salaries, Income from house property, Profits and gains of business or profession, Capital gains and Income from other sources.
(2)	As a partner of a firm/LLP	<p>(i) Salary, bonus etc. received by a partner is taxable as his business income.</p> <p>(ii) Interest on capital and/or loans to the firm/LLP is taxable as business income of the partner.</p> <p>The income mentioned in (i) and (ii) above are taxable to the extent they are allowed as deduction to the firm.</p> <p>(iii) Share of profit in the firm is exempt in the hands of the partner [Section 10(2A)]. The profit credited to the partners' accounts in the firm would be exempt from tax in the hands of such partners, even if the income chargeable to tax becomes Nil in the hands of the firm on account of any exemption or deduction available under the provisions of the Act [Circular No. 8/2014 dated 31.03.2014].</p>

(3)	As a member of HUF	<ul style="list-style-type: none"> (i) Share of income of HUF is exempt in the hands of the member [Section 10(2)]. (ii) Income from an impartible estate of HUF is taxable in the hands of the holder of the estate who is the eldest member of the HUF. (iii) Income from self-acquired property converted into joint family property, without adequate consideration.
(4)	Income of other persons included in the income of the individual	<ul style="list-style-type: none"> (i) Transferee's income, where there is a transfer of income without transfer of assets (ii) Income arising to transferee from a revocable transfer of an asset. <p>In cases (i) and (ii), income is includible in the hands of the transferor.</p> <ul style="list-style-type: none"> (iii) Income of spouse as mentioned in section 64(1)(ii)/(iv) (iv) Income from assets transferred otherwise than for adequate consideration to any person for the benefit of spouse [Section 64(1)(vii)]. (v) Income from assets transferred otherwise than for adequate consideration to son's wife or to any person for the benefit of son's wife [Section 64(1)(vi)/(viii)]. (vi) Income of minor child as mentioned in section 64(1A).



3. COMPUTATION OF TOTAL INCOME AND TAX PAYABLE BY AN INDIVIDUAL

Income-tax is levied on an assessee's total income. Such total income has to be computed as per the provisions contained in the Income-tax Act, 1961. Steps 1 to 8 given hereunder have to be followed for computing total income of an individual assessee. Thereafter, steps 9 to 15 have to be followed for computing the tax payable.

Step 1 – Determination of residential status

- ◆ The residential status of an individual has to be determined to ascertain which income is to be included in computing the total income.
- ◆ In the case of an individual, the duration for which he is present in India in the relevant previous year or relevant previous year and the earlier previous years, as the case may be, determine his residential status.
- ◆ An individual can be either a –
 - Resident and ordinarily resident
 - Resident but not ordinarily resident
 - Non-resident
- ◆ An individual who is a citizen of India, having total income, other than the income from foreign sources, exceeding ₹ 15 lakh during the previous year, would be deemed resident in India in that previous year, if 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. Such deemed resident would, by default, be a resident but not ordinarily resident in India in that previous year.
- ◆ The residential status of an individual determines the scope of his taxable income.
- ◆ For example, income which accrues outside India and is received outside India is taxable in the hands of a resident and ordinarily resident but is not taxable in the case of a non-resident. In the case of a resident but not ordinarily resident, such income would be taxable only if it is derived from a business controlled in India or profession set up in India.

Step 2 – Classification of income under different heads

- ◆ An individual may earn income from different sources. Under the Income-tax Act, 1961, for computation of total income, all income of an individual assessee can be classified into five different heads of income.
- ◆ There are five heads of income, namely, -
 - Salaries,
 - Income from house property,

- Profits and gains of business or profession
 - Capital Gains
 - Income from other sources
- ◆ The income of an assessee should be identified and grouped under the respective head of income.
 - ◆ Each head of income has a charging section (for example, section 15 for salaries, section 22 for income from house property).
 - ◆ Deeming provisions are also contained under certain heads, by which specific items are sought to be taxed under those heads.

For example, unrealized rent and arrears of rent from house property would be deemed to be income from house property in the hands of the recipient individual even if he is not the owner of the house property at the time of receipt of such amount.

- ◆ The charging section and the deeming provisions would help you to determine the scope of income chargeable under a particular head.

Step 3 – Computation of income under each head

- ◆ Income is to be computed in accordance with the provisions governing a particular head of income.
- ◆ Assess the income under each head by -
 - applying the charging and deeming provisions,
 - excluding items of income relating to that head in respect of which specific exemptions are provided in section 10.

There are certain incomes which are wholly exempt from income-tax. These incomes have to be excluded and will not form part of Gross Total Income. *For e.g. agricultural income which is exempt under both the tax regimes.*

Also, some incomes are partially exempt from income-tax. These incomes are excluded while computing income under the relevant head only to the extent of the limits specified in the Act. *For e.g. House Rent Allowance, Children Education Allowance are exempt upto prescribed limits under the optional tax regime as per normal provisions*

of the Act. However, there is no exemption for these allowances under the default tax regime under section 115BAC.

- allowing the permissible deductions under that head, and

For example, while calculating income from house property of a rented house property, municipal taxes paid by the owner and interest on loan are allowed as deduction. Standard deduction of **upto ₹ 50,000 (under optional regime) and ₹ 75,000 (under default regime)** is allowed under salaries. Similarly, deductions and allowances are prescribed under other heads of income.

- disallowing the non-permissible deductions.

For example, while computing income under the head "Profits and gains from business or profession" expenditure of personal nature and expenditure which is in the nature of offence are not allowable as deduction. Hence, such expenditure, if any, debited to profits and loss account, has to be added back while computing income under this head.

Likewise, while computing net consideration for capital gains, brokerage is a permissible deduction from gross sale consideration but securities transaction tax paid is not permissible.

- ◆ In this step, it is necessary to consider whether the individual is paying tax under the default tax regime or exercising the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act. Certain deductions which are allowable under the normal provisions of the Act are not permissible under the default tax regime, for example, additional depreciation, investment linked tax deduction under section 35AD, contribution to scientific research association, national laboratory, IIT etc. However, expenditure on in-house scientific research related to the business of the assessee is allowable as deduction under both the tax regimes.

Step 4 – Clubbing of income of spouse, minor child etc.

- ◆ An individual in a higher tax bracket may have a tendency to divert his income to another person who is not subject to tax or who is in a lower tax bracket.

For example, an individual may make a fixed deposit in the name of his minor son, so that income from such deposit would accrue to his son, who does not have any other income.

- ◆ In order to prevent evasion of income-tax by such means, clubbing provisions have been incorporated in the Income-tax Act, 1961, under which income arising to certain persons (like spouse, son's wife etc.) have to be included in the income of the person who has diverted his income to such persons for the purpose of computing tax liability.

Further, income of a minor child, not being a minor child suffering from any disability of the nature specified in section 80U (other than income derived from exercise of special skills/talent or manual work done by him) is includible in the hands of the parent whose total income is higher before including minor's income. Such income will be included in the hands of the parent and if that parent has exercised the option to shift out of the default tax regime and pays tax under normal provisions of the Act, exemption of up to ₹ 1,500 under section 10(32) would be provided from that income.

Step 5 – Set-off or carry forward and set-off of losses

An individual may have different sources of income under the same head of income. He may have profit from one source and loss from the other. Similarly, he can have loss under one head of income and profits under another head of income. There are provisions in the Act for allowing inter-source and inter-head adjustment.

◆ **Inter-source set-off of losses**

- A person may have income from one source and loss from another source under the same head of income. For instance, a person may have profit from wholesale trade of merchandise and loss from the business of plying vehicles.

The loss of one business can be set-off against the profits of another business to arrive at the net income under the head "Profits and gains of business or profession". However, loss from speculation business can be set-off only against profits from speculation business and not any other business.

- Set-off of loss from one source against income from another source within the same head of income is permissible, subject to certain

exceptions, like long-term capital loss cannot be set-off against short-term capital gains though short-term capital loss can be set-off against long-term capital gains.

◆ **Inter-head set-off of losses**

- Likewise, set-off of loss from one head against income from another head is also permissible, subject to certain exceptions, like business loss cannot be set-off against salary income; loss under the head “Capital Gains” cannot be set-off against any other head of income.
- Loss from house property cannot be set-off against any other head of income, if the individual pays tax under the default tax regime under section 115BAC.

If the individual exercises the option to shift out of the default tax regime and pays tax under normal provisions of the Act, loss from house property can be set-off against income under any other head only to the extent of ₹ 2 lakhs. The remaining loss from house property has to be carried forward to the subsequent year to be set-off against income from house property in that year.

◆ **Carry forward and set-off of losses**

- Unabsorbed losses of the current year can be carried forward to the next year for set-off only against the respective head of income.
- Here again, if there are any restrictions relating to inter-source set-off, the same will apply, like long-term capital loss which is carried forward can be set-off only against long-term capital gains and not short-term capital gains of a later year.
- The maximum number of years up to which any particular loss can be carried forward is also provided under the Act.

For example, business loss can be carried forward for a maximum of 8 assessment years to be set-off against business income. However, loss from specified business referred to in section 35AD can be carried forward indefinitely for set-off against profits of any specified business.

It must be noted that **loss from an exempt source** cannot be set-off against profits from a taxable source of income.

Example: Share of loss from a partnership firm cannot be set-off against sole proprietary business income of the partner, since share of income of the firm is exempt under section 10(2A).

Step 6 – Computation of Gross Total Income

- ◆ The income computed under each head, after giving effect to the clubbing provisions and provisions for set-off and carry forward and set-off of losses, have to be aggregated to arrive at the gross total income.

- ◆ The process of computing GTI is depicted hereunder -

Add income computed under each head → Apply clubbing provisions → Apply the provisions for set-off and carry forward of losses

Step 7 – Deductions from Gross Total Income

Certain deductions are allowable from gross total income to arrive at the total income. These deductions are contained in Chapter VI-A. These deductions are allowable if the individual exercises the option to shift out of the default tax regime and pay tax under normal provisions of the Act, subject to satisfaction of the conditions prescribed in the relevant sections.

- ◆ **Deduction in respect of certain payments, for example,**

Section	Nature of Payment/Deposit
80C	Payment of life insurance premium, tuition fees of children, deposit in public provident fund, repayment of housing loan etc.
80D	Medical insurance premium paid by an individual/HUF for the specified persons/ contribution to CGHS etc.
80E	Payment of interest on educational loan taken for self or relative

- ◆ **Deduction in respect of certain incomes, for example,**

Section	Nature of Income
80QQB	Royalty income of authors of certain books other than text books
80RRB	Royalty on patents

◆ **Deduction in respect of other incomes**

Section	Nature of Income
80TTA	Interest on savings account with a bank, co-operative society and post office.
80TTB	Interest on deposit with a bank, co-operative society and post office in case of senior citizens

◆ **Other Deductions**

Deduction under section 80U in case of a person with disability

In addition, deduction is also allowable under section 10AA in respect of an assessee who derives profits and gains from an undertaking which manufactures or produces articles or things or provides any service in any SEZ on or before 31.3.2021 if the individual exercises the option to shift out of the default tax regime and pay tax under normal provisions of the Act.

There are limits in respect of deduction under certain sections. The payments/incomes are allowable as deduction subject to such limits. For example, the maximum deduction under section 80RRB is ₹ 3 lakhs; under section 80TTA is ₹ 10,000 and under section 80TTB is ₹ 50,000.

Note - Deduction under section 80CCD(2) [Employer's contribution to pension scheme of Central Government], section 80CCH(2) [Central Government's contribution to assessee's account in Agniveer Corpus Fund] and section 80JJAA would be available if the eligible assessee pays tax at concessional rates of tax u/s 115BAC under the default tax regime.

