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INCOME TAX-II: LAW AND PRACTICE

COURSE CODE: B21CM05DE

Bachelor of Commerce

Discipline Specific Elective Course

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SREENARAYANAGURU OPEN UNIVERSITY

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The State University for Education, Training and Research in Blended Format, Kerala

SREENARAYANAGURU OPEN UNIVERSITY

Vision

To increase access of potential learners of all categories to higher education, research and training, and ensure equity through delivery of high quality processes and outcomes fostering inclusive educational empowerment for social advancement.

Mission

To be benchmarked as a model for conservation and dissemination of knowledge and skill on blended and virtual mode in education, training and research for normal, continuing, and adult learners.

Pathway

Access and Quality define Equity.

Income Tax-II: Law and Practice

Course Code: B21CM05DE

Semester - VI

Discipline Specific Elective Course
Bachelor of Commerce
Self Learning Material
(With Model Question Paper Sets)

വിദ്യകൊണ്ട് സ്വതന്ത്രരാവുക

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MESSAGE FROM VICE CHANCELLOR

Dear learner,

I extend my heartfelt greetings and profound enthusiasm as I warmly welcome you to Sreenarayanaguru Open University. Established in September 2020 as a state-led endeavour to promote higher education through open and distance learning modes, our institution was shaped by the guiding principle that access and quality are the cornerstones of equity. We have firmly resolved to uphold the highest standards of education, setting the benchmark and charting the course.

The courses offered by the Sreenarayanaguru Open University aim to strike a quality balance, ensuring students are equipped for both personal growth and professional excellence. The University embraces the widely acclaimed “blended format,” a practical framework that harmoniously integrates Self-Learning Materials, Classroom Counseling, and Virtual modes, fostering a dynamic and enriching experience for both learners and instructors.

The University aims to offer you an engaging and thought-provoking educational journey. The Bachelor of Commerce is one of the highly popular programmes due to the current need for skilled professionals in the field. This demand guided our approach as we developed the programme's curriculum. The programme offers a comprehensive grasp of theoretical concepts alongside clear explanations of practical applications. We are careful to maintain a balance in the management components to preserve the integrity of the discipline. The Self Learning Material has been thoughtfully crafted to include illustrative examples. The Self-Learning Material has been meticulously crafted, incorporating relevant examples to facilitate better comprehension.

Rest assured, the university’s student support services will be at your disposal throughout your academic journey, readily available to address any concerns or grievances you may encounter. We encourage you to reach out to us freely regarding any matter about your academic programme. It is our sincere wish that you achieve the utmost success.

Warm regards.
Dr. Jagathy Raj V. P.

01-09-2026

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BLOCK

Income from Other Sources

Unit 1
Introduction

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ explain the concepts of general and specific chargeability
- ◊ identify the different kinds of securities
- ◊ calculate the gross amount of interest on securities
- ◊ gain insight into the concept of bond washing transactions

Prerequisites

After completing MBA, Mr.Ravi started working as a financial analyst in Kochi. With his first few months' salary, he decided to invest his savings wisely instead of leaving them idle in his bank account. So, he discussed his plans with his uncle Mr. Raghu who had many years of experience in investing. Mr.Raghu suggested investing in different types of securities. Following Raghu's advice, Mr.Ravi invested in Government Securities, corporate debentures, tax-free bonds, and listed company bonds. By the end of the financial year, Ravi had received interest from each of these investments. But, he noticed something unusual, when he looked at the statements sent by different organisations.

For some investments, the amount credited to his bank account was exactly the interest he expected. For others, the interest received was lower because tax had been deducted before payment. Mr. Ravi began to wonder as to why the same type of income was reported differently.

To understand this, he visited Mr. Vishal, a Chartered Accountant. Mr.Vishal explained that while interest earned on securities is generally taxable under the head "Income from Other Sources," the manner in which it is taxed depends on the nature of the security and the provisions of the Income-tax Act. Some securities require grossing up of interest when tax has been deducted at source, while others do not. He also learned that different securities such as Government securities, taxable debentures, tax-free bonds, and listed or unlisted securities have different tax treatments.

During their discussion, Mr. Vishal also mentioned an interesting tax avoidance practice called a bond washing transaction. He explained that some investors used to transfer securities temporarily to another person just before the interest became due so that the interest income would be taxed in the hands of someone with a lower tax liability. The Income-tax Act contains specific provisions to prevent such arrangements and ensure that the interest is taxed in the hands of the real owner.

Mr. Ravi realized that earning interest was only one part of investing. This story highlights the importance of understanding which securities are taxable, how interest is computed, when grossing up is required, and how tax laws prevent avoidance through bond washing transactions. This unit discusses more about the taxation of interest earned from various types of securities under the head "Income from Other Sources." It explains the concepts of general and specific chargeability of interest on securities, different kinds of securities and their tax treatment, and the procedure for grossing up interest where tax has been deducted at source. The unit also examines bond washing transactions and the provisions of the Income-tax Act designed to prevent tax avoidance through such transactions. By the end of this unit, learners will understand how different categories of securities are taxed and how taxable interest income is computed in accordance with the Income-tax Act.

Keywords

Chargeability, Bond Washing Transaction, Securities

Discussion

1.1.1 General and Specific Chargeability

Income from Other Sources is a residuary head of income under the Income Tax Act. It includes all taxable income that cannot be brought under any of the other four heads of income, namely Income from Salaries, Income from House Property, Profits and Gains of Business or Profession, and Capital Gains. Such income is therefore assessed under the head "Income from Other Sources."

Income taxable under this head is can be segregated into two categories. They are

◊ **Specified incomes:** These are incomes which are expressly chargeable to tax under the head "Income from Other Sources".

◊ **Other incomes :** These are incomes which do not fall within any of the first four heads of income but are nevertheless taxable under this residuary head.

A. Specific Incomes Chargeable under Income from Other Sources (Section 92 of Income Tax Act 2025 vis- a –vis section 56 of I T Act. 1961)

The following categories of income are specifically taxable under the head "Income from Other Sources":

i. Dividend income received from companies is taxable under this head, subject to the provisions of the Income Tax Act.

ii. Winnings from lotteries, crossword puzzles, horse races, card games, gambling, betting, and similar games or competitions are taxable under this head irrespective of their nature.

iii. Any amount received by the assessee (employer) from employees as contributions towards a provident fund, superannuation fund, or any fund established under the Employees' State Insurance Act, 1948, are taxable.

iv. Interest earned on securities is assessed under this head.

v. Income from letting machinery, plant, or furniture belonging to the assessee is taxable under this head when it is not chargeable under the head "Profits and Gains of Business or Profession."

vi. Income derived from letting machinery, plant, or furniture along with a building, where the letting of the building is inseparable from the letting of the machinery, plant, or furniture, is taxable under the head "Income from Other Sources" if it is not chargeable under the head "Profits and Gains of Business or Profession."

vii. Amounts received under a Keyman Insurance Policy, including any bonus attached to the policy, are chargeable under this head if they are not taxable under the heads "Profits and Gains of Business or Profession" or "Income from Salaries."

viii. Maturity proceeds of one or more than one life insurance policies (where the aggregate annual premium exceeding 5 lakh) taken on or after 1.4.2023 will be taxed as per the tax slab. However, if the amount of premium paid on or after 1.4.2023 exceeds 5 lakh, then no exemption will be given in respect of the amount received under a life insurance policy,

ix. If any person receives from any person or persons in any previous year

Nature of Asset Received	Amount to be included in income
(a) Sum of Money received without consideration, where the aggregate amount exceeds ₹50,000.	The entire amount received is taxable.
(b) (i) Immovable Property received without consideration, where the stamp duty value exceeds ₹50,000. (ii) Immovable Property received for consideration	The stamp duty value of the property is taxable. The stamp duty value of such property exceeds such consideration, if the amount of such excess is more than the higher of the following (a) the amount of 50,000: and (b) the amount equal to 10%
(c)Any other property other than immovable property received (i) without consideration, where the aggregate fair market value (FMV) exceeds ₹50,000. (ii) with consideration, where the consideration is lower than the aggregate fair market of the property more than ₹50,000.	The entire aggregate fair market value of such property is taxable. The entire aggregate fair market value of such property as exceeds such consideration.

Exceptions

The above provisions shall not apply if the

- ◊ Money or property is received from a relative.
- ◊ Money or property is acquired under a will or through inheritance.
- ◊ Money or property is received on the occasion of the marriage of an individual.
- ◊ Money or property is received in contemplation of the death of the donor or payer.