Step 8 – Computation of Total income

- ◆ The gross total income as reduced by the above deductions under Chapter VI-A and section 10AA is the total income.

Total income = GTI – Deductions under Chapter VI-A and section 10AA

- ◆ It should be rounded off to the nearest multiple of ₹ 10.
- ◆ Tax is calculated on the total income of the assessee.

Step 9 – Application of the rates of tax on the total income in case of an individual

◆ **Concessional tax rates under default tax regime under section 115BAC of the Income-tax Act, 1961**

For individuals, there is a slab rate and basic exemption limit. At present, the basic exemption limit is ₹ 3,00,000 under the default tax regime. The rates of tax and level of total income are as under –

	Total income (in ₹)	Rate of Tax
(i)	Upto ₹ 3,00,000	NIL
(ii)	From ₹ 3,00,001 to ₹ 7,00,000	5%
(iii)	From ₹ 7,00,001 to ₹ 10,00,000	10%
(iv)	From ₹ 10,00,001 to ₹ 12,00,000	15%
(v)	From ₹ 12,00,001 to ₹ 15,00,000	20%
(vi)	Above ₹ 15,00,000	30%

◆ **Tax rates prescribed by the Annual Finance Act under the optional tax regime (regular provisions of the Act)**

The slab rates for A.Y. 2025-26 applicable to Individual under normal provisions of the Act are as follows:

Total income (in ₹)	Rate of Tax
(i) Upto ₹ 2,50,000 (below 60 years)	Nil
(ii) Upto ₹ 3,00,000 (60 years or above but less than 80 years and resident in India)	
(iii) Upto ₹ 5,00,000 (above 80 years and resident in India)	
₹ 2,50,001/ ₹ 3,00,001, as the case may be, to ₹ 5,00,000 [in cases (i) and (ii) above, respectively]	5%
₹ 5,00,001 to ₹ 10,00,000	20%
Above ₹ 10,00,000	30%

- ◆ The rates of tax have to be applied on the total income to compute the tax liability.
- ◆ Rates of tax in respect of certain incomes are provided under the Income-tax Act, 1961 itself. Slab rates are not applicable under both the tax regimes

in respect of such incomes. For instance, the rates of tax for long term capital gains on certain assets, long term capital gain on other assets, certain short term capital gains, winnings from lotteries, crossword puzzles, races and winnings from online games etc. are prescribed in sections 112A, 112, 111A, 115BB and 115BBJ, respectively.

- ◆ The special rates of tax have to be applied on the respective component of total income and the general slab rates have to be applied on the balance of total income as per the tax regime in which he pays tax.
- ◆ The unexhausted basic exemption limit can, however, be adjusted against long-term capital gains taxable under section 112/112A and short-term capital gains taxable under section 111A in case of resident individual in both the tax regime.

Step 10 – Surcharge/ Rebate under section 87A

Surcharge: Surcharge is an additional tax payable over and above the income-tax. Surcharge is levied as a percentage of income-tax.

In case the assessee pays tax under default tax regime under section 115BAC

The rates of surcharge applicable for A.Y.2025-26, in case the individual assessee pays tax under default regime under section 115BAC, are as follows:

	Particulars	Rate of surcharge on income-tax
(i)	Where the total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 50 lakhs but ≤ ₹ 1 crore	10%
(ii)	Where total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 1 crore but ≤ ₹ 2 crore	15%
(iii)	Where total income (excluding dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 2 crore	25%
	The rate of surcharge on the income-tax payable on the portion of dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A included in total income	Not exceeding 15%

(iv)	Where total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 2 crore in cases not covered under (iii) above	15%
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In case the assessee exercises the option to shift out of the default regime

The rates of surcharge applicable for A.Y.2025-26, in case the individual assessee exercises the option to shift out of the default regime, are as follows:

	Particulars	Rate of surcharge on income-tax
(i)	Where the total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 50 lakhs but ≤ ₹ 1 crore	10%
(ii)	Where total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 1 crore but ≤ ₹ 2 crore	15%
(iii)	Where total income (excluding dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 2 crore but ≤ ₹ 5 crore	25%
	The rate of surcharge on the income-tax payable on the portion of dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A included in total income	Not exceeding 15%
(iv)	Where total income (excluding dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 5 crore	37%
	The rate of surcharge on the income-tax payable on the portion of dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A included in total income	Not exceeding 15%
(v)	Where total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 2 crore in cases not covered under (iii) and (iv) above	15%

Marginal relief would also be available under both the tax regimes to ensure that the increase in amount of tax payable (including surcharge) due to increase in total income of an assessee beyond the prescribed limit should not exceed the amount of increase in total income.

Rebate under section 87A: Section 87A provides a rebate from the tax payable by an assessee, being an individual resident in India.

Rebate to resident individual paying tax under default regime u/s 115BAC

- (i) If the total income of the resident individual is chargeable to tax under section 115BAC and the total income of such individual **does not exceed ₹ 7,00,000**, the rebate shall be equal to the amount of income-tax payable on his total income for any assessment year or an amount of **₹ 25,000**, whichever is less.
- (ii) If the total income of the resident individual is chargeable to tax under section 115BAC and the total income of such individual **exceeds ₹ 7,00,000** and income-tax payable on such total income exceeds the amount by which the total income is in excess of ₹ 7,00,000, the rebate would be as follows.

Step 1 – Total income (-) ₹ 7 lakhs (A)

Step 2 - Compute income-tax payable on total income (B)

Step 3 - If $B > A$, rebate under section 87A would be a $B - A$.

Rebate to resident individual paying tax under optional tax regime (normal provisions of the Act)

If total income of such individual **does not exceed ₹ 5,00,000**, the rebate shall be equal to the amount of income-tax payable on the total income for any assessment year or an amount of **₹ 12,500**, whichever is less.

However, rebate under section 87A is not available in respect of tax payable on long-term capital gains taxable under section 112A.

Step 11 – Health and Education cess (HEC) on Income-tax

The amount of income-tax as increased by the union surcharge, if applicable, should be further increased by an additional surcharge called the “Health and Education cess on income-tax”, calculated at the rate of 4% of such income-tax and surcharge, if applicable. Health and education cess is leviable in the case of all assesseees i.e. individuals, HUF, AOP/BOI, firms, local authorities, co-operative societies and companies.

It is leviable to fulfill the commitment of the Government to provide and finance quality health services and universalised quality basic education and secondary and higher education

$$\begin{array}{rclcl}
 \text{Total Tax} & = & \text{Tax on total} & (+) & \text{Surcharge, at} & (+) & \text{HEC@} \\
 \text{Liability of} & & \text{income at} & & \text{applicable rates, if} & & 4\% \\
 \text{an individual} & & \text{applicable rates} & & \text{total income} > & & \\
 & & & & \text{₹ 50 lakhs,} & & \\
 & & & & \text{or} & & \\
 & & & (-) & \text{Rebate u/s 87A} & &
 \end{array}$$

Step 12 – Alternate Minimum Tax (AMT)

The Income-tax Act, 1961 contains profit-linked and investment-linked deductions in order to encourage investment in various industries and infrastructure facilities. Taxpayers who exercise the option to shift out of the default tax regime under section 115BAC and are eligible to claim such deductions end up paying no income-tax or marginal income-tax though they are capable of paying higher taxes. It has to be kept in mind that our Government also needs regular/consistent inflow of tax, which is one of its major source of revenue, to fund various expenses for the welfare of the country. Hence, in order to ensure payment of reasonable tax by such zero-tax paying/marginal-tax paying entities, the concept of alternate minimum tax has been introduced in the Income-tax Act, 1961.

Chapter XII-BA contains special provisions for levy of alternate minimum tax in case of persons other than a company¹. Any person other than a company, who has claimed deduction under any section (other than section 80P) included in Chapter VI-A under the heading “C – Deductions in respect of certain incomes” or under section 10AA or investment-linked deduction under section 35AD would be subject to AMT [Section 115JEE(1)].

The provisions of AMT would, however, not be applicable to an individual, HUF, AOPs, BOIs, whether incorporated or not, or artificial juridical person, if the adjusted total income of such person does not exceed ₹ 20 lakh [Section 115JEE(2)].

Individual/ HUF/ AoP/ BoI and artificial juridical person, paying tax under default tax regime under section 115BAC, are also not liable to alternate minimum tax under section 115JC.

¹ Since in respect of companies, minimum alternate tax (MAT) provisions are applicable, which will be dealt with at the Final level.

Note - At intermediate level, since profit-linked deductions provided under section 80-IA to 80-IE, section 80JJA, 80LA, 80M, 80P and 80PA have been excluded from the scope of syllabus by way of Study Guidelines and computation of total income and tax liability is restricted to individual assessee only, the discussion in relation to AMT in this chapter is limited with respect to deduction under section 10AA, section 35AD and deduction under section 80JJAA, 80QQB & 80RRB only.

Accordingly, where the regular income-tax payable by a person for a previous year computed as per the normal provisions of the Income-tax Act, 1961 is less than the AMT payable for such previous year, the adjusted total income shall be deemed to be the total income of the person. Such person shall be liable to pay income-tax on the adjusted total income @18.5% plus surcharge, if applicable, and HEC @4% [Section 115JC].

“**Adjusted total income**” would mean the total income before giving effect to Chapter XII-BA as increased by

- (i) the deductions claimed, if any, under section 10AA;
- (ii) the deduction claimed under section 35AD, as reduced by the depreciation allowable under section 32, as if no deduction under section 35AD was allowed in respect of the asset for which such deduction is claimed; and
- (iii) deduction under any section included in Chapter VI-A under the heading C-Deductions in respect of certain incomes [For Intermediate level, the relevant sections are 80JJAA, 80QQB & 80RRB].

Tax credit for AMT [Section 115JD]

Tax credit is the excess of AMT paid over the regular income-tax payable under the provisions of the Income-tax Act, 1961 for the year. Such tax credit shall be carried forward and set-off against income-tax payable in the later year to the extent of excess of regular income-tax payable under normal the provisions of the Act over the AMT payable in that year. The balance tax credit, if any, shall be carried forward to the next year for set-off in that year in a similar manner.

AMT credit can be **carried forward for set-off upto a maximum period of 15** assessment years succeeding the assessment year in which the credit becomes allowable.

Tax Credit allowable even if Adjusted Total Income does not exceed ₹ 20 lakh in the year of set-off [Section 115JEE(3)]

In case where the assessee has not claimed any deduction under section 10AA or section 35AD or deduction under section 80JJAA, 80QQB & 80RRB in any previous year and the adjusted total income of that year does not exceed ₹ 20 lakh, it would still be entitled to set-off his brought forward AMT credit in that year.

Tax credit not allowable to the assessee paying tax under the default tax regime

A person who is paying tax under the default tax regime under section 115BAC would not be eligible to claim AMT credit.

Step 13 – Examine whether to pay tax under default regime under section 115BAC or pay tax under the optional tax regime as per the regular provisions of the Act**In case of an assessee not having income from business or profession:**

In case of individuals not having income from business or profession, the total income and tax liability may be computed every year, both in accordance with default tax regime under section 115BAC and regular provisions of the Act (including provisions relating to AMT, if applicable), in order to determine which is more beneficial and accordingly, decide whether or not to shift out of the default regime under section 115BAC.

In effect, such individual can choose whether or not to exercise the option of shifting out in each previous year. He may choose to pay tax under default regime under section 115BAC in one year and exercise the option to shift out of default tax regime in another year.