- Money or property is received from any local authority.
- Money or property is received from a trust or institution registered under Sections 12A, 12AA, or 12AB of the Income Tax Act.
- Money or property is received from any fund or foundation or university or other educational institution or hospital or other medical institution or any trust or institution referred to in Sec. 10(23C);
- transfer cannot be regarded as transfer u/s 47 in the cases of amalgamation, demerger or business reorganisation; or
- Money or property is received from an individual by a trust created or established solely for the benefit of relative of the individual
- Money or property is received from such class of persons and subject to such conditions, as may be prescribed.

I. Meaning of Property

For the purpose of this provision, property refers to the following capital assets owned by the assessee:

- Immovable property, including land, building, or both;
- Shares and securities;
- Jewellery;
- Archaeological collections;
- Drawings;
- Paintings;
- Sculptures;
- Any work of art; and
- Bullion.

II. Meaning of Relative

In the case of an individual, the term relative includes:

- The spouse of the individual;
- The brother or sister of the individual;
- The brother or sister of the individual's spouse;
- The brother or sister of either parent of the individual;
- Any lineal ascendant or lineal descendant of the individual;
- Any lineal ascendant or lineal descendant of the individual's spouse; and
- The spouse of any person referred to in clauses (ii) to (vi).

x. Interest received on compensation or enhanced compensation shall be deemed to be the income of the previous year in which it is actually received.

xi. Any advance amount received during negotiations for the transfer of a capital asset, which is forfeited because the proposed transfer does not materialise, is taxable under this head.

xii. Compensation or any other payment received by an employee in connection with the termination of employment or modification of the terms and conditions of employment is chargeable to tax under the head "Income from Other Sources."

xiii. Specified sums received by a unit holder from a business trust during the previous year in respect of units held by the unit holder at any time during that year are taxable under this head.

B. Other Incomes Chargeable under the Head "Income from Other Sources"

Apart from the specific incomes listed under Section 56(2), the following incomes are also taxable under the head "Income from Other Sources" when they are not chargeable under any other head of income:

i. Interest income, including interest on securities, bank deposits, loans, and interest received on delayed income tax refunds.

ii. Income earned by a tenant from sub-letting the whole or a portion of a house property.

iii. Remuneration received by teachers or lawyers for doing examination work.

iv. Royalty income.

v. Director's fees

vi. Rent received from land that is not appurtenant to any building.

vii. Agricultural income derived from land situated outside India.

viii. Income generated from markets, ferries, fisheries, and similar sources.

ix. Income arising from leasehold properties.

x. Remuneration received for writing articles for newspapers, magazines, journals, or similar publications.

xi. Income from undisclosed sources such as

 ◊ Unexplained cash credits (Section 68).
 ◊ Unexplained investments (Section 69).
 ◊ Unexplained money (Section 69A).
 ◊ Unexplained expenditure (Section 69C).
 ◊ Amounts borrowed or repaid through hundi otherwise than by an account payee cheque drawn on a bank (Section 69D).

xii. Interest received by an employee on his own contributions to an unrecognised provident fund.

xiii. Salary received by Members of Parliament (MPs) and Members of State Legislative Assemblies or Legislative Councils (MLAs/MLCs).

xiv. Insurance commission that is not chargeable under the head "Profits and Gains of Business or Profession."

xv. Income from the renting of trademarks.

xvi. Commission received by a director for providing a guarantee to a bank on behalf of the company.

xvii. Commission earned by a director for underwriting the shares of a company.

xviii. Gratuity received by a director who is not an employee of the company.

xix. Family pension received by the widow or legal heirs of a deceased employee is taxable under this head. However, the following family pensions are exempt from tax:

◊ Family pension received by the widow of an employee of the United Nations Organisation (U.N.O).

◊ Family pension received by any family member of a gallantry award recipient, as exempt under Section 10(18).

(Here Family denotes (a) the individual's spouse and children and (b) the parents, brothers and sisters of the individual, who are wholly or mainly dependent on the individual).

xx. Withdrawal from the National Savings Scheme (NSS)

Any amount withdrawn from a National Savings Scheme (NSS) account, including the interest earned on it, is taxable if a deduction has been allowed including interest thereon.

xxi. Receipts by Cricketers Representing India

The tax treatment of receipts received by cricketers selected to represent India is as follows:

a. Test Matches Played in India

The amount received from the Cricket Control Board is taxable after allowing a deduction equal to 75% of the receipt towards reasonable expenses incurred for earning such income.

b. Other Matches Played in India

For matches other than Test matches played in India, the entire amount received from the BCCI is generally considered to have been spent in earning the income. Therefore, no part of such receipt is chargeable to tax.

c. Matches Played Outside India

Where a player receives income for participating in matches outside India, 50% of the amount received is allowed as a deduction, and the remaining 50% is taxable.

xxii. Tips received by a waiter, taxi driver, or any other service provider directly from customers, and not from the employer, are taxable under the head Income from Other Sources.

1.1.2 Some important topics related to Income from other Sources

1. Dividend

In general, a dividend refers to the amount distributed by a company to its shareholders out of its profits. The dividend may be paid either in cash or in kind.

Deemed Dividend [Section 2(22)]

Section 2(22) of the Income Tax Act treats certain payments or distributions made by a company to its shareholders as deemed dividends, to the extent of the company's accumulated profits. These include:

◊ Distribution of all or any of the company's assets to shareholders.

◊ Distribution of debentures, deposit certificates, or bonus shares to preference shareholders.

◊ Distribution made at the time of liquidation of the company.

◊ Distribution resulting from the reduction of share capital.

◊ Any loan or advance given by a closely held company to:

- a shareholder who is the beneficial owner of shares carrying not less than 10% of the voting power, or
- any concern in which such shareholder is a member or partner and has a substantial interest.

◊ The sum paid by a domestic company for purchase of its own shares shall be treated as dividend in the hands of shareholders, who received payment from such buy-back of shares and shall be charged to income-tax at applicable rates and no deduction for expenses shall be available against such dividend income.

Taxation of Dividend

1. Dividend from a Domestic Company

Dividends, including deemed dividends, distributed by a domestic company are taxable in the hands of the shareholder.

2. Dividend from a Co-operative Society

Dividend received from a co-operative society is taxable. Since the society is not required to deduct tax at source, grossing up is not applicable.

3. Dividend from a Foreign Company

Dividend received from a foreign company is taxable. Where the assessee claims double taxation relief, the gross amount of the dividend is included in income.

Casual Income

Casual income refers to any receipt that is occasional, non-recurring, and unexpected in nature. In other words, it is income that arises accidentally, without any prior arrangement or regularity, and is generally regarded as a windfall gain.

Examples of casual income include winnings from lotteries, crossword puzzles, card games, and other games of any kind, as well as income from gambling or betting in any form. Even winnings from habitual betting are considered non-recurring receipts and are treated as casual income.

Casual income does not include:

i. Incomes such as

- ◊ Capital gains;
- ◊ Receipts arising from a business, profession, or occupation; and
- ◊ Payments received as an addition to an employee's remuneration, such as bonus, gratuity, perquisites, and similar benefits.

ii. Voluntary Payments and Casual Income

Voluntary payments received in the course of carrying on an occupation are not regarded as casual income. For example, tips received by taxi drivers employed by taxi owners are considered income arising from their occupation. Likewise, gratuities received by hotel waiters are taxable as income.

Similarly, an amount received as a gift from a third party may still be taxable if it is connected with the exercise of a profession, even when the recipient did not render services to that person and the donor was under no legal obligation to make the payment.

For instance, if an architect wins a prize for a building design submitted in a competition, the prize money is treated as professional income.

iii. Gifts from Relatives

A gift received from a relative is not treated as income. Common examples include birthday and wedding gifts received from relatives. Such gifts do not become taxable merely because they are received repeatedly over the years. Likewise, a regular allowance voluntarily given by a parent to a child, by a husband to his wife, or by one relative to another is regarded as a fresh gift each time it is paid and does not constitute income.

iv. Maintenance Allowance

A maintenance allowance paid by a husband to his wife under an agreement to live separately is neither casual income nor a personal gift. Therefore, such a payment is taxable.

2. Winnings from Lotteries, Games, and Betting

Gross winnings from lotteries, crossword puzzles, card games, online games, horse races, gambling, betting, and similar activities are taxable. No deduction for expenses or allowances is permitted.

If the winnings from lotteries, crossword puzzles, card games, other games, gambling, or betting do not exceed ₹10,000, or if the winnings from horse races do not exceed ₹10,000, no tax is deducted at source (TDS). However, if the winnings exceed the prescribed limit of ₹10,000, tax is deducted at source at the rate of 30%. The gross amount, i.e., the amount received plus the tax deducted at source, is included in the total income.

3. Tax on Winnings from Online Games (Section 115BBJ)

Where the total income of an assessee includes net winnings from any online game, the income tax payable shall be the aggregate of:

◊ Income tax calculated at the rate of 30% on the net winnings from online games during the previous year, computed in the prescribed manner; and

◊ Income tax that would have been payable on the assessee's total income had such net winnings been excluded from the total income.