In case of an assessee having income from business or profession:

In case of individuals having income from business or profession, the total income and tax liability may be computed, both in accordance with default tax regime under section 115BAC and regular provisions of the Act (including provisions relating to AMT, if applicable), in order to determine which is more beneficial.

Such individual has an option to shift out/opt out of the default tax regime under this section and the option has to be exercised on or before the due date specified under section 139(1) for furnishing the return of income for such previous year and once such option is exercised, it would apply to subsequent assessment years.

Such person who has exercised the above option of shifting out of the default regime for any previous year shall be able to withdraw such option only once and pay tax under the default regime under section 115BAC for a previous year other than the year in which it was exercised.

Thereafter, such person shall never be eligible to exercise option under this section, except where such person ceases to have any business income

Step 14 – Credit for advance tax, TDS and TCS

- ◆ Tax is deductible at source at the time of payment of salary, rent, interest, fees for professional services, royalty etc.
- ◆ The payer has to deduct tax at source at the rates specified in the respective sections.
- ◆ Such tax deducted at source has to be reduced by the payee to determine his net tax liability.
- ◆ Tax is collectible by the seller in case of certain goods at the rate specified in the respective section. Credit of such tax collection at source is allowable to determine the tax liability.
- ◆ The Income-tax Act, 1961 also requires payment of advance tax in instalments during the previous year itself on the basis of estimated income, if the tax payable, after reducing TDS/TCS, is ₹ 10,000 or more.
- ◆ An individual is required to pay advance tax in four instalments, on or before 15th June, 15th September, 15th December and 15th March of the financial year.
- ◆ Assessee declaring profits under presumptive taxation provisions under section 44AD or under section 44ADA can, however, pay the entire advance tax on or before 15th March of the financial year.
- ◆ From the total tax due, deduct the TDS, TCS and advance tax paid for the relevant assessment year to arrive at the tax payable.

Tax Payable = Total tax liability – TDS – TCS - Advance tax paid

Step 15 - Tax Payable/ Tax Refundable

After adjusting the advance tax, tax deducted and collected at source, the assessee would arrive at the amount of net tax payable or refundable. Such amount should be rounded off to the nearest multiple of ₹ 10. The assessee has to pay the amount of tax payable (called self-assessment tax) before or at the

time of filing of the return. Similarly, if any refund is due, assessee will get the same after filing the return of income.

Note: Students are advised to read the above steps carefully and follow the given procedure while solving problems on computation of total income and tax liability.

4. TAX PLANNING IN RESPECT OF SALARY INCOME

The definition of salary is very wide and includes not only monetary salary but also benefits and perquisites in kind. *Under the default tax regime under section 115BAC, the only deduction available under section 16 in respect of salary income is the standard deduction of upto ₹ 75,000.* However, under the optional tax regime as per normal provisions of the Act, the deductions available under section 16 in respect of salary income are the standard deduction upto ₹ 50,000, deduction for entertainment allowance (only for government employees) and deduction for professional tax. The following are some of the aspects which can be considered for tax planning in regard to salary income -

- (1) **Salary Structure:** An employer may plan the salary structure of employees keeping in view the deductions and exemptions available under the Act. If salary is paid as a consolidated amount, without any break-up, the amount of salary after providing standard deduction of **upto ₹ 50,000 (under optional regime) and ₹ 75,000 (under default regime)**, would become taxable without any further exemption and deduction. Therefore, the employer may structure the salary by including various allowances and perquisites in addition to basic salary, so as to enable the employee to optimise his tax liability.

For example, the employer may include allowances as part of the salary structure of the employees for which exemption can be claimed under Rule 2BB if the employee exercises the option to shift out of the default tax regime, e.g. Children education allowance, hostel allowance, house rent allowance. The employer will get a deduction of all the above amounts paid while computing his profits and gains of business or profession.

Further, if the employee exercises the option to shift out of the default tax regime, the employer can give such allowances like special compensatory allowance, border area allowance or remote area allowance or difficult area allowance or disturbed area allowance depending upon the place of posting of the employee. Some exemptions are available in respect of these

allowances. In this connection, Rule 2BB specifies the exempt allowances. The employer has to make a careful study and fix the salary structure in such a manner that it will include allowances which are exempt.

- (2) **Employees' welfare schemes:** There are several employees' welfare schemes such as recognised provident fund, approved superannuation fund, gratuity fund. Payments received from such funds by the employees are totally exempt or exempt upto significant amounts.

For example, gratuity received by an employee covered under the Payment of Gratuity Act, 1972 is exempt upto ₹ 20 lakh. The provident fund received by the employee from recognised provident fund is exempt, subject to limits and conditions. The employer can institute such welfare schemes for the benefit of the employees. Such amount contributed by the employer towards the above funds is deductible. However, a note of caution is necessary here in view of the restrictive provisions of section 40A(9) which disallows any contribution made to any welfare funds except where such contributions are covered by section 36(1)(iv)/(iva)/(v) or as required by or under any other law for the time being in force. Further, the employer can contribute to recognized provident fund account of the employee upto 12% of salary, and the same would not be taxable in the hands of the employees. The amount or aggregate of amounts of any contribution made in a recognised provident fund, in NPS referred to in section 80CCD(1) and in an approved superannuation fund by the employer to the account of the assessee, to the extent it exceeds ₹ 7,50,000, would be taxable as perquisite in the hands of the employee. Likewise, if an employee's contribution to RPF exceeds ₹ 2,50,000 p.a. or ₹ 5,00,000 p.a. (on or after 1.4.2021), as the case may be, depending on whether the employer contributes to RPF, then, interest accrued on the amount exceeding the specified threshold would be taxable. The detailed provisions have been dealt with in Unit 1 of Chapter 3.

- (3) **Insurance policies:** Any payment made by an employer on behalf of an employee to maintain a life policy will be treated as perquisite in the hands of the employee. Further, payments received from the employer in respect of key man insurance policies constitute income in the hands of the employees. However, any sum reimbursed by the employer in respect of any mediclaim premium paid by the employee to keep in force an insurance on his health or the health of any member of his family under any scheme

approved by the Central Government or IRDA for the purpose of section 80D is not a perquisite in the hands of the employee.

Further, the payment of premium by the employer on behalf of the employee will not be treated as a perquisite in the case of accident insurance policies. This is due to the fact that the employer has a vested interest in the safety of the life of his employee who is engaged in such dangerous occupations.²

In respect of accident insurance policies, the term perquisite applies to only such sums in regard to which there was an obligation on the part of the employer to pay and a vested right on the part of the employee. If the employee has no vested interest in the policy, it cannot be considered as a perquisite. In cases where an employer takes out accident insurance policy covering all workmen and staff members and pays insurance premium and whenever any worker/staff member meets with an accident and the amount of claim is received from the insurance company and the same is paid away by the employer to the said worker or his family members, the premium paid by the employer in respect of group accident policies could not be considered as a perquisite, under section 17 to be added in the salary income of any employee³. The amount received from insurance company on accident or death by employee or his dependents will not also be in the nature of income but a capital receipt and therefore the same will not be taxable.

- (4) Dearness allowance, dearness pay:** The employer should ensure that dearness allowance and dearness pay should form part of "salary". This is because certain items like employer's contribution to the recognised provident fund, commuted pension etc. are calculated on the basis of salary. Therefore, if dearness allowance, dearness pay etc. are included in salary, the above benefits will also increase leading to higher terminal benefits in the hands of the employee.

Also, for determining the exemption in respect of employer's contribution to provident fund, house rent allowance etc., dearness allowance forming part of pay for retirement benefits is included within the meaning of "Salary".

²*CIT v Lala Shri Dhar (1972) 84 ITR 192 (Del) and CIT v Vinay Bharat Ram (1981) 129 ITR 128 (Del)*

³*CIT v. Lala Shri Dhar (1972) 84 ITR 192 (Delhi)*

- (5) **Leave travel facility:** If the employee exercises the option to shift out of the default tax regime, the employer should avail leave travel facility. Under section 10(5) of the Income-tax Act, 1961, exemption is provided in the hands of the employee in respect of leave travel concession. Such exemption is available for the employee, spouse, children (upto a maximum of 2 children), dependent parents, dependent brothers and dependent sisters.

However, if the employee pays tax under the default tax regime under section 115BAC, exemption under section 10(5) would not be available.

- (6) **Rent free accommodation / House Rent Allowance (HRA):** An employee should analyse the tax incidence of a perquisite and an allowance, whenever he is given an option, in order to choose the one which is more beneficial to him. In the case of Rent Free Accommodation vs. HRA, it must be noted that the perquisite of rent free accommodation is taxed as per Rule 3(1) of the Income-tax Rules, 1962 and HRA is exempt to the extent mentioned in section 10(13A) read with Rule 2A. However, exemption for HRA would be available only if the employee exercises the option to shift out of the default tax regime. The employee should therefore work out his tax liability and net cash flow under both the options and then, decide on whether to receive HRA or choose a rent free accommodation.
- (7) **Uncommuted/Commuted pension:** Uncommuted pension is fully taxable. Therefore, the employees should get their pension commuted. Commuted pension is fully exempt from tax in the case of government employees and partly exempt from tax in the case of non-government employees.
- (8) **Provident Fund:** Accumulated balance due and becoming payable to an employee participating in a Recognized Provident Fund (RPF) would be exempt, where an employee who is a member of a recognised provident fund and who resigns after completing five years of continuous service. However, if he resigns before completing five years of continuous service he should ensure that he joins an organisation which maintains a recognised provident fund. The accumulated balance of the provident fund with the previous employer will be exempt from tax provided the same is transferred to the new employer who also maintains a recognised provident fund.

It may be noted the exemption would not be available in respect of income by way of interest accrued during the previous year to the extent it relates to the amount or the aggregate of amounts of contribution made by the employee exceeding ₹ 2,50,000/₹ 5,00,000, as the case may be, in any previous year in that fund, on or after 1st April, 2021 and computed in prescribed manner.

- (9) Other retirement benefits:** Incidence of tax on retirement benefits like leave encashment, commuted pension, accumulated balance of unrecognized provident fund is lower if they are paid in the beginning of the financial year.

The employer and the employees may mutually plan in such a way that retirement takes place in the beginning of a financial year.

- (10) Tax free perquisites:** The following are the perquisites which are exempt from tax–

- (i) Use of computers and laptop by employee;
- (ii) Medical facility in employer's own hospital or a public hospital or Government or other approved hospital;
- (iii) Educational benefit in a school run by employer provided value of benefit does not exceed ₹ 1,000 per month per child.

- (11) Considerations for salary structuring:** The perquisite valuation rules prescribe the method for valuing the various perquisites provided by the employer to his employees on the basis of the cost of such perquisites to the employee. For a detailed study, students are advised to refer to the Unit 1 of Chapter 3 - 'Salaries'. Accordingly, the entire salary structuring for employees will have to be done after carefully weighing the pros and cons of paying salary in monetary terms or allowing the benefit of perquisites in kind to the employees.

It may be noted that a salaried person has an option to choose whether to pay tax under the default tax regime under section 115BAC or shift out of the default tax regime and pay tax under normal provisions of the Act in each previous year.

Under section 115BAC, in respect of his total income, he cannot not avail certain exemptions/deductions like Leave Travel Concession, HRA, exemption under section 10(14) (other than those allowable under this section), interest on housing loan on self-occupied property, deductions under Chapter VI-A [other than under section 80CCD(2), 80CCH(2) and section 80JJAA] etc. The

exemptions allowable under section 10(14) under the default tax regime under section 115BAC include travelling allowance, daily allowance, conveyance allowance and transport allowance to blind/deaf and dumb/orthopedically handicapped employee.

Therefore, a salaried taxpayer not availing the above deductions/ exemptions or availing a lesser amount of such deductions/ exemptions can analyse his tax liability under default tax regime under section 115BAC vis-à-vis the regular provisions of the Income-tax Act, 1961 in each year. An employee intending to shift out of the default tax regime under section 115BAC has to intimate the same to the employer.

ILLUSTRATION 1

Mr. A, aged 32 years, is employed with XYZ (P) Ltd. on a basic salary of ₹ 50,000 p.m. He has received transport allowance of ₹ 15,000 p.m. and house rent allowance of ₹ 20,000 p.m. from the company for the P.Y. 2024-25. He has paid rent of ₹ 25,000 p.m. for an accommodation in Delhi. Mr. A has paid interest of ₹ 2,10,000 for housing loan taken for the construction of his house in Mumbai. The construction of the house is completed in March, 2025 and his parents live in that house.

Other Information

- Contribution to PPF - ₹ 1,50,000
- Contribution to pension scheme referred to in section 80CCD - ₹ 50,000
- Payment of medical insurance premium for father, who is of the age of 65 - ₹ 55,000
- Payment of medical insurance premium for self and spouse - ₹ 32,000

Compute the total income and tax liability of Mr. A for the A.Y. 2025-26 in the most beneficial manner.

SOLUTION

**Computation of total income and tax liability of Mr. A for A.Y. 2025-26
under default tax regime under section 115BAC**

Particulars	₹
Salaries	
Basic Salary [₹ 50,000 x 12]	6,00,000
Transport allowance [₹ 15,000 x 12]	1,80,000

HRA received [₹ 20,000 x 12]		2,40,000
Gross salary		10,20,000
Less: Standard deduction u/s 16(ia)		(75,000)
		9,45,000
Income from house property		
Interest on housing loan		-
Gross Total Income		9,45,000
Less: Deductions under Chapter VI- A		
Section 80C		
Contribution in PPF		-
Section 80CCD		
Contribution to pension scheme		-
Section 80D		
Mediclaim insurance premium for self and parents		-
Total Income		9,45,000
Tax liability		
Tax @5% on ₹ 4,00,000 [₹ 7,00,000 - ₹ 3,00,000]	20,000	
Tax @10% on ₹ 2,45,000 [₹ 9,45,000 - ₹ 7,00,000]	24,500	44,500
Add: Health & Education cess @ 4%		1,780
Total Tax Liability		46,280

**Computation of total income and tax liability of Mr. A for A.Y. 2025-26
under normal provisions of the Act**

Particulars	₹
Salaries	
Basic Salary [₹ 50,000 x 12]	6,00,000
Transport allowance [₹ 15,000 x 12]	1,80,000
HRA received	2,40,000
Less: Least of the following exempt u/s 10(13A)	2,40,000
HRA Received	2,40,000
Actual rent paid – 10% of salary [₹ 3,00,000 – ₹ 60,000]	2,40,000
50% of salary	3,00,000

Gross salary	7,80,000
Less: Standard deduction u/s 16(ia)	(50,000)
	7,30,000
Income from house property	
[Annual Value is Nil. Deduction u/s 24(b) for interest on housing loan would be restricted to ₹ 2,00,000, in case of self-occupied property, which would represent loss from house property]	(2,00,000)
Gross Total Income	5,30,000
Less: Deductions under Chapter VI-A	
Section 80C	
Contribution to PPF	1,50,000
Section 80CCD(1B)	
Own contribution to pension scheme	50,000
Section 80D	
Mediclaim insurance premium	
For self and spouse, restricted to	25,000
For father, who is a senior citizen, restricted to	50,000
	75,000
Total Income	2,55,000
Tax liability	
Tax @ 5% on ₹ 5,000 [₹ 2,55,000 - ₹ 2,50,000]	250
Less: Rebate u/s 87A	250
Total Tax Liability	-

Since tax liability as per the normal provisions of the Act is lower than the tax liability under the default tax regime under section 115BAC, it would be beneficial for Mr. A to shift out of the default tax regime under section 115BAC for A.Y. 2025-26.

Note: In this case, Mr. A is entitled to exemption u/s 10(13A), benefit of interest on housing loan in respect of self-occupied property and Chapter VI-A deductions, owing to which his total income is reduced by ₹ 6,90,000. His total income under the regular provisions of the Act is less than ₹ 5,00,000, owing to which he becomes entitled to rebate u/s 87A. Hence, in this case, it is beneficial

for Mr. A to shift out of the default tax regime under section 115BAC for A.Y. 2025-26.

ILLUSTRATION 2

Mr. Kadam is entitled to a salary of ₹ 41,000 per month. He is given an option by his employer either to take house rent allowance or a rent free accommodation which is owned by the company. The HRA amount payable was ₹ 7,000 per month. The rent for the hired accommodation was ₹ 6,000 per month at New Delhi. Advise Mr. Kadam whether it would be beneficial for him to avail HRA or Rent Free Accommodation. Give your advice on the basis of "Net Take Home Cash benefits". Assume Mr. Kadam exercises the option to shift out of the default tax regime under section 115BAC.

SOLUTION

Computation of tax liability of Kadam under both the options

Particulars	Option I – HRA (₹)	Option II – RFA (₹)
Basic Salary (₹ 41,000 x 12 Months)	4,92,000	4,92,000
Perquisite value of rent-free accommodation (10% of ₹ 4,92,000)	N.A.	49,200
House rent Allowance (₹ 7,000 x 12 Months) ₹ 84,000		
Less: Exempt u/s 10(13A) – least of the following -		
- 50% of Basic Salary ₹ 2,46,000		
- Actual HRA received ₹ 84,000		
- Rent paid less 10% of salary ₹ 22,800 ₹ 22,800	61,200	
Gross Salary	5,53,200	5,41,200
Less: Standard deduction u/s 16(ia)	50,000	50,000
Net Salary	5,03,200	4,91,200
Less: Deduction under Chapter VI-A	-	-
Total Income	5,03,200	4,91,200
Tax on total income	13,140	12,060

<i>Less:</i> Rebate under section 87A - Lower of ₹ 12,500 or income-tax of ₹ 12,060, since total income does not exceed ₹ 5,00,000	Nil	12,060
	13,140	Nil
<i>Add:</i> Health and Education cess@4%	526	Nil
Tax liability	13,666	Nil
Tax liability (Rounded off)	13,670	Nil

Cash Flow Statement

Particulars	Option I – HRA	Option II – RFA
Inflow: Salary	5,76,000	4,92,000
<i>Less:</i> Outflow: Rent paid	(72,000)	-
Tax on total income	(13,670)	Nil
Net Inflow	4,90,330	4,92,000

Since the net cash inflow under option II (RFA) is higher than in Option I (HRA), it is beneficial for Mr. Kadam to avail Option II, i.e., Rent Free Accommodation.



TEST YOUR KNOWLEDGE

1. Compute the tax liability of Mr. Gupta (aged 61) under default tax regime, having total income of ₹ 1,02,00,000 for the A.Y.2025-26. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit.

2. Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 02.03.2024 and came to India for the first time on 16.03.2024. She left for USA on 19.9.2024. She returned to India again on 27.03.2025. While in India, she had purchased a show room in Mumbai on 30.04.2024, which was leased out to a company on a rent of ₹ 25,000 p.m. from 01.05.2024. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹ 97,500 upto 31.03.2025. She had received the following cash gifts from her relatives and friends during 1.4.2024 to 31.3.2025:
 - From parents of husband ₹ 51,000
 - From married sister of husband ₹ 11,000
 - From two very close friends of her husband (₹ 1,51,000 and ₹ 21,000)
 - (a) Determine her residential status and compute the total income chargeable to tax along with the amount of tax liability on such income for the A.Y. 2025-26 if she opts out of the default tax regime under section 115BAC.
 - (b) Would her residential status undergo any change, assuming that she is a person of Indian origin and her total income from Indian sources is ₹ 18,00,000 and she is not liable to tax in USA?

3. Dr. Niranjana, a resident individual, aged 60 years is running a clinic in Surat. Her Income and Expenditure Account for the year ending March 31st, 2025 is as under:

Expenditure	₹	Income	₹
To Medicine consumed	35,38,400	By Consultation and medical charges	58,85,850

To Staff salary	13,80,000	By Income-tax refund (principal ₹ 5,000, interest ₹ 450)	5,450
To Clinic consumables	1,10,000	By Dividend from units of UTI (Gross)	10,500
To Rent paid	90,000	By Winning from game show on T.V. (net of TDS of ₹ 15,000)	35,000
To Administrative expenses	2,55,000	By Rent	27,000
To Amount paid to scientific research association approved u/s 35	1,50,000		
To Net profit	4,40,400		
	59,63,800		59,63,800

- (i) Rent paid includes ₹ 30,000 paid by cheque towards rent for her residential house in Surat.
- (ii) Clinic equipments are:
 1.4.2024 Opening W.D.V. - ₹ 5,00,000
 7.12.2024 Acquired (cost) by cheque - ₹ 2,00,000
- (iii) Rent received relates to residential house property situated at Surat. Gross Annual Value ₹ 27,000. The municipal tax of ₹ 2,000, paid in December, 2024, has been included in "administrative expenses".
- (iv) She received salary of ₹ 7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".
- (v) Dr. Niranjana availed a loan of ₹ 5,50,000 from a bank for higher education of her daughter. She repaid principal of ₹ 1,00,000, and interest thereon ₹ 55,000 during the previous year 2024-25.
- (vi) She paid ₹ 1,00,000 as tuition fee (not in the nature of development fees/ donation) to the university for full time education of her daughter.

(vii) An amount of ₹ 28,000 has also been paid by cheque on 27th March, 2025 for her medical insurance premium.

From the above, compute the total income of Dr. Smt. Niranjana for the A.Y. 2025-26 under the default tax regime and optional tax regime as per the normal provisions of the Act.

4. Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2025 reads as follows:

Expenditure	(₹)	Income	(₹)	(₹)
Salary to staff	15,50,000	Fees earned:		
Stipend to articled Assistants	1,37,000	Audit	27,88,000	
Incentive to articled Assistants	13,000	Taxation services	15,40,300	
Office rent	12,24,000	Consultancy	12,70,000	55,98,300
Printing and stationery	12,22,000	Dividend on shares of X Ltd., an Indian company (Gross)		10,524
Meeting, seminar and conference	31,600	Income from UTI (Gross)		7,600
Purchase of car (for official use)	80,000	Honorarium received from various institutions for valuation of answer papers		15,800
Repair, maintenance and petrol of car	4,000	Rent received from residential flat let out		85,600

Travelling expenses	5,25,000			
Municipal tax paid in respect of house property	3,000			
Net Profit	9,28,224			
	57,17,824			57,17,824

Other Information:

- (i) Allowable rate of depreciation on motor car is 15%.
- (ii) Value of benefits received from clients during the course of profession is ₹ 10,500.
- (iii) Incentives to articled assistants represent amount paid to two articled assistants for passing CA Intermediate Examination at first attempt.
- (iv) Repairs and maintenance of car include ₹ 2,000 for the period from 1-10-2024 to 30-09-2025.
- (v) Salary includes ₹ 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
- (vi) The travelling expenses include expenditure incurred on foreign tour of ₹ 32,000 which was within the RBI norms.
- (vii) Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to ₹ 5,000 and ₹ 10,000, respectively, paid in cash.
- (viii) She invested an amount of ₹ 10,000 in National Saving Certificate.
- (ix) She has paid ₹ 70,000 towards advance tax during the P.Y. 2024-25.