4. Interest on Securities

The tax treatment of interest on securities depends on the purpose for which the securities are held:

◊ If the securities are held as stock-in-trade, the interest income is taxable under the head "Profits and Gains of Business or Profession."

◊ If the securities are held as investments, the interest income is taxable under the head "Income from Other Sources."

1.1.3 Securities

Securities' refer to a document acknowledging the debt taken by the Government or some other authority from the general public. Security is held by an investor or creditor as a guarantee of his right to receive payment.

1.1.3.1 Kinds of Securities

1. Tax-free Government Securities

These are securities on which the interest is fully exempt from income tax under Section 10(15) of the Income-tax Act. Consequently, the interest earned on such securities is neither included in the total income nor subjected to tax.

2. Less-tax Government Securities

These securities are issued by either the Central Government or a State Government. Although they are taxable securities, tax is not deducted at source (TDS) on these securities. Therefore, the interest received from these securities is not required to be grossed up.

Exception: Tax is deducted at source on interest payable on Savings (Taxable) Bonds, 2003, if the interest payable during the financial year exceeds ₹10,000.

3. Tax-free Non-Government Securities

These securities are issued by a local authority, statutory corporation, or a company, generally in the form of debentures or bonds. In reality, the interest on these securities is not exempt from tax, since the tax payable on such interest is borne by the company, local authority, or statutory corporation issuing the securities. They are called tax-free securities because the assessee is not required to pay the tax out of his own pocket.

The tax paid by the issuing company on the interest is deemed to have been paid on behalf of the assessee. Therefore, the amount of tax paid is added to the interest due to the assessee, i.e., the interest is grossed up, and the gross amount is included in the assessee's total income. The tax paid by the company is then allowed as a credit against the total tax liability of the assessee.

Example: Suppose a company issues 10% tax-free debentures. The debenture holder receives the full amount of interest calculated at 10%. However, for income-tax purposes, the amount to be included in the assessee's income is the actual interest received plus the income tax paid by the company on that interest.

4. Less-tax Non-Government Securities

These securities are also known as taxable securities. In their case, tax is deducted at source on the interest payable, and the balance amount, after deducting tax, is paid to the security holder.

When the rate of interest is given, the amount of interest represents the gross interest, and therefore no grossing up is required. However, if the net amount of interest received is given, it must be grossed up to determine the taxable income.

Irrespective of the type of security, it is always the gross amount of interest that is included in the assessee's total income.

Rules for Grossing Up Interest on Securities

The following rules are generally followed for grossing up interest on securities:

1. When the rate of interest is given, only the interest on tax-free non-government (commercial) securities is grossed up. Interest on all other categories of securities is not grossed up.
2. Interest on tax-free non-government (commercial) securities is always grossed up, irrespective of whether the rate of interest or the actual amount received is given.
3. Interest on less-tax securities is grossed up only when the net amount of interest received is given.

1.1.4 Bond Washing Transaction

Bond washing is a financial tax avoidance practice in which a taxpayer belonging to a higher income group temporarily transfers securities to a person in a lower tax bracket shortly before the interest due date. The securities are repurchased after the interest has been paid.

Interest on securities is generally payable on fixed dates, either half-yearly or annually. Since the entire interest is taxable in the hands of the person who owns the securities on the due date of interest, some taxpayers transfer their securities to relatives or associates just before the due date and reacquire them after receiving the interest.

The temporary transferee is usually a person whose total income, including the interest income, is below the taxable limit or is taxed at a lower rate. As a result, the interest income either escapes tax or is taxed at a lower rate, thereby reducing the overall tax liability of the original owner. This practice leads to a loss of revenue to the Government.

To prevent such tax avoidance, Section 94 empowers the Assessing Officer to include the interest on securities in the income of the actual owner, if it is found that the transfer was made mainly to avoid tax.

Exceptions

The above provision will not apply if the assessee establishes to the satisfaction of the Assessing Officer that:

◊ The transfer was not made with the intention of avoiding income tax; or

◊ The tax avoidance, if any, was exceptional and not a regular or systematic practice, and there was no avoidance of income tax during any of the three preceding previous years.

1.1.5 Grossing-up of Interest and Winnings

As per the Income tax Act 2025, grossing up of interest applies when the payer agrees to bear the tax liability of the recipient. when a contract or arrangement specifies that the interest is to be paid “net of tax” and the payer pays the tax on behalf of the payee, the recipient must report the grossed up value as income. The net interest amount is grossed up using the applicable TDS rates in force, inclusive of the applicable surcharge and health/education cess.

The gross amount of interest or winnings may be determined using the following formulae (Assessment Year 2026–27).

Gross Interest= Net Interest x 100 divided by 100 –Tax rate in force.

In the Case of an Individual (Resident in India)

Table 1.1.1 Grossing-up of Interest and Winnings

Particulars	Grossing-up
Interest on tax-free Government securities	Exempt from tax
Interest on less-tax Government securities	No grossing up required
Interest on Savings (Taxable) Bonds (if interest exceeds Rs.10,000	Net Interest × 100 ÷ (100 − TDS Rate)

Interest on debentures of local authorities, corporations, or listed companies	Interest Received × 100 ÷ 90
Interest on other debentures and securities	Interest Received × 100 ÷ 90
Winnings from lotteries and crossword puzzles	Winning Amount × 100 ÷ 70
In the case of a Domestic Company	
Interest on securities	Interest Received × 100 ÷ 90
Interest other than interest on securities	Interest Received × 100 ÷ 90
Winnings from lotteries and crossword puzzles	Winning Amount × 100 ÷ 70

Recap

- ◊ Income from Other Sources is the residual category of income under the Income Tax Act. It includes all taxable income that cannot be brought under any of the other four heads of income, namely Income from Salaries, Income from House Property, Profits and Gains of Business or Profession, and Capital Gains. Such income is therefore assessed under the head "Income from Other Sources.".
- ◊ Income taxable under this head is can be segregated into two categories. They are Specific Incomes and Other incomes
- ◊ Specified incomes are incomes which are expressly chargeable to tax under the head "Income from Other Sources".
- ◊ Other incomes are incomes which do not fall within any of the first four heads of income but are nevertheless taxable under this residuary head.
- ◊ Casual income refers to any receipt that is occasional, non-recurring, and unexpected in nature. In other words, it is income that arises accidentally, without any prior arrangement or regularity, and is generally regarded as a windfall gain. Examples of casual income include winnings from lotteries, crossword puzzles, card games, and other games of any kind, as well as income from gambling or betting in any form.
- ◊ Bond washing is a tax avoidance practice in which a taxpayer belonging to a higher income group temporarily transfers securities to a person in a lower tax bracket shortly before the interest due date. The securities are repurchased after the interest has been paid.

Objective Questions

1. Under which head of income are residual taxable incomes assessed under the Income-tax Act?
2. Which section specifically lists the incomes chargeable under the head "Income from Other Sources"?
3. Which of the following is treated as a deemed dividend under the Income-tax Act?
4. Which type of income is generally regarded as casual income?
5. At what rate is tax deducted at source on lottery winnings exceeding the prescribed limit?
6. Under which head is interest on securities taxable when the securities are held as investments?
7. Which type of security always requires grossing up of interest?
8. What is meant by a bond washing transaction?
9. Under which section are provisions relating to bond washing transactions contained?
10. Which formula is used to gross up winnings from lotteries or crossword puzzles?

Answers

1. Income from Other Sources
2. Section 56(2)
3. Loan or advance by a closely held company to a specified shareholder (deemed dividend)
4. Lottery winnings, crossword puzzle winnings, gambling or betting income
5. 30%
6. Income from Other Sources
7. Tax-free Non-Government Securities
8. Temporary transfer of securities before the interest due date to avoid or reduce tax
9. Section 94
10. Winning Amount × 100 ÷ 70

Self-Assessment Questions

1. Explain the meaning of Income from Other Sources and distinguish between general and specific chargeability.
2. Discuss the various categories of specific incomes taxable under Section 56(2).
3. Explain the tax treatment of dividend income, including the concept of deemed dividend.
4. What is casual income? Explain its features and the tax treatment of lottery, gambling, horse race, and online game winnings.
5. Explain the different types of securities and discuss their tax treatment.
6. What is meant by grossing up of interest? Explain the rules applicable for grossing up different categories of securities.
7. Describe the concept of a bond washing transaction. Why has the Income-tax Act introduced provisions to prevent it?
8. Explain the meaning of property and relative for the purpose of taxation of gifts under the head Income from Other Sources.
9. Discuss the exceptions to the taxation of money or property received without consideration.
10. Explain the taxation of interest on securities when securities are held as investments and as stock-in-trade.