Compute the total income and tax payable by Ms. Purvi for the A.Y. 2025-26 in a most beneficial manner.

5. Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2025 revealed the following information:
- (1) The net profit was ₹ 11,20,000.
 - (2) The following incomes were credited in the profit and loss account:

- (a) Income from UTI ₹ 22,000 (Gross)
- (b) Interest on debentures ₹ 17,500 (Gross)
- (c) Winnings from horse races ₹ 15,000 (Gross)
- (3) It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:
- Opening stock ₹ 8,000.
- Closing stock ₹ 12,000.
- (4) ₹ 1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified under section 35(1)(ii).
- (5) Salary includes ₹ 20,000 paid to his brother which is unreasonable to the extent of ₹ 2,500.
- (6) Advertisement expenses include 15 gift packets of dry fruits costing ₹ 1,000 per packet presented to important customers.
- (7) Total expenses on car was ₹ 78,000. The car was used both for business and personal purposes. $\frac{3}{4}$ th is for business purposes.
- (8) Miscellaneous expenses included ₹ 30,000 paid to A & Co., a goods transport operator in cash on 31-1-2025 for distribution of the company's product to the warehouses.
- (9) Depreciation debited in the books was ₹ 55,000. Depreciation allowed as per Income-tax Rules, 1962 was ₹ 50,000.
- (10) Drawings of ₹ 10,000 debited in the books.
- (11) Investment in NSC ₹ 15,000 debited in the books.

Compute the total income of Mr. Y for the assessment year 2025-26 under optional tax regime as per normal provisions of the Act.

6. Balamurugan furnishes the following information for the year ended 31-03-2025:

Particulars	₹
Income from textile business	(1,35,000)
Income from house property	(15,000)
Lottery winning (Gross)	5,00,000

<i>Speculation business income</i>	<i>1,00,000</i>
<i>Income by way of salary (Computed)</i>	<i>2,70,000</i>
<i>Long term capital gain u/s 112 taxable @20%</i>	<i>70,000</i>

Compute his total income, tax liability and advance tax obligations under default tax regime under section 115BAC.

7. *Mr. Rajiv aged 50 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2024-25.*

Receipts and Payments Account

Receipts	₹	Payments	₹
<i>Opening balance (1.4.2024) Cash on hand and at Bank</i>	<i>12,000</i>	<i>Staff salary, bonus and stipend to articed clerks</i>	<i>21,50,000</i>
<i>Fee from professional services (Gross)</i>	<i>59,38,000</i>	<i>Other administrative expenses</i>	<i>11,48,000</i>
<i>Rent</i>	<i>50,000</i>	<i>Office rent</i>	<i>30,000</i>
<i>Motor car loan from Canara Bank (@ 9% p.a.)</i>	<i>2,50,000</i>	<i>Housing loan repaid to SBI (includes interest of ₹88,000)</i>	<i>1,88,000</i>
		<i>Life insurance premium (10% of sum assured)</i>	<i>24,000</i>
		<i>Motor car (acquired in Jan. 2025 by A/c payee cheque)</i>	<i>4,25,000</i>
		<i>Medical insurance premium (for self and wife) (paid by A/c Payee cheque)</i>	<i>18,000</i>
		<i>Books bought on 1.07.2024 (annual publications by A/c payee cheque)</i>	<i>20,000</i>
		<i>Computer acquired on 1.11.2024 by A/c payee cheque (for professional use)</i>	<i>30,000</i>
		<i>Domestic drawings</i>	<i>2,72,000</i>

	Public provident fund subscription	20,000
	Motor car maintenance	10,000
	Closing balance (31.3.2025) Cash on hand and at Bank	19,15,000
	62,50,000	62,50,000

Following further information is given to you:

- (1) He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of ₹ 5,000. The building was constructed during the year 2005-06, when the housing loan was taken.
- (2) Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
- (3) The written down value of assets as on 1-4-2024 are given below:

Furniture & Fittings	₹ 60,000
Plant & Machinery	₹ 80,000
(Air-conditioners, Photocopiers, etc.)	
Computers	₹ 50,000

Note: Mr. Rajiv follows regularly the cash system of accounting.

Compute the total income of Mr. Rajiv for the A.Y. 2025-26 assuming that he has shifted out of the default tax regime under section 115BAC.

8. From the following details, compute the total income and tax liability of Siddhant, aged 31 years, of Delhi both as per section 115BAC and as per the regular provisions of the Income-tax Act, 1961 for the A.Y.2025-26. Advise Mr. Siddhant whether he should opt for section 115BAC:

Particulars	₹
Salary including dearness allowance	4,35,000
Bonus	15,000
Salary of servant provided by the employer	12,000
Rent paid by Siddhant for his accommodation	49,600

<i>Bills paid by the employer for gas, electricity and water provided free of cost at the above flat</i>	11,000
--	---------------

Siddhant purchased a flat in a co-operative housing society in Delhi for ₹ 4,75,000 in April, 2016, which was financed by a loan from Life Insurance Corporation of India of ₹ 1,60,000@15% interest, his own savings of ₹ 65,000 and a deposit from a nationalized bank for ₹ 2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was ₹ 3,500 per month. The following particulars are relevant:

- (a) *Municipal taxes paid by Mr. Siddhant* **₹ 4,300 (per annum)**
 - (b) *House Insurance* **₹ 860**
 - (c) *He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.*
 - (d) *In the year 2021-22, he had gifted ₹ 30,000 to his wife and ₹ 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest@19% per annum.*
 - (e) *Siddhant received a gift of ₹ 30,000 each from four friends.*
 - (f) *He contributed ₹ 50,000 to Public Provident Fund.*
9. *Ramdin, aged 33 years, working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2025:*
- *Basic Salary* **₹ 15,000 p.m.**
 - *DA (50% of it is meant for retirement benefits)* **₹ 12,000 p.m.**
 - *Commission as a percentage of turnover of the Company* **0.5 %**
 - *Turnover of the Company* **₹ 50 lakhs**
 - *Bonus* **₹ 50,000**
 - *Gratuity* **₹ 30,000**
 - *Own Contribution to R.P.F.* **₹ 30,000**
 - *Employer's contribution to R.P.F.* **20% of basic salary**
 - *Interest credited in the R.P.F. account @ 15% p.a.* **₹ 15,000**
 - *Gold Ring worth ₹ 10,000 was given by employer on his 25th wedding anniversary.*

- Music System purchased on 01.04.2024 by the company for ₹ 85,000 and was given to him for personal use.
- Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of ₹ 6,500 p.m. Books of account are not maintained.
- Received interest of ₹ 5,860 on bank FDRs on 24.4.2024 and interest of ₹ 6,786 (Net) from the debentures of Indian Companies on 5.5.2024.
- Made payment by cheques of ₹ 15,370 towards premium on Life Insurance policies and ₹ 22,500 for Mediclaim Insurance policy for self and spouse.
- Invested in NSC ₹ 30,000 and in FDR of SBI for 5 years ₹ 50,000.
- Donations of ₹ 11,000 to an institution approved u/s 80G and of ₹ 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute his total income and tax payable thereon for the A.Y. 2025-26. Assume that Mr. Ramdin has exercised the option to shift out of the default tax regime under section 115BAC.

10. From the following particulars furnished by Mr. X for the year ended 31.3.2025, you are requested to compute his total income and tax payable for the assessment year 2025-26, assuming that he opts out of the default tax regime under section 115BAC.
- (a) Mr. X retired on 31.12.2024 at the age of 58, after putting in 26 years and 1 month of service, from a private company at Mumbai.
 - (b) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m. during his tenure of service.
 - (c) On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.
 - (d) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. His average salary for last 10 months may be taken as ₹ 24,500. Employer allowed 30 days leave per annum.

- (e) After retirement, he ventured into textile business and incurred a loss of ₹ 80,000 for the period upto 31.3.2025.
- (f) Mr. X has deposited ₹ 1,00,000 in public provident fund.
11. Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1982 and settled at Canada since 1982. Mary got married and settled in Mumbai. Both of them are below 60 years. The following are the details of their income for the previous year ended 31.3.2025:

S. No.	Particulars	Rosy ₹	Mary ₹
1.	Pension received from State Government	--	60,000
2.	Pension received from Canadian Government	20,000	--
3.	Long-term capital gain on sale of land on 15.5.2024 at Mumbai taxable	1,00,000	1,00,000
4.	Short-term capital gain on sale of shares on 23.4.2024 of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5.	LIC premium paid	--	10,000
6.	Premium paid to Canadian Life Insurance Corporation at Canada	40,000	--
7.	Mediclaime policy premium paid by A/c Payee Cheque	--	25,000
8.	Deposit in PPF	--	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the total income and tax liability of Mrs. Rosy and Mrs. Mary for the A.Y. 2025-26 and tax thereon assuming both exercised the option to shift out of the default tax regime.

12. Mr. X, an individual set up a unit in Special Economic Zone (SEZ) in the financial year 2019-20 for production of washing machines. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2023-24, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions

of section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1st April, 2024 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for the F.Y. 2024-25 are as follows:

Particulars	₹
Profit of unit located in SEZ	40,00,000
Export turnover received in India in convertible foreign exchange on or before 30.9.2025	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction under Section 35AD)	1,05,00,000

Compute income-tax (including AMT under Section 115JC) liability of Mr. X for A.Y. 2025-26 both as per section 115BAC and as per regular provisions of the Income-tax Act, 1961 for A.Y. 2025-26. Advise Mr. X whether he should pay tax under default tax regime or normal provisions of the Act.

ANSWERS

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

(A) Income-tax (including surcharge) computed on total income of ₹ 1,02,00,000

₹ 3,00,000 – ₹ 7,00,000 @5% ₹ 20,000

₹ 7,00,001 – ₹ 10,00,000 @10% ₹ 30,000

₹ 10,00,001 – ₹ 12,00,000 @15% ₹ 30,000

₹ 12,00,001 – ₹ 15,00,000 @20% ₹ 60,000

₹ 15,00,001 – ₹ 1,02,00,000 @30% ₹ 26,10,000

Total ₹ 27,50,000

Add: Surcharge @15% ₹ 4,12,500 ₹ 31,62,500

(B) Income-tax computed on total income of ₹ 1crore

(₹ 1,40,000 plus ₹ 25,50,000) ₹ 26,90,000

<i>Add:</i> Surcharge@10%	<u>₹ 2,69,000</u>
	₹ 29,59,000
(C) Total Income <i>Less</i> ₹ 1crore	₹ 2,00,000
(D) Income-tax computed on total income of ₹ 1 crore <i>plus</i> the excess of total income over ₹ 1 crore (B + C)	₹ 31,59,000
(E) Tax liability: lower of (A) and (D)	₹ 31,59,000
<i>Add:</i> Health and education cess @4%	<u>₹ 1,26,360</u>
Tax liability (including cess)	<u>₹ 32,85,360</u>
(F) Marginal Relief (A – D)	₹ 3,500

Alternative method -

(A) Income-tax (including surcharge) computed on total income of ₹ 1,02,00,000		
₹ 3,00,000 – ₹ 7,00,000 @5%	₹ 20,000	
₹ 7,00,001 – ₹ 10,00,000 @10%	₹ 30,000	
₹ 10,00,001 – ₹ 12,00,000 @15%	₹ 30,000	
₹ 12,00,001 – ₹ 15,00,000 @20%	₹ 60,000	
₹ 15,00,001 – ₹ 1,02,00,000 @30%	<u>₹ 26,10,000</u>	
Total	₹ 27,50,000	
<i>Add:</i> Surcharge @ 15%	<u>₹ 4,12,500</u>	₹ 31,62,500
(B) Income-tax computed on total income of ₹ 1 crore [(₹ 1,40,000 plus ₹ 25,50,000) plus surcharge@10%]		<u>₹ 29,59,000</u>
(C) Excess tax payable (A)-(B)		₹ 2,03,500
(D) Marginal Relief (₹ 2,03,500 – ₹ 2,00,000, being the amount of income in excess of ₹ 1,00,00,000)		₹ 3,500
(E) Tax liability (A)-(D)		₹ 31,59,000
<i>Add:</i> Health and education cess @4%		<u>₹ 1,26,360</u>
Tax liability (including cess)		<u>₹ 32,85,360</u>

2. (a) Under section 6(1), an individual is said to be resident in India in any previous year, if he/she satisfies any one of the following conditions:
- (i) He/she has been in India during the previous year for a total period of 182 days or more, or
 - (ii) He/she has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If an individual satisfies any one of the conditions mentioned above, he/she is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Therefore, the residential status of Miss Charlie, an American National, for A.Y.2025-26 has to be determined on the basis of her stay in India during the P.Y.2024-25 and in the preceding four previous years.

Her stay in India during the P.Y.2024-25 and in the preceding four years are as under:

P.Y. 2024-25

01.04.2024 to 19.09.2024	-	172 days
27.03.2025 to 31.03.2025	-	<u>5 days</u>
Total		<u>177 days</u>

Four preceding previous years

P.Y. 2023-24 [1.4.2023 to 31.3.2024]	-	16 days
P.Y. 2022-23 [1.4.2022 to 31.3.2023]	-	Nil
P.Y. 2021-22 [1.4.2021 to 31.3.2022]	-	Nil
P.Y. 2020-21 [1.4.2020 to 31.3.2021]	-	<u>Nil</u>
Total		<u>16 days</u>

The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 16 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the A.Y.2025-26.

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

Particulars	₹	₹
Income from house property		
Show room located in Mumbai remained on rent from 01.05.2024 to 31.03.2025@ ₹ 25,000/- p.m.	2,75,000	
Gross Annual Value [₹ 25,000 x 11] (See Note 1 below)		
Less: Municipal taxes	Nil	
Net Annual Value (NAV)	2,75,000	
Less: Deduction under section 24		
30% of NAV	82,500	
Interest on loan	97,500	
	1,80,000	95,000
Income from other sources		
Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x), if the aggregate value of such gifts exceeds ₹ 50,000.		
- ₹ 50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relative' and gifts from a relative are not chargeable to tax.	Nil	
- ₹ 11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil	
- Gift received from two friends of husband ₹ 1,51,000 and ₹ 21,000 aggregating to ₹ 1,72,000 is taxable under section 56(2)(x) since the aggregate of ₹ 1,72,000 exceeds ₹ 50,000. (See Note 2 below)	1,72,000	1,72,000
Total income		2,67,000

**Computation of tax liability by Miss Charlie for the A.Y. 2025-26
under normal provisions of the Act**

Particulars	₹
Tax on total income of ₹ 2,67,000	850
Add: Health and Education cess@4%	34
Total tax liability	884
Total tax liability (rounded off)	880

Notes:

1. Actual rent received has been taken as the gross annual value in the absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.
2. If the aggregate value of taxable gifts received from non-relatives exceed ₹ 50,000 during the year, the entire amount received (i.e. the aggregate value of taxable gifts received) is taxable. Therefore, the entire amount of ₹ 1,72,000 is taxable under section 56(2)(x).
3. Since Miss Charlie is a non-resident for the A.Y. 2025-26, rebate under section 87A would not be available to her, even though her total income does not exceed ₹ 5 lakhs.

- (b)** Residential status of Miss Charlie in case she is a person of Indian origin and her total income from Indian sources exceeds ₹ 18,00,000

If she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 (₹ 18,00,000, in her case), the condition of stay in India for a period exceeding 120 days during the previous year and 365 days during the four immediately preceding previous years would be applicable for being treated as a resident. Since her stay in India exceeds 120 days in the P.Y.2024-25 but the period of her stay in India during the four immediately preceding previous years is less than 365 days (only 16 days), her residential status as per section 6(1) would continue to be same i.e., non-resident in India.

Further, since she is not a citizen of India, the provisions of section 6(1A) deeming an individual to be a citizen of India would not get attracted in her case, even though she is a person of Indian origin and

her total income from Indian sources exceeds ₹ 15,00,000 and she is not liable to pay tax in USA.

Therefore, her residential status would be non-resident in India for the previous year 2024-25.

3. Computation of total income of Dr. Niranjana for A.Y. 2025-26 under default tax regime

	Particulars	₹	₹	₹
I	Income from Salary			
	Basic Salary (₹ 7,500 x 12)		90,000	
	Less: Standard deduction u/s 16(ia)		75,000	15,000
II	Income from house property			
	Gross Annual Value (GAV)		27,000	
	Less: Municipal taxes paid		2,000	
	Net Annual Value (NAV)		25,000	
	Less: Deduction u/s 24@30% of ₹ 25,000		7,500	17,500
III	Income from profession			
	Net profit as per Income and Expenditure account		4,40,400	
	Less: Items of income to be treated separately			
	(i) Rent received (taxable under the head "Income from house property")	27,000		
	(ii) Dividend from units of UTI (taxable under the head "Income from other sources")	10,500		
	(iii) Winning from game show on T.V. (net of TDS) – taxable under the head "Income from other sources"	35,000		

(iv) Income tax refund	5,450	77,950	
		3,62,450	
<i>Less:</i> Allowable expenditure			
Depreciation on clinic equipments			
on ₹ 5,00,000@15%	75,000		
on ₹ 2,00,000@7.5%	15,000	90,000	
(On equipments acquired during the year in December 2024, she is entitled to depreciation @50% of normal depreciation, since the same are put to use for less than 180 days during the year)			
		2,72,450	
<i>Add:</i> Items of expenditure not allowable while computing business income			
(i) Amount paid to scientific research association approved u/s 35 (not allowed under default tax regime)	1,50,000		
(i) Rent for her residential accommodation included in Income and Expenditure A/c	30,000		
(ii) Municipal tax paid relating to residential house at Surat included in administrative expenses	2,000	1,82,000	4,54,450
IV Income from other sources			
(a) Interest on income-tax refund		450	
(b) Dividend from UTI (taxable in the hands of unit holders)		10,500	
(c) Winnings from TV game show (₹ 35,000 + ₹ 15,000)		50,000	60,950
Gross Total Income			5,47,900

<i>Less: Deductions under Chapter VI-A:</i>			
(a) Section 80C [Not allowed under default tax regime]			Nil
(b) Section 80D [Not allowed under default tax regime]			Nil
(c) Section 80E [Not allowed under default tax regime]			Nil
Total income			5,47,900

**Computation of total income of Dr. Niranjana for A.Y. 2025-26
under normal provisions of the Act**

Particulars	₹	₹
Gross Total Income as per default tax regime		5,47,900
<i>Add:</i> Standard deduction of Rs. 25,000, being the excess amount allowed u/s 115BAC		25,000
<i>Less:</i> Items of expenditure allowable while computing business income under normal provisions of the Act		
100% deduction is allowable in respect of the amount paid to scientific research association allowable under normal provisions of the Act.		1,50,000
Gross Total Income as per normal provisions of the Act		4,22,900
<i>Less: Deductions under Chapter VI-A:</i>		
(a) Section 80C - Tuition fee paid to university for full time education of her daughter	1,00,000	
(b) Section 80D - Medical insurance premium (fully allowed since she is a senior citizen)	28,000	

(c) Section 80E - Interest on loan taken for higher education is deductible	55,000	1,83,000
Total income		2,39,900

Notes:

- (i) The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head "Income from other sources".
- (ii) Winnings from game show on T.V. should be grossed up for the chargeability under the head "Income from other sources" (₹ 35,000 + ₹ 15,000). Thereafter, while computing tax liability, TDS of ₹ 15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @30% as per section 115BB.
- (iii) Dr. Niranjana would not be eligible for deduction u/s 80GG under normal provisions of the Act, as she owns a house in Surat, a place where she is residing as well as carrying on her profession.

4. Computation of total income and tax payable by Ms. Purvi for the A.Y. 2025-26 under default tax regime under section 115BAC

Particulars	₹	₹
Income from house property (See Working Note 1)		57,820
Profit and gains of business or profession (See Working Note 2)		9,20,200
Income from other sources (See Working Note 3)		33,924
Gross Total Income		10,11,944
Less: Deductions under Chapter VI-A [not allowable under default tax regime]		-
Total Income		10,11,944
Total Income (rounded off)		10,11,940
Tax on total income		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 - ₹ 7,00,000 @5%	20,000	
₹ 7,00,001 - ₹ 10,00,000 @10%	30,000	

₹ 10,00,001 - ₹ 10,11,940 @ 15%	1,791	51,791
Add: Health and Education cess @ 4%		2,072
Total tax liability		53,863
Less: Advance tax paid		70,000
Less: Tax deducted at source on dividend income from an Indian company u/s 194	1,052	
Tax deducted at source on income from UTI u/s 194K	760	1,812
Tax Payable/ (Refundable)		(17,949)
Tax Payable/ (Refundable) (rounded off)		(17,950)

**Computation of total income and tax payable
under normal provisions of the Act**

Particulars	₹	₹
Gross Total Income		10,11,944
[Income under the "Income from house property" "Profits and gains from business or profession" and "Income from other sources" would remain the same even if Ms. Purvi opts out of the default tax regime under section 115BAC]		
Less: Deductions under Chapter VI-A (See Working Note 4)		10,000
Total Income		10,01,944
Total Income (rounded off)		10,01,940
Tax on total income		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @5%	12,500	
₹ 5,00,000 - ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,000 – ₹ 10,01,940 @ 30%	582	1,13,082
Add: Health and Education cess @ 4%		4,523
Total tax liability		1,17,605

Less: Advance tax paid		70,000
Less: TDS u/s 194 on dividend	1,052	
TDS u/s 194K on income from UTI	760	1,812
Tax Payable		45,793
Tax Payable (rounded off)		45,790

Since there is tax refundable under default tax regime under section 115BAC and tax payable under the regular provisions of the Income-tax Act, 1961, it would be beneficial for Ms. Purvi to pay tax under default tax regime under section 115BAC.

Working Notes:

(1) Income from House Property

Particulars	₹	₹
Gross Annual Value under section 23(1)	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Deduction u/s 24@30% of NAV	24,780	57,820

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

(2) Income under the head "Profits & Gains of Business or Profession"

Particulars	₹	₹
Net profit as per Income and Expenditure account		9,28,224
<i>Add:</i> Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed u/s 40A(3), since such cash payment exceeds ₹ 10,000	30,000	
(ii) Amount paid for purchase of car is not allowable under section 37(1) since it is a capital expenditure	80,000	

(ii) Municipal taxes paid in respect of residential flat let out	3,000	1,13,000
		10,41,224
<i>Add:</i> Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		10,500
		10,51,724
<i>Less:</i> Income credited but not taxable under this head:		
(i) Dividend on shares of X Ltd., an Indian company (taxable under the head "Income from other sources")	10,524	
(ii) Income from UTI (taxable under the head "Income from other sources")	7,600	
(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	85,600	1,19,524
		9,32,200
<i>Less:</i> Depreciation on motor car @15% (See Note (i) below)		12,000
		9,20,200

Notes :

- (i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).