Assignments

1. Mr. Arun received dividend from a domestic company, winnings from a lottery, and interest on Government securities. Analyse under which head each receipt is taxable and explain the applicable provisions.
2. A taxpayer received cash gifts from a friend, his father, and on the occasion of his marriage. Analyse which of these receipts are taxable and justify your answer with reference to the relevant provisions.
3. Compare the tax treatment of tax-free Government securities, less-tax Government securities, tax-free non-Government securities, and less-tax non-Government securities, highlighting the requirement for grossing up in each case.
4. A high-income taxpayer transfers his debentures to his son a few days before the interest due date and purchases them back after the interest is paid. Analyse the tax implications of this transaction with reference to Section 94.

5. A taxpayer receives interest on securities, lottery winnings, and online game winnings during the previous year. Analyse the tax treatment, TDS provisions, and grossing-up requirements applicable to each source of income.

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Unit 2
Deductions

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ understand the deductions allowed under Income from Other Sources.
- ◊ discuss the deductions which are not allowed under Income from other sources.

Prerequisites

M.Raj, a retired bank manager, received income from various sources during the financial year. He earned interest on debentures, family pension after the demise of his wife, rent from leasing machinery to a small manufacturing unit, and interest on enhanced compensation awarded by a court. While calculating his taxable income, he listed several expenses, including bank charges for collecting interest, interest on a loan taken to purchase debentures, repair and insurance expenses for the machinery, depreciation on the machinery, the cost of lottery tickets he had purchased during the year, and some personal household expenses.

Confident that all these expenses would reduce his tax liability, Raj consulted a tax practitioner before filing his income tax return. After examining the records, the practitioner explained that the Income-tax Act permits deductions only for expenses that are specifically allowed under the head "Income from Other Sources." Expenses such as bank collection charges, interest on borrowed capital used for investments, repairs, insurance, depreciation, and the prescribed deduction for family pension are allowable. However, personal expenses, expenditure incurred for lottery winnings, wealth tax, expenses relating to exempt income, and certain cash payments exceeding the prescribed limit are not deductible.

Raj realized that correctly computing income from other sources requires not only identifying the income earned but also knowing which expenses are deductible and which are specifically disallowed under the Income-tax Act. This encouraged him to study the provisions relating to allowable and disallowable deductions in greater detail. This unit discusses more about the deductions which are allowed under Income from Other Sources and deductions which are not permitted under Income from other Sources.

Keywords

Deductions, Commission, Interest, Family Pension

Discussion

1.2.1 Deductions Allowed under Income from Other Sources

Income taxable under the head "Income from other sources" is computed after allowing following deductions.

1. Commission or Remuneration for Collecting Income

In respect of interest on securities or dividend (other than dividend covered under Section 2(22)(f)), any reasonable amount paid as commission or remuneration to a bank or any other person for collecting such income on behalf of the assessee is deductible.

2. Interest on Borrowed Capital

Interest paid on a loan borrowed for investing in securities or shares is deductible, provided the borrowed amount has actually been utilized for that investment.

3. Employees' Contribution to Welfare Funds

Where employees' contributions to provident fund or similar funds are treated as the employer's income under the head "Income from Other Sources", a deduction is allowed for the amount credited by the employer to the employees' accounts in the relevant fund on or before the prescribed due date.

4. Deductions in Respect of Letting Out Machinery, Plant or Furniture

Where income from letting out machinery, plant or furniture, with or without buildings, is taxable under the head "Income from Other Sources", the following deductions are permitted in the same manner as under the head "Profits and Gains of Business or Profession":

- ◊ Expenses incurred for the Current repairs incurred for machinery, plant, furniture or building.

- ◊ Insurance premium paid to cover the risk of damage or destruction of the building, machinery, plant or furniture.
- ◊ Depreciation on the building, machinery, plant or furniture.

5. Family Pension

Where family pension is received by the widow or legal heirs of a deceased employee, a deduction equal to 33⅓% of such pension or ₹15,000, whichever is lower, is allowed.

Note: Where tax is computed under Section 115BAC(1A)(ii), the maximum deduction is ₹25,000 instead of ₹15,000.

No deduction is allowable in respect of dividend income referred to under Section 2(22)(f).

6. Sub-letting of House Property

In the case of income from sub-letting, expenses such as rent, repair charges and similar expenses relating to the sub-let portion are deductible.

7. Other Revenue Expenditure

Any expenditure, other than capital expenditure or personal expenses of the assessee, incurred wholly and exclusively for earning income from other sources is deductible.

8. Interest on Compensation or Enhanced Compensation

From interest received on compensation or enhanced compensation, 50% of such interest is allowed as a deduction. No further deduction is permissible in respect of this income.

Note: Deduction for interest expenditure under Section 57 in relation to dividend income or income from units of mutual funds is restricted to 20% of such income.

No deduction is allowable in respect of dividend income covered under Section 2(22)(f).

Under the new tax regime deductions under section 57 for “ Income from other Sources” are heavily restricted. Only specific expenses like a standard deduction on family pension(1/3rd of the pension or Rs 25,000 whichever is lower) and a maximum 20% deduction on interest/dividend –related loan expenses are allowed.

1.2.2 Deductions which are not permitted under Income from Other Sources

[Section 58]

The following expenses are not deductible while computing income under the head "Income from Other Sources":

1. Personal Expenses

Personal expenses incurred by the assessee are not allowable as deductions.

2. Certain Interest Payments Outside India

Interest payable outside India is not deductible if tax required under the Income-tax Act has not been deducted at source or, after deduction, has not been paid.

3. Wealth Tax

Any amount paid towards wealth tax is not deductible.

4. Cash Payments Exceeding the Prescribed Limit

Section 40A(3) provides that 100% of the expenditure shall be disallowed where payment exceeding ₹10,000/₹35,000 is made otherwise than through an account payee cheque, account payee bank draft, electronic clearing system (ECS) through a bank account, or any other prescribed electronic mode.

5. Expenses Relating to Lottery and Similar Winnings

Expenses or losses incurred in connection with income from lotteries, crossword puzzles, races (including horse races), card games, gambling or betting of any kind are not deductible.

Exception: This restriction does not apply to income earned by a person engaged in the business of owning and maintaining race horses.

6. Expenses Relating to Exempt Income

Any expenditure incurred for earning income that is exempt from tax is not allowed as a deduction.

Recap

- ◊ Income under the head "Income from Other Sources" is computed after allowing only specified deductions under the Income-tax Act.
- ◊ Commission or remuneration paid for collecting interest on securities or dividend is an allowable deduction.
- ◊ Interest on money borrowed for investing in securities or shares is deductible, provided the borrowed funds are actually used for that purpose.
- ◊ Employer's contribution credited to employees' welfare funds within the prescribed due date is allowed as a deduction.
- ◊ Expenses such as repairs, insurance premium, and depreciation are deductible in respect of machinery, plant, furniture, or buildings let out under this head.
- ◊ Family pension is eligible for a deduction equal to one-third of the pension or the prescribed amount, whichever is lower.
- ◊ Expenses relating to sub-letting of house property are deductible.
- ◊ Revenue expenditure incurred wholly and exclusively for earning income from other sources is allowable.

- ◊ A deduction of 50% of interest received on compensation or enhanced compensation is permitted.
- ◊ Certain deductions, such as those relating to dividend under specified provisions, are restricted or not allowed.
- ◊ Personal expenses, wealth tax, expenditure relating to exempt income, and expenses connected with lottery or gambling winnings are not deductible.
- ◊ Cash payments exceeding the prescribed limit made otherwise than through approved banking channels are disallowed under Section 40A(3).

Objective Questions

1. Under which section of the Income-tax Act are deductions generally allowed while computing income under the head "Income from Other Sources"?
2. Which expense is allowable as a deduction for collecting interest on securities or dividend income?
3. Under what condition is interest on borrowed capital allowed as a deduction under the head "Income from Other Sources"?
4. Name any two deductions that are allowable in respect of machinery, plant, furniture, or buildings let out under the head "Income from Other Sources."
5. What is the deduction available in respect of family pension?
6. Which section of the Income-tax Act specifies the deductions that are not allowable under the head "Income from Other Sources"?
7. Are personal expenses deductible while computing income under the head "Income from Other Sources"?
8. Which provision disallows cash payments exceeding the prescribed limit when they are made otherwise than through the prescribed banking modes?
9. Are expenses incurred for earning lottery winnings allowable as deductions?
10. What percentage of deduction is allowed in respect of interest received on compensation or enhanced compensation?

Answers

1. Section 57
2. Commission or remuneration (including bank commission) paid for collecting interest on securities or dividend income
3. When the borrowed capital is actually utilized for investing in securities or shares
4. Current repairs, insurance premium, and depreciation (Any two)
5. One-third (33⅓%) of the family pension or the prescribed amount, whichever is lower
6. Section 58
7. No. Personal expenses are not deductible.
8. Section 40A(3)
9. No. Expenses relating to lottery winnings are not deductible.
10. 50%

Self-Assessment Questions

1. Explain the deductions allowable under the head "Income from Other Sources" with suitable examples.
2. Discuss the provisions relating to deductions available in respect of family pension, sub-letting of house property, and interest on enhanced compensation.
3. Explain the deductions available in respect of machinery, plant, furniture, and buildings let out under the head "Income from Other Sources."
4. Describe the deductions that are not allowable under Section 58 while computing income from other sources.

Assignments

1. Mr. Arun borrowed money to purchase shares, paid bank commission for collecting dividends, incurred personal expenses, and purchased lottery tickets. Analyse which of these expenses are allowable as deductions while computing his income from other sources, giving reasons.

2. A taxpayer received family pension, interest on enhanced compensation, and income from sub-letting a house during the previous year. Evaluate the deductions available under each source and explain the relevant provisions.
3. A company incurred repair expenses, insurance premium, and depreciation on machinery let out on hire. Analyse whether these expenses are deductible under the head "Income from Other Sources" and justify your answer.
4. During a financial year, an assessee made a cash payment exceeding the prescribed limit for an allowable expense and also incurred expenditure for earning exempt income. Analyse the tax treatment of these expenses under Section 58.
5. A taxpayer claims deductions for wealth tax, personal expenses, bank commission for collecting interest, and expenditure incurred in purchasing lottery tickets. Evaluate the admissibility of each claim with reference to the provisions governing income from other sources.

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Unit 3

Computation of Taxable Income From Other Sources

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ understand the computation of Taxable income from other sources
- ◊ understand the steps to be followed in computation of taxable income from other sources with suitable illustrations

Prerequisites

Ms.Anita had recently joined a Chartered Accountant's office as a trainee. On her very first day, her mentor handed her the financial records of a client and asked her to compute the income under the head "Income from Other Sources."

The client had earned income from several sources during the year, including dividend income, interest on securities, family pension, rental income from machinery, and winnings from a lottery. He had also paid bank commission for collecting interest, interest on a loan taken to purchase securities, repair expenses on machinery, insurance premium, and depreciation on machinery. Ms. Anita wondered whether all these incomes should be included in the taxable income and whether every expense could be deducted.

Seeing her confusion, her mentor explained that the computation of income from other sources follows specific provisions of the Income-tax Act. Some receipts are fully taxable, some require grossing up before being included in income, and only certain expenses are allowed as deductions. He also pointed out that expenses such as personal expenditure and those relating to lottery winnings cannot be deducted while computing taxable income.

Ms.Anita soon realized that computing taxable income under the head "Income from Other Sources" requires careful identification of taxable receipts, application of the relevant tax provisions, and deduction of only the expenses specifically permitted under the Income-tax Act. This encouraged her to study the computation of income from other sources in a systematic manner before preparing the client's tax return. This unit discusses about the computation of income from other sources in detail.

Keywords

Income from other Sources, Casual Income, Taxable income

Discussion

1.3.1 Steps for Computation of Taxable Income from Other Sources

The taxable income under the head "Income from Other Sources" is computed by following these steps:

Step 1: Identify the taxable income

Identify all receipts that are chargeable under the head "Income from Other Sources", such as dividend income, interest on securities, family pension, royalty, winnings from lotteries, gifts, and other specified incomes.

Step 2: Classify the income

Determine the nature of each receipt and ascertain whether it is taxable, exempt, or taxable under any other head of income.

Step 3: Compute the gross income

Where required, gross up the income, such as interest on certain securities or lottery winnings, before including it in the total income.

Step 4: Allow admissible deductions

Deduct only those expenses that are specifically permitted under Section 57, such as:

- ◊ Commission or remuneration for collecting income;
- ◊ Interest on borrowed capital used for investment;
- ◊ Repairs, insurance, and depreciation in respect of machinery, plant, furniture, or buildings let out;
- ◊ Deduction in respect of family pension;

- ◊ Deduction for interest on compensation or enhanced compensation; and
- ◊ Other allowable revenue expenses incurred wholly and exclusively for earning such income.

Step 5: Disallow inadmissible expenses

Do not deduct expenses that are specifically disallowed under Section 58, such as:

- ◊ Personal expenses;
- ◊ Wealth tax;
- ◊ Expenses relating to lottery or gambling winnings;
- ◊ Expenditure incurred for earning exempt income; and
- ◊ Cash payments disallowed under Section 40A(3).

Step 6: Arrive at the taxable income

After deducting the admissible expenses from the gross income, the balance represents the Taxable Income under the head "Income from Other Sources."

1.3.2 Practical Problems on Income from Other Sources

Illustration 1.3.1

From the following particulars of the income of Mr. Rohit, compute his taxable income under the head 'Income from Other Sources' for the year ended 31st March, 2026:

1. He owns in Sri Lanka an agricultural land which earned him an income of ₹30,000 during the year. He also owns a plot of land in Kochi which has been let out for storing construction materials at ₹1,500 per month. He also owns another plot of land on which weekly village fairs are conducted. This land earned him ₹3,600 during the year.
2. During the previous year, he rendered Management Consultancy Services to several entrepreneurs and earned ₹82,000.
3. He owns a granite quarry in Udaipur. It was let out to Mr. Bipin on a royalty of 40 paise per ton of granite extracted. During the year, 12,000 tons were extracted. He incurred ₹800 as expenditure in connection with earning the royalty, which has been allowed by the Assessing Officer.
4. Amount received as advance for transfer of a capital asset forfeited due to failure of the contract: ₹60,000

Solution

Computation of Taxable Income from Other Sources
(For the Assessment Year 2026–27)

Particulars		Amount (₹)
1. Income from agricultural land in Sri Lanka		30,000
2. Income from non-agricultural land (₹1,500 × 12 months)		18,000
3. Income from land used for village fairs		3,600
4. Management Consultant's Remuneration		82,000
5. Income from Royalty (₹0.40 × 12,000 tons)	4,800	
Less: Expenses allowed	800	
Net Royalty Income		4,000
6. Amount forfeited		60,000
Taxable Income from Other Sources		1,97,600

Note: Any advance received and forfeited on or after 1.4.2014 in connection with the transfer of a capital asset is taxable under the head 'Income from Other Sources' as per the Income-tax Act.

Illustration 1.3.2

Shri. Ramesh Verma is a Member of Parliament from Jaipur. During the Previous Year 2025–26, he had the following incomes:

1. As a Member of Parliament, he received a salary of ₹5,000 per month and a daily allowance of ₹25,000 for attending various sessions.
2. He held the following investments:
   a. 12% Fixed Deposit of ₹20,000 with a bank. Interest is credited annually.
   b. Dividend of ₹800 from a co-operative society.
3. He won ₹10,000 in a television quiz competition.
4. On 1st August, 2025, he purchased a plot of land for constructing his residence. Owing to financial constraints, construction could not be started and the land was let out for parking vehicles at ₹250 per month from 1st October, 2025.
5. He let out machinery, furniture and a building to Mr. Suresh on a monthly rent of ₹6,000. During the previous year he incurred ₹2,000 towards repairs. Depreciation admissible on these assets amounted to ₹12,000.

Compute the taxable income of Shri Ramesh Verma under the head 'Income from Other Sources'.

Solution

Computation of Taxable Income from Other Sources
(For the Assessment Year 2026–27)

Particulars		Amount (₹)
1. Salary as Member of Parliament		60,000
2. Dividend from Co-operative Society (No TDS)		800
3. Interest on Fixed Deposit (12% of ₹20,000)		2,400
4. Winnings from television quiz competition		10,000
5. Income from land let out for parking (₹250 × 6 months)		1,500
6. Rental income from machinery, furniture and building		72,000
Gross Income		146,700
Less: Admissible Expenses		
Repairs	2,000	
Depreciation	12,000	(14,000)
Taxable Income from Other Sources		132,700

Note: Daily allowance received for attending sessions of Parliament is exempt from tax under the applicable provisions of the Income-tax Act.

Illustration 1.3.3

Mr. Rajesh Kumar's particulars of income are as follows:

a. He took a house on rent at ₹1,500 per month and sub-let it for ₹2,200 per month. Besides this, he received ₹6,500 rent from his self-owned house.

b. Dividend from an Indian Company ₹5,500 (Gross).

c. Speculation business profit ₹8,000 and ₹1,000 from horse race winnings.

d. Agricultural income in Nepal ₹12,000 was not brought into India. ₹20,000 was earned from agricultural land situated in Lucknow.

e. Share in H.U.F. income ₹10,000.

f. Dividend received from a Co-operative Society ₹7,500.

g. Salary as an M.L.A. ₹36,000 and daily allowance ₹5,000.