Note: *Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).*

- (ii) Incentive to articled assistants for passing CA Intermediate examination in their first attempt is deductible under section 37(1).
- (iii) Repairs and maintenance paid in advance for the period 1.4.2025 to 30.9.2025 i.e. for 6 months amounting to ₹ 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- (iv) ₹ 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

Particulars	₹
Dividend on shares of X Ltd., an Indian company (taxable in the hands of shareholders)	10,524
Income from UTI (taxable in the hands of unit holders)	7,600
Honorarium for valuation of answer papers	15,800
	33,924

(4) Deduction under Chapter VI-A :

Particulars	₹
Deduction under section 80C (Investment in NSC)	10,000
Deduction under section 80D (See Notes (i) & (ii) below)	Nil
Total deduction under Chapter VI-A	10,000

Notes:

- (i) Premium paid to insure the health of brother is not eligible for deduction under section 80D, even though he is a dependent, since brother is not included in the definition of "family" under section 80D.
- (ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

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

Particulars	₹
Profits and gains of business or profession (See Working Note 1 below)	11,21,500
Income from other sources (See Working Note 2 below)	54,500
Gross Total Income	11,76,000
<i>Less:</i> Deduction under section 80C (Investment in NSC)	15,000
Total Income	11,61,000

Working Notes:

1. Computation of profits and gains of business or profession

Particulars	₹	₹
Net profit as per profit and loss account		11,20,000
<i>Add:</i> Expenses debited to profit and loss account but not allowable as deduction		
Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	2,500	
Motor car expenses attributable to personal use not allowable (₹ 78,000 × ¼)	19,500	
Depreciation debited in the books of account	55,000	
Drawings (not allowable since it is personal in nature) [See Note (iii)]	10,000	
Investment in NSC [See Note (iii)]	15,000	1,02,000
		12,22,000
<i>Add:</i> Under statement of closing stock		12,000
		12,34,000
<i>Less:</i> Under statement of opening stock		8,000

<i>Less:</i> Contribution to a University approved and notified u/s 35(1)(ii) is eligible for 100% deduction. Since whole of the actual contribution (100%) has been debited to profit and loss account, no further adjustment is required.		-
		12,26,000
<i>Less:</i> Incomes credited to profit and loss account but not taxable as business income		
Income from UTI [taxable under the head "Income from other sources"]	22,000	
Interest on debentures (taxable under the head "Income from other sources")	17,500	
Winnings from horse races (taxable under the head "Income from other sources")	15,000	54,500
		11,71,500
<i>Less:</i> Depreciation allowable under the Income-tax Rules, 1962		50,000
		11,21,500

Notes:

- (i) Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction under section 37.
- (ii) Disallowance under section 40A(3) is not attracted in respect of cash payment exceeding ₹ 10,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing goods carriages, an increased limit of ₹ 35,000 is applicable (i.e. payment of upto ₹ 35,000 can be made in cash without attracting disallowance under section 40A(3))
- (iii) Since drawings and investment in NSC have been given effect to in the profit and loss account, the same have to be added back to arrive at the business income.

- (iv) In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is ₹ 50,000. It has been assumed that, in the said figure of ₹ 50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car.

2. Computation of “Income from Other Sources”

Particulars	₹
Dividend from UTI	22,000
Interest on debentures	17,500
Winnings from races	15,000
	54,500

6.

**Computation of total income of Balamurugan
for the year ended 31.03.2025**

Particulars	₹	₹
Salaries	2,70,000	
<i>Less:</i> Loss from house property (Cannot be set off against income under any other head)	-	2,70,000
Profits and gains of business or profession		
Speculation business income	1,00,000	
<i>Less:</i> Business loss of ₹ 1,35,000 set-off to the extent of ₹ 1,00,000	(1,00,000)	
	Nil	
Balance current year business loss of ₹ 35,000 to be set-off against long-term capital gain		
Capital Gains		
Long term capital gain	70,000	
<i>Less:</i> Balance current year business loss set-off	(35,000)	
Long term capital gain after set off of business loss		35,000
Income from other sources		
Lottery winnings (Gross)		5,00,000
Total Income		8,05,000

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

Particulars	₹
On total income of ₹ 2,70,000 (excluding lottery winning and LTCG)	Nil
On LTCG of ₹ 5,000 @20% (balance unexhausted basic exemption limit of ₹ 30,000 can be adjusted against LTCG taxable u/s 112)	1,000
On lottery winnings of ₹ 5,00,000 @ 30%	1,50,000
	1,51,000
Add: Health and Education cess @ 4%	6,040
Total tax liability	1,57,040

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under section 194B. Since the remaining tax liability of ₹ 6,040 (₹ 1,57,040 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

Note - The first proviso to section 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should be paid in the remaining instalments of advance tax which are due. Where no such instalment is due, the entire tax should be paid by 31st March, 2025. The first proviso to section 234C(1) would be attracted only in case of non-deduction or short-deduction of tax at source under section 194B. In this case, it has been assumed that tax deductible at source under section 194B has been fully deducted from lottery income. Since the remaining tax liability of ₹ 1,040 (₹ 1,57,040 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

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

Particulars	₹	₹	₹
Income from house property			
Self-occupied			
Annual value	Nil		
Less: Deduction under section 24(b)			

Interest on housing loan			
50% of ₹ 88,000 = 44,000 but limited to	30,000		
Loss from self-occupied property		(30,000)	
Let out property			
Annual value (Rent receivable has been taken as the annual value in the absence of other information)	60,000		
<i>Less:</i> Deductions u/s 24			
30% of Net Annual Value	18,000		
Interest on housing loan (50% of ₹ 88,000)	44,000	62,000	(2,000)
Loss from house property			(32,000)
Profits and gains of business or profession			
Fees from professional services		59,38,000	
<i>Less:</i> Expenses allowable as deduction			
Staff salary, bonus and stipend	21,50,000		
Other administrative expenses	11,48,000		
Office rent	30,000		
Motor car maintenance (10,000 x 4/5)	8,000		
Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting)	Nil	33,36,000	
<i>Less:</i> Depreciation		26,02,000	
Motor car ₹ 4,25,000 x 7.5% x 4/5	25,500		
Books being annual publications@40%	8,000		
Furniture and fittings@10% of ₹ 60,000	6,000		
Plant and machinery@15% of ₹ 80,000	12,000		
Computer@40% of ₹ 50,000	20,000		

Computer (New) ₹ 30,000 @ 40% x 50%	6,000	77,500	25,24,500
Gross Total income			24,92,500
<i>Less: Deductions under Chapter VI-A</i>			
Deduction under section 80C			
Housing loan principal repayment	1,00,000		
PPF subscription	20,000		
Life insurance premium	24,000		
Total amount of ₹ 1,44,000 is allowed as deduction since it is within the limit of ₹ 1,50,000		1,44,000	
Deduction under section 80D			
Medical insurance premium paid		18,000	1,62,000
Total income			23,30,500

8. Computation of total income and tax liability of Siddhant under default tax regime under section 115BAC for the A.Y. 2025-26

Particulars	₹	₹
Salary Income		
Salary including dearness allowance		4,35,000
Bonus		15,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	23,000
		4,73,000
<i>Less: Standard deduction under section 16(ia)</i>		75,000
		3,98,000
Income from house property		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (₹ 3,500 × 12)	42,000	
<i>Less: Municipal taxes paid</i>	4,300	
Net Annual Value (NAV)	37,700	

<i>Less: Deductions under section 24</i>			
(i) 30% of NAV	₹ 11,310		
(ii) Interest on loan from LIC @15% of ₹ 1,60,000 [See Note 2]	₹ 24,000	35,310	2,390
Income from speculative business			
Income from share speculation business		2,700	
<i>Less: Loss of ₹ 4,200 from cotton speculation business set-off to the extent of ₹ 2,700</i>		2,700	Nil
Balance loss of ₹ 1,500 from cotton speculation business has to be carried forward to the next year as it cannot be set off against any other head of income.			
Income from Other Sources			
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A) [Exemption under section 10(32) would not be available]		3,800	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)		5,700	
(iii) Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds ₹ 50,000)		1,20,000	1,29,500
Gross Total Income			5,29,890
Deduction under section 80C [No deduction under Chapter VI-A would be allowed as per section 115BAC(2)]			Nil
Total Income			5,29,890

Particulars	₹
Tax on total income [5% of ₹ 2,29,890 (₹ 5,29,890 - ₹ 3,00,000)]	11,495
<i>Less: Rebate u/s 87A, since total income does not exceed ₹ 7,00,000</i>	11,495
Tax liability	Nil

**Computation of total income and tax liability of Siddhant
for the A.Y. 2025-26 under normal provisions of the Act**

Particulars	₹	₹
Gross total income (as per default scheme)		5,29,890
<i>Add:</i> Standard Deduction [Rs. 25,000 being excess amount allowed under section 1 15BAC]		25,000
<i>Less:</i> Exemption u/s 10(32) in respect of interest income of minor son included in the hands of Siddhant		1,500
Gross total income (under the normal provisions of the Act)		5,53,390
<i>Less:</i> Deductions under Chapter VI-A		
Under section 80C [Contribution to PPF]		50,000
Total Income		5,03,390

Particulars	₹
Tax on total income [5% of ₹ 2,50,000 + 20% of ₹ 3,390]	13,178
<i>Add:</i> HEC @4%	527
Tax liability	13,705
Tax liability (Rounded off)	13,710

Since his total income as per the normal provisions of the Act exceeds ₹ 5,00,000, he would not be eligible for rebate under section 87A.

Since Mr. Siddhant is not liable to pay any tax under default tax regime under section 115BAC, it would be beneficial for him to **not** to exercise the option of shift out of the default tax regime for A.Y.2025-26.

Notes:

- (1) It is assumed that the entire loan of ₹ 1,60,000 is outstanding as on 31.3.2025;
- (2) Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalized bank, is also in Delhi, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.