Compute the income under the head 'Income from Other Sources'.

Solution

Computation of Income from Other Sources

(For the Assessment Year 2026–27)

Particulars		**Amount (₹)**
Income from Sub-letting:		
Rent Received (₹2,200 × 12)	26,400	
Less: Rent Paid (₹1,500 × 12)	18,000	8,400
Dividend from an Indian Company		5,500
Horse race winnings		1,000
Agricultural Income in Nepal		12,000
Agricultural Income in Lucknow		Exempt
Salary as an M.L.A. (Daily allowance exempt)		36,000
Share in H.U.F. income		Exempt
Dividend from a Co-operative Society		7,500
Income from Other Sources		**70,400**

Notes:

1. It is assumed that the assessee is resident in India.
2. Rent from self-owned house is taxable under the head 'Income from House Property'.
3. Daily allowance received by an M.L.A. is exempt.
4. Speculation business profit is taxable under the head 'Profits and Gains of Business or Profession'.
5. Agricultural income from land situated in India is exempt, whereas foreign agricultural income is taxable for a resident.

Illustration 1.3.4

Mr. Suresh furnishes the following particulars of his income for the Previous Year 2025–26. Compute his Gross Total Income.

i. Dividend on equity shares - ₹900
ii. Dividend on preference shares (Gross) - ₹4,500
iii. Income from letting on hire of building and machinery under one composite lease - ₹36,000
iv. Interest on bank deposits - ₹3,200
v. Director's sitting fees received - ₹2,000
vi. Ground rent - ₹900
vii. Income from undisclosed sources - ₹15,000

viii. Winnings from lotteries (Net) received - ₹17,500

The following deductions are claimed by him:

a. Collection charges of dividend - ₹50

b. Allowable depreciation on building and machinery - ₹5,000

c. Fire insurance on building and machinery - ₹300

Solution

Computation of Gross Total Income

(For the Assessment Year 2026–27)

Particulars	Amount (₹)
Dividend on Equity Shares	900
Dividend on Preference Shares	4,500
Income from letting on hire of building and machinery under one composite lease	36,000
Interest on Bank Deposits	3,200
Director's Sitting Fees	2,000
Ground Rent	900
Income from Undisclosed Sources	15,000
Winnings from lotteries received (Grossed up: ₹17,500 × 100 ÷ 70)	25,000
Gross Income	87,500
Less: Depreciation on Building and Machinery 5,000	
Fire Insurance on Building and Machinery 3,00	(5,300)
Collection Charges of Dividend – Not Deductible	-
Income from Other Sources being Gross Total Income	82,200

Notes:

1. Dividend received is taxable.
2. Collection charges of dividend are not allowable as a deduction

Illustration 1.3.5

Mr. Rohan's investments during the year ended 31st March, 2026 consisted of the following:

i. 8% Government Securities – ₹30,000

ii. 9% Kochi Municipal Bonds – ₹18,000

iii. 10% Chennai Port Trust Bonds – ₹25,000

iv. 7% Government Bonds – ₹20,000

v. 5% Securities of a Foreign Government – ₹24,000
vi. Interest credited to Sukanya Samriddhi Account – ₹4,000

He paid ₹80 as collection charges for collecting the taxable interest on securities and ₹1,500 as interest on a loan taken for purchasing the Chennai Port Trust Bonds.

Compute his income under the head 'Income from Other Sources'.

Solution

Computation of Income from Other Sources
(For the Assessment Year 2026–27)

Particulars		Amount (₹)
8% Government Securities (8% of ₹30,000)		2,400
9% Kochi Municipal Bonds (9% of ₹18,000)		1,620
10% Chennai Port Trust Bonds (10% of ₹25,000)		2,500
7% Government Bonds (7% of ₹20,000)		1,400
5% Securities of a Foreign Government (5% of ₹24,000)		1,200
Interest on Sukanya Samriddhi A/c		Exempt
		9,120
Less: Collection Charges	80	
Interest on Loan	1500	1580
Income from Other Sources		7,540

Illustration 1.3.6

Mr. Arvind, a resident individual, submits the following particulars of his income for the Previous Year 2025–26:

Particulars	Amount
(i) Interest (Gross) received from an Indian Company on debentures	₹24,600
(ii) Dividend (Net) received from a Foreign Company after deduction of ₹5,400 as tax at source. Nothing has been paid to the Indian Government out of the amount deducted at source.	₹22,600
(iii) Interest paid on outstanding loan of ₹90,000 taken @ 16% p.a. to purchase the debentures of the Indian Company	₹14,400
(iv) Collection charges paid to collect the above interest	₹500
(v) Rent from a building let out along with Plant, Machinery and Furniture	₹60,000
(vi) Depreciation allowable on the above assets	₹18,000
(vii) Fire Insurance Premium paid: On Building ₹900; On Plant & Machinery ₹700; On Furniture ₹300	₹1,900
(viii) Repairs of Building	₹800
(ix) Winnings from Horse Race (Gross)	₹9,000

Compute the taxable income from Other Sources for the relevant Assessment Year.

Solution

Computation of Taxable Income from Other Sources
For the Assessment Year 2026-27

Particulars		Amount (₹)
Interest from Indian Company		24,600
Dividend from Foreign Company (Net)		22,600
Rent of Building with Plant, Machinery and Furniture		60,000
Winnings from Horse Race		9,000
Less : Admissible Expenses		116,200
Interest on Loan	14,400	
Collection Charges	500	
Depreciation	18,000	
Fire Insurance Premium	1,900	
Repairs	800	(35,600)
Taxable Income from Other Sources		80,600

Illustration 1.3.7

Mr. Tom, a resident individual, received in cash the following income as interest on securities during the Previous Year ending 31st March, 2026:

◊ ₹9,000 as interest on Government Securities.

◊ ₹8,100 as interest on debentures issued by a Local Authority.

◊ ₹8,100 as interest on debentures of Sunrise Ltd. (not listed on any stock exchange).

◊ ₹8,100 as interest on debentures of Orion Industries Ltd. (listed on the Bombay Stock Exchange).

◊ ₹8,100 as interest on tax-free debentures of Zenith Electricals Ltd. (not listed on any stock exchange).

Compute the income under the head 'Income from Other Sources' for the Assessment Year 2026–27, assuming that interest is paid in each case on 30th June and 31st December

Solution

Computation of Income from Other Sources
For the Assessment Year 2026–27

Particulars	Amount (₹)
Government Securities — No TDS	9,000
Debentures of Local Authority (8,100 ×100÷90)	9,000

Debentures of Sunrise Ltd. (Not Listed) (8,100 ×100÷90)	9,000
Debentures of Orion Industries Ltd. (Listed) (8,100 ×100÷90)	9,000
Tax-free Debentures of Zenith Electricals Ltd. (Not Listed) (8,100 ×100÷90)	9,000
Income from Other Sources	45,000

Note: No tax is deducted at source from interest on Government Securities. Hence, ₹9,000 has not been grossed up. Interest received from the other securities has been grossed up at 10% (Net × 100/90).

Illustration 1.3.8

Mr. Vivek Sharma is a resident for income-tax purposes and his estimated total income for the Financial Year 2025–26 will not exceed the basic exemption limit. He has submitted the prescribed declaration at the beginning of the year to each of the officers responsible for paying interest on the following securities:

a. ₹80,000, 10% Tax-free Debentures of Alpha Textiles Ltd.

b. ₹60,000, 10% Tax-free Debentures issued by Kerala Financial Corporation.

c. ₹30,000, 6% Kerala Government Loan.

d. ₹16,000, 6% Debentures of City Development Authority.

e. ₹1,60,000, 5% Tax-free Debentures of Sunrise Motors Ltd. listed on a recognised stock exchange.

A bank charged 2% commission on the amount of interest collected.

Compute the taxable income under the head 'Income from Other Sources' for the Assessment Year 2026–27. Interest is payable on 30th June and 31st December.

Solution

Computation of Taxable Income from Other Sources
for the Assessment Year 2026–27.