**9. Computation of Total Income of Mr. Ramdin for the A.Y.2025-26
under normal provisions of the Act**

Particulars	₹	₹
Income from Salaries		
Basic Salary (₹ 15,000 x 12)		1,80,000
Dearness Allowance (₹ 12,000 x12)		1,44,000
Commission on Turnover (0.5% of ₹ 50 lakhs)		25,000
Bonus		50,000
Gratuity (See Note 1)		30,000
Employer's contribution to recognized provident fund		
Actual contribution [20% of ₹ 1,80,000]	36,000	
<i>Less: Exempt (See Note 2)</i>	33,240	2,760
Interest credited in recognized provident fund account @15% p.a.	15,000	
<i>Less: Exempt upto 9.5% p.a.</i>	9,500	5,500
Gift of gold ring worth ₹ 10,000 on 25 th wedding anniversary by employer (See Note 3)		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ₹ 85,000		8,500
		4,55,760
<i>Less: Standard deduction under section 16(ia)</i>		50,000
		4,05,760
Profits and Gains of Business or Profession		
Lease of 2 light goods vehicles on contract basis against fixed charges of ₹ 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. ₹ 7,500 p.m. for each of the two light goods vehicle (₹ 7,500 x 2 x 12). He cannot claim lower profits and gains since he has not maintained books of account.		1,80,000

Income from Other Sources		
Interest on bank FDRs	5,860	
Interest on debentures (₹ 6786 x 100/90)	7,540	13,400
Gross total Income		5,99,160
<i>Less: Deductions under Chapter VI-A</i>		
Section 80C		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	1,25,370
Section 80D – Mediclaim Insurance		22,500
Section 80G (See Note 4)		10,600
Total Income		4,40,690
Tax on total income		
Income-tax [5% of ₹ 1,90,690 (i.e., ₹ 4,40,690 – ₹ 2,50,000)]		9,535
<i>Less: Rebate u/s 87A, since total income does not exceed ₹ 5,00,000</i>		9,535
Tax liability		Nil
<i>Less: Tax deducted at source (₹ 7,540 – ₹ 6,786)</i>		754
Net tax refundable		754
Tax refundable (rounded off)		750

Notes:

1. Gratuity received during service is fully taxable.
2. Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)

$$= 12\% \text{ of } (\text{₹ } 1,80,000 + (50\% \text{ of } \text{₹ } 1,44,000) + \text{₹ } 25,000)$$

$$= 12\% \text{ of } 2,77,000 = \text{₹ } 33,240$$

3. An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of *Circular No.15/2001 dated 12.12.2001* that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. In such a case the Income from Salaries would be ₹ 4,00,760.
4. **Deduction under section 80G is computed as under:**

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of ₹ 11,000) (amount contributed ₹ 11,000 or 10% of Adjusted Total Income i.e. ₹ 45,129, whichever is lower)	5,500
Total deduction	10,600

Adjusted Total Income = Gross Total Income – Deductions under section 80C and 80D = ₹ 5,99,160 – ₹ 1,47,870 = ₹ 4,51,290.

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

Particulars	₹	₹
Income from Salaries		
Basic salary (₹ 25,000 x 9 months)		2,25,000
House rent allowance:		
Actual amount received (₹ 6,000 x 9 months)	54,000	
Less : Exemption under section 10(13A)(Note 1)	36,000	18,000
Gratuity:		
Actual amount received	3,50,000	
Less: Exemption under section 10(10)(ii) (Note 2)	3,50,000	-
Leave encashment:		
Actual amount received	3,15,000	
Less : Exemption under section 10(10AA) (Note 3)	2,45,000	70,000
Gross Salary		3,13,000
Less: Standard deduction under section 16(ia)		50,000
		2,63,000

Profits and gains of business or profession		
Business loss of ₹ 80,000 to be carried forward as the same cannot be set off against salary income		Nil
Gross Total income		2,63,000
<i>Less</i> : Deduction under section 80C		
Deposit in Public Provident Fund		1,00,000
Total income		1,63,000
Tax on total income (Nil, since it is lower than the basic exemption limit of ₹ 2,50,000)		Nil

Notes:

- (1) As per section 10(13A), house rent allowance will be exempt to the extent of least of the following three amounts:

	₹
(i) HRA actually received (₹ 6,000 x 9)	54,000
(ii) Rent paid in excess of 10% of salary (₹ 6,500 – ₹ 2,500) x 9 months	36,000
(iii) 50% of salary	1,12,500

- (2) Gratuity of ₹ 3,50,000 is exempt under section 10(10)(ii), being the minimum of the following amounts:

	₹
(i) Actual amount received	3,50,000
(ii) Half month salary for each year of completed service [(₹ 25,000 x 15/26) x 26 years]	3,75,000
(iii) Statutory limit	20,00,000

- (3) Leave encashment is exempt upto the least of the following:

	₹
(i) Actual amount received	3,15,000
(ii) 10 months average salary (₹ 24,500 x 10)	2,45,000
(iii) Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired (See Note 4 below)	3,18,500
(iv) Statutory limit	25,00,000

- (4) Since the leave entitlement of Mr. X as per his employer’s rules is 30 days credit for each year of service and he had accumulated 15 days per annum during the period of his service, he would have availed/taken the balance 15 days leave every year.

Leave entitlement of Mr. X on the basis of 30 days for every year of actual service rendered by him to the employer	= 30 days/year x 26 = 780 days
Less: Leave taken /availed by Mr. X during the period of his service	= <u>15 days/year x 26 = 390 days</u>
Earned leave to the credit of Mr. X at the time of his retirement	390 days
Cash equivalent of earned leave to the credit of Mr. X at the time of his retirement	= 390 × ₹ 24,500/30 = ₹ 3,18,500

11. Computation of total income of Mrs. Rosy and Mrs. Mary for the A.Y.2025-26

S. No.	Particulars	Mrs. Rosy (Non-resident)	Mrs. Mary (ROR)
		₹	₹
(I)	Salaries		
	Pension recd from State Govt. ₹ 60,000		
	Less: Standard deduction u/s 16(ja) ₹ 50,000	-	10,000
	Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India	-	-
		-	10,000
(II)	Income from house property		
	Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent)	60,000	30,000

	Less: Deduction u/s 24(a)@30%	18,000	9,000
		42,000	21,000
(III)	Capital gains		
	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000
	Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
		1,20,000	3,50,000
(A)	Gross Total Income [(I)+(II)+(III)]	1,62,000	3,81,000
	Less: Deductions under Chapter VIA		
1.	Deduction u/s 80C		
	1. LIC Premium paid	-	10,000
	2. Premium paid to Canadian Life Insurance Corporation	40,000	-
	3. Deposit in PPF	-	20,000
		40,000	30,000
2.	Deduction u/s 80D – Mediclaim premium paid	-	25,000
		40,000	55,000
(B)	Total deduction under Chapter VI-A is restricted to income other than capital gains taxable under sections 111A & 112	40,000	31,000
(C)	Total income (A-B)	1,22,000	3,50,000
	Tax liability of Mrs. Rosy for A.Y.2025-26		
	Tax on long-term capital gains @20% of ₹ 1,00,000	20,000	
	Tax on short-term capital gains @15% of ₹ 20,000	3,000	
	Tax on balance income of ₹ 2,000	Nil	
		23,000	
	Tax liability of Mrs. Mary for A.Y.2025-26		
	Tax on STCG @15% of ₹ 1,00,000 [i.e., ₹ 2,50,000 less ₹ 1,50,000, being the unexhausted basic exemption limit as per		15,000

proviso to section 111A] [See Notes 3 & 4 below]		
Less: Rebate u/s 87A would be lower of ₹ 12,500 or tax liability, since total income does not exceed ₹ 5,00,000		12,500
		2,500
Add: Health and Education cess@4%	920	100
Total tax liability	23,920	2,600

Notes:

- (1) Long-term capital gains on sale of land on 15.5.2024, is chargeable to tax@20% as per section 112.
- (2) Short-term capital gains on transfer of equity shares on 23.4.2024 in respect of which securities transaction tax is paid is subject to tax@15% as per section 111A.
- (3) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then, the long-term capital gains u/s 112/short-term capital gains u/s 111A will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at 20%/15%, respectively. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust unexhausted basic exemption limit against long-term capital gains taxable under section 112 and short-term capital gains taxable under section 111A, Mrs. Rosy cannot do so.
- (4) Since long-term capital gains is taxable at the rate of 20% and short-term capital gains is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of ₹ 2,50,000 against long-term capital gains of ₹ 100,000 and the balance limit of ₹ 1,50,000 (i.e., ₹ 2,50,000 – ₹ 1,50,000) against short-term capital gains.
- (5) Rebate under section 87A would not be available to Mrs. Rosy even though her total income does not exceed ₹ 5,00,000, since she is non-resident for the A.Y. 2025-26.

**12. Computation of total income and tax liability of Mr. X for A.Y.2025-26
(under default tax regime under section 115BAC)**

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ		40,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Depreciation under section 32		
On building @10% of ₹ 65 lakhs ⁴ (normal depreciation under section 32 is allowable)	6,50,000	98,50,000
Total Income		1,38,50,000
Computation of tax liability as per section 115BAC		
Tax on ₹ 1,38,50,000		38,45,000
Add: Surcharge@15%		5,76,750
		44,21,750
Add: Health and Education cess@4%		1,76,870
Total tax liability		45,98,620

Notes:

- (1) Deductions u/s 10AA and 35AD are **not** allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.
- (2) Mr. X is **not** liable to alternate minimum tax u/s 115JC under default tax regime under section 115BAC.

**Computation of total income and tax liability of Mr. X for A.Y.2025-26
(under the regular provisions of the Income-tax Act, 1961)**

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ	40,00,000	
Less: Deduction u/s 10AA [See Note (1) below]	16,00,000	
Business income of SEZ unit chargeable to tax		24,00,000

⁴ Assuming the capital expenditure of ₹ 65 lakhs is incurred entirely on buildings

Profit from operation of warehousing facility	1,05,00,000	
<i>Less:</i> Deduction u/s 35AD [See Note (2) below]	65,00,000	
Business income of warehousing facility chargeable to tax		40,00,000
Total Income		64,00,000
Computation of tax liability (under the normal/regular provisions)		
Tax on ₹ 64,00,000		17,32,500
<i>Add:</i> Health and Education cess@4%		69,300
Total tax liability		18,01,800

**Computation of adjusted total income of Mr. X
for levy of Alternate Minimum Tax**

Particulars	₹	₹
Total Income (computed above as per regular provisions of income tax)		64,00,000
<i>Add:</i> Deduction under section 10AA		16,00,000
		80,00,000
<i>Add:</i> Deduction under section 35AD	65,00,000	
<i>Less:</i> Depreciation under section 32 On building @10% of ₹65 lakhs ⁵	6,50,000	58,50,000
Adjusted Total Income		1,38,50,000
Alternate Minimum Tax@18.5%		25,62,250
<i>Add:</i> Surcharge@15% (since adjusted total income > ₹ 1 crore)		3,84,338
		29,46,588
<i>Add:</i> Health and Education cess@4%		1,17,863
		30,64,451
Tax liability u/s 115JC (rounded off)		30,64,450

⁵ Assuming the capital expenditure of ₹65 lakhs is incurred entirely on buildings

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof *plus* surcharge@15% and cess@4%. Therefore, tax liability as per section 115JC is ₹ 30,64,450.

Since the tax liability of Mr. X under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him **to opt out of the default tax regime under section 115BAC for A.Y. 2025-26**. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess over regular tax.

AMT Credit to be carried forward under section 115JEE

	₹
Tax liability under section 115JC	30,64,450
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	18,01,800
	12,62,650

Notes:

- (1) Deduction under section 10AA in respect of Unit in SEZ =

$$\text{Profit of the Unit in SEZ} \times \frac{\text{Export turnover of the Unit in SEZ}}{\text{Total turnover of the Unit in SEZ}} \times 50\%$$

$$40,00,000 \times \frac{80,00,000}{1,00,00,000} \times 50\% = ₹ 16,00,000$$
- (2) Deduction@100% of the capital expenditure is available under section 35AD for A.Y.2025-26 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.

Further, the expenditure incurred, wholly and exclusively, for the purposes of such specified business, shall be allowed as deduction during the previous year in which he commences operations of his specified business if the expenditure is incurred prior to the commencement of its operations and the amount is capitalized in the books of account of the assessee on the date of commencement of its operations.

Deduction under section 35AD would, however, **not** be available on expenditure incurred on acquisition of land.

In this case, since the capital expenditure of ₹ 65 lakhs (i.e., ₹ 75 lakhs – ₹ 10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y.2023-24 and capitalized in the books of account on 1.4.2024, being the date when the warehouse became operational, ₹ 65,00,000, being 100% of ₹ 65 lakhs would qualify for deduction under section 35AD.