Particulars	Amount (₹)
Interest on Kerala Government Loan (No TDS)	1,800
10% Tax-free Debentures of Alpha Textiles Ltd. (8,000 ×100÷90)	8,889
10% Tax-free Debentures of Kerala Financial Corporation (6,000 ×100÷90)	6,667
6% Debentures of City Development Authority	960
5% Tax-free Debentures of Sunrise Motors Ltd. (8,000 ×100÷90)	8,889
	27,204
Less: Collection Charges @2% on ₹24,760	495
Taxable Income from Other Sources	26,709

Notes:

1. Since the prescribed declaration has been submitted, tax is not deducted at source.
2. Interest on Government Securities is not grossed up.
3. Tax-free debenture interest has been grossed up at 10% (Net × 100 ÷ 90).
4. Calculation of collection charges

Particulars	Amount (₹)
Interest on Kerala Government Loan	1,800
Interest on 10% Tax-free Debentures of Alpha Textiles Ltd.	8,000
Interest on 10% Tax-free Debentures of Kerala Financial Corporation	6,000
Interest on 6% Debentures of City Development Authority	960
Interest on 5% Tax-free Debentures of Sunrise Motors Ltd.	8,000
Total Interest Collected by the Bank	24,760
Collection Charges @ 2% (₹24,760 × 2%)	495

Illustration 1.3.9

Compute Income from Other Sources from the following information:

a. Winnings from Lottery ₹1,20,000.

b. Amount received from Horse Race Winnings (Net) ₹42,000.

c. Gifts received:
   i. ₹25,000 from a friend.
   ii. ₹1,20,000 from his mother.
   iii. ₹1,80,000 received on the occasion of his marriage.
   iv. ₹70,000 from an NRI friend.
   v. Another gift of ₹15,000 from his friend.

Compute the Income from Other Sources for the relevant Assessment Year.

Solution

Computation of Income from Other Sources
for the Assessment Year 2026-27

Particulars	Amount (₹)
(a) Winnings from Lottery	120000
(b) Horse Race Winnings (Gross: ₹42,000 × 100 ÷ 70)	60000
(c) Gifts:	None
(i) From friends (₹25,000 + ₹70,000 + ₹15,000)	110000

Aggregate gifts from non-relatives exceed ₹50,000, hence entire amount taxable	
(ii) Gift from mother (Relative)	Exempt
(iii) Gift received on marriage	Exempt
Income from Other Sources	290000

Illustration 1.3.10

Mr. Rakesh receives the following gifts during August (Previous Year 2025–26). State their taxability for the Assessment Year 2026–27:

i. Gift of ₹45,000 from his friend.
ii. Gift of jewellery worth ₹2,50,000 from his fiancée.
iii. Gift of ₹24,000 each from his two friends on the occasion of his marriage.
iv. Gift of ₹75,000 from his mother's brother.
v. Gift of ₹40,000 from his wife's friend on the occasion of marriage.
vi. Gift of ₹30,000 from his sister's father-in-law.
vii. Gift of ₹35,000 from his friend.

Solution

Taxability of Gifts

Particulars	Taxable Amount (₹)
Gift from friend (₹45,000)	45000
Gift of jewellery from fiancée – Fiancée is not a relative, hence taxable	250000
Gift received on the occasion of marriage	Exempt
Gift from mother's brother – Relative	Exempt
Gift from wife's friend on the occasion of marriage	Exempt
Gift from sister's father-in-law – Not a relative, hence taxable	30000
Gift from friend	35000

Note:

The aggregate of the sum of money received from non-relatives under items (i), (vi) and (vii) = ₹45,000 + ₹30,000 + ₹35,000 = ₹1,10,000.

Since the aggregate exceeds ₹50,000, the entire amount of ₹1,10,000 is taxable.

Jewellery received from the fiancée is taxable because a fiancée is not covered under the definition of 'relative'.

Total Income Chargeable under the head 'Income from Other Sources' = ₹2,50,000 + ₹1,10,000 = ₹360,000.

Illustration 1.3.11

From the following information compute Income from Other Sources:

1. ₹1,20,000 received by the assessee from his friends on the occasion of the marriage of his daughter.
2. Interest on enhanced compensation of ₹50,000 received as per court decree during the previous year.
3. Income from undisclosed sources ₹2,40,000.
4. Winnings from lottery ₹84,000 (Net).
5. Interest on Post Office Savings Bank Account ₹5,200.
6. Family pension ₹72,000.

Solution

Computation of Income from Other Sources

for the Assessment Year 2026–27

Particulars		**Amount (₹)**
1. Gift received on marriage of daughter (not received by the bride), hence taxable		120,000
2. Interest on enhanced compensation	50,000	
Less: Deduction @ 50%	25,000	
Taxable Interest		25,000
3. Income from undisclosed sources		2,40,000
4. Winnings from Lottery (Gross = ₹84,000 × 100 ÷ 70)		1,20,000
5. Interest on P.O. Savings Bank A/c	5,200	
Less: Exempt up to ₹3,500	3,500	
Taxable Interest		1,700
6. Family Pension	72,000	
Less: Deduction (Lower of 1/3 of ₹72,000 = ₹24,000 or ₹15,000)	15,000	
Taxable Family Pension		57,000
Income from Other Sources		5,63,700

Recap

◊ Computation of Income from Other Sources includes identifying taxable income, classifying receipts, computing the gross income, allowing admissible deductions, disallowing inadmissible expenses, and determining the taxable income.

Objective Questions

1. What is the first step in computing taxable income under the head "Income from Other Sources"?
2. Why is it necessary to classify receipts before computing income from other sources?
3. What is meant by grossing up of income?
4. Under which section of the Income-tax Act are deductions allowed while computing income under the head "Income from Other Sources"?
5. Name any four deductions allowable under Section 57.
6. Under which section are certain deductions specifically disallowed while computing income from other sources?
7. Mention any four expenses that are not allowable as deductions under Section 58.
8. At what stage of computation are admissible deductions taken into account?
9. Why are inadmissible expenses excluded while computing taxable income from other sources?
10. What is the final step in computing taxable income under the head "Income from Other Sources"?

Answers

1. Identifying the taxable income.
2. To determine whether each receipt is taxable, exempt, or chargeable under another head of income.
3. Grossing up is the process of converting net income into its gross amount before including it in the total income, wherever required.
4. Section 57.
5. Commission for collecting income, interest on borrowed capital, repairs, insurance premium, depreciation, deduction for family pension, deduction for interest on compensation or enhanced compensation, and other allowable revenue expenditure. (Any four)
6. Section 58.

7. Personal expenses, wealth tax, expenses relating to lottery or gambling winnings, expenditure incurred for earning exempt income, and cash payments disallowed under Section 40A(3). (Any four)
8. After computing the gross income and before arriving at the taxable income.
9. Because the Income-tax Act specifically prohibits their deduction while computing income under this head.
10. Arriving at the taxable income after deducting only the admissible deductions from the gross income.

Self-Assessment Questions

1. Mr. Ramesh Kumar furnishes the following particulars of his income for the Previous Year ending 31st March, 2026:
   i. Dividend from a tea company ₹3,200 (Gross). 55% of the income of the company is agricultural income.
   ii. Amount won from a horse race ₹3,800.
   iii. Winnings from a lottery ₹75,000.
   iv. Interest received on deposit with a partnership firm ₹6,800.
   v. Dividend received from a Co-operative Society ₹900.
   vi. Income from non-agricultural land ₹2,100.

Mr. Ramesh Kumar claims the following expenses:

- ◊ Bank commission of ₹150 for collecting dividends from the tea company.
- ◊ Interest on loan taken to purchase shares in the tea company ₹1,000.
- ◊ Expenses incurred for purchasing lottery tickets ₹2,500.

Compute the taxable income of Mr. Ramesh Kumar under the head 'Income from Other Sources' for the Assessment Year 2026–27.

2. Mr. Arjun had the following investments for the year ending on 31st March, 2026:
   i. 7% Tax-free Government of India Loan ₹20,000.
   ii. 10% Secured Debentures of Sunrise Textiles Ltd. ₹12,000.
   iii. 11% Tax-free Secured Debentures of Alpha Woollen Mills Ltd. (listed on the Bombay Stock Exchange) ₹60,000.
   iv. 12% Debentures of Orion Industries Ltd. ₹10,000.

He borrowed ₹20,000 at 8% p.a. to purchase the debentures. Collection charges incurred for collecting the taxable interest amounted to ₹50. Interest on all securities is payable half-yearly on 1st January and 1st July. Compute the taxable income under the head 'Income from Other Sources' for the Assessment Year 2026–27.

3. Mrs. Meera submits the following particulars of her income from other sources for the year ended 31st March, 2026:

    a. Family pension received from the Government of Kerala ₹42,000.

    b. Royalty received from a publisher ₹65,000. She spent ₹7,500 on books, stationery, typing and related expenses during the year.

    c. Winnings from lotteries (Net) ₹70,000.

    d. Winnings from horse race (Net) ₹35,000.

    e. Interest on tax-free debentures of Western Power Ltd. (listed) ₹9,000.

    f. Interest on 9% tax-free bonds of the Government of India ₹12,000.

    g. Dividend (Net) ₹10,000 received from a foreign company. Nothing has been paid to the Government out of the tax deducted at source.

Compute the Income from Other Sources of Mrs. Meera for the Assessment Year 2026–27.

4. Compute Income from Other Sources of Mr. Rajesh for the Assessment Year 2026–27:

    a. Interest (Gross) on deposits with a company – ₹12,500

    b. Remuneration received from a university for working as an examiner – ₹9,500

    c. Royalty for writing books – ₹90,000

        Expenses incurred for writing the books – ₹25,000

    d. Family pension received – ₹54,000

5. The following are the particulars of the income of Mrs. Kavya for the Previous Year 2025–26:

    i. Dividend from an Indian Company (Gross) – ₹10,500

    ii. Winnings from lottery – amount received (Tax deducted at source ₹36,000) – ₹84,000

    iii. Winnings from card games – ₹24,000

    iv. Interest received on Government securities – ₹12,000

v. Family pension received – ₹60,000

She incurred the following expenses:

a. Interest paid on money borrowed for purchasing shares – ₹4,000

b. Collection charges in respect of interest on Government securities @2% on amount collected – ₹240

c. Cost of lottery tickets purchased – ₹2,500

Compute her Income from Other Sources for the Assessment Year 2026–27.

Assignments

1. Compute the Income from Other Sources for the Assessment Year 2026–27:

   a. Income from agriculture in Nepal – ₹6,500

   b. Ground rent for land in Mysuru – ₹12,000

   c. Interest on Post Office Savings Bank Account – ₹1,500

   d. Interest on deposits with IFCI – ₹6,800

   e. Dividend from a foreign company – ₹900

   f. Rent from subletting a house – ₹30,000

   g. Rent paid for the sublet house – ₹14,000

   h. Other expenses relating to the sublet house – ₹1,500

   i. Winnings from horse race – ₹15,000

   j. Interest of ₹40,000 on 10% Tax-free Debentures (listed) of Galaxy Motors Ltd.

2. Mr. Varun has the following incomes for the year 2025-26:

   i. Dividend declared by ABC Ltd. ₹15,000 (Gross).

   ii. Interim dividend received ₹6,500 (Gross).

   iii. He won a diamond necklace worth ₹3,00,000 from the Kerala State Lottery.

   iv. Interest received on Government securities held as investments ₹24,000.

v. He earned ₹2,40,000 as prize money on horse races. The horses are owned by him and the expenditure incurred on maintenance of these horses amounted to ₹2,25,000.

Compute his Income from Other Sources for the Assessment Year 2026–27.

3. From the following particulars compute Income from Other Sources for the Assessment Year 2026–27:

   a. Interest on listed securities (Net) ₹10,800.

   b. Dividend from a Foreign Company (Gross) ₹18,500.

   c. Winnings from Horse Race (Net) ₹21,000.

   d. Interest on debentures of a Local Authority (Gross) ₹8,500.

   e. Interest on Post Office Savings Bank Account ₹2,000.

   f. Family pension received ₹4,000 per month.

4. From the following receipts and payments of Mr. Suresh, compute his Income from Other Sources:

   1. Received from Kerala State Lottery (Net) ₹31,500.
   2. Winnings from horse race ₹2,500.
   3. Winnings from Maharashtra State Lottery ₹5,000.
   4. Winnings from horse race (Net) ₹56,000.
   5. Winnings from crossword puzzle ₹4,000.
   6. Gift received from a friend in Dubai ₹1,20,000.
   7. Purchase of lottery tickets ₹4,500.
   8. Payments for betting in horse race ₹8,000.

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BLOCK 2

Set Off and Carry Forward of Losses

Unit 1
Set Off and Carry Forward of Losses

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ gain knowledge the provisions related to set off under same head
- ◊ understand the permissible inter-source and inter-head adjustments
- ◊ get an overview of set off under different heads
- ◊ comprehend the exemption and rules related to set off of losses
- ◊ explain the rules related to the set off and carry forward of losses

Prerequisites

Mr.Chandran was a small farmer from Kuttanad,Alappuzha, District in Kerala. One-year, heavy rains damaged a large part of his paddy crop. After paying for seeds, fertilisers, and labour, he suffered a loss. Chandran was disappointed, but he did not give up. He continued farming and worked hard the next year. Fortunately, the following season had good weather and a better harvest.Mr. Chandran earned sufficient profit. When he met a local tax consultant, he said something interesting. The loss he had suffered in the previous year could help reduce his tax burden in the current year. The consultant explained that tax laws recognise that income and losses do not occur evenly every year. Therefore, certain losses can be adjusted against current income or carried forward to future years. Mr.Chandran was surprised. He had always believed that a loss was gone forever. Instead, he discovered that the tax system provides relief by allowing taxpayers to set off and carry forward eligible losses. This helps individuals and businesses recover from difficult years and encourages them to continue their economic activities. Just as Mr.Chandran's previous loss reduced the impact of tax on his later profit, the provisions relating to set-off and carry-forward of losses help ensure fairness in taxation. Understanding these provisions is important for every taxpayer because they can significantly affect taxable income and tax liability. In this unit, we will learn how different types of losses can be adjusted, the conditions for carrying them forward, and the benefits available under the Income-tax Act.

Keywords

Set off, carry forward, unabsorbed depreciation, order of set off

Discussion

In the computation of total income, a taxpayer may earn income from certain sources while incurring losses from others during the same financial year. To ensure a fair assessment of taxable income, the Income Tax Act permits the adjustment of losses against income, subject to specified conditions. This adjustment of losses against income is known as set-off of losses. The provisions relating to set-off of losses help in determining the actual taxable income of an assesse. specific provisions have been made in the Income Tax Act 1961 and the amended Income tax Act 2025,which completely replaces the six decade I T Act ,1961.which came into force on April 1,2026.

2.1.1 Set-Off Under the Same Head of Income or intra head set off (Section 70 of act of 1961 & section 108 of new T Act 2025)

Section 108 of New I T Act 2025,which was section 70 in the earlier Act, plays an important role in helping tax payers manage and report their income efficiently. Understanding this section can improve tax planning and compliance. When the net result from one source under a particular head of income is a loss, the assessee is generally permitted to adjust that loss against income from another source falling under the same head of income. This process is known as intra-head adjustment (same head). If an individual earns a profit from textiles business and incurs a loss from cashew business; the loss may be adjusted against the profit since both sources fall under the head Profits and Gains of Business or Profession. But certain losses are subject to special restrictions and cannot be adjusted in this manner.

2.1.1.1 Exceptions to Intra-Head Adjustment (same head)

a. Speculation Business Loss

Loss incurred from a speculation business cannot be adjusted against income from any other business or profession. Such loss can be set off only against income earned from another speculation business. If a taxpayer earns profit from a hotel business but incurs a loss in speculative share trading, the speculation loss cannot be adjusted against the retail business profit.

b. Loss from Specified Business

Under the Income Tax Act, certain businesses are classified as specified businesses and are eligible for special tax deductions under Section 35AD & section 114 (specified business as per section 46) of the new Act.. Since these businesses receive special tax benefits, the law places restrictions on how losses from such businesses can be adjusted. A loss arising from a specified business cannot be set off against income from any other business or profession. Such a loss can be adjusted only against the profits of another specified business. This rule ensures that the tax benefits granted to specified businesses are used only within that category of business activities. Some common examples of specified businesses include:

- ◊ Setting up and operating a cold chain facility
- ◊ Setting up and operating a warehousing facility for storage of agricultural produce
- ◊ Building and operating a hotel of specified category
- ◊ Building and operating a hospital with specified capacity
- ◊ Developing and operating an inland container depot or container freight station
- ◊ Operating a slurry pipeline for transportation of iron ore
- ◊ Setting up and operating a semiconductor wafer manufacturing unit (subject to prescribed conditions)

c. Long-Term Capital Loss

A long-term capital loss can be adjusted only against long-term capital gains. It cannot be set off against short-term capital gains. A loss incurred on the sale of a long-term investment cannot be adjusted against gains earned from the sale of short-term assets.

d. Loss from the Activity of Owning and Maintaining Race Horses

Loss arising from the activity of owning and maintaining race horses can be adjusted only against income from the same activity. It cannot be adjusted against any other income under the head "Income from Other Sources".

e. Losses from Lottery, Crossword Puzzles, Gambling and Betting

Losses arising from lotteries, crossword puzzles, gambling, betting, card games and similar activities cannot be adjusted against any income. Likewise, no other loss can be adjusted against winnings from such activities.

f. Loss from an Exempt Source of Income

A loss arising from a source whose income is exempt from tax cannot be adjusted against any taxable income. This is because the Income Tax Act follows the principle that if income from a particular source is not subject to tax, any loss from that source should also not be considered for tax purposes. In other words, when the Government does not tax the income, it also does not allow a tax benefit for the related loss. Therefore, losses from exempt sources are ignored while computing taxable income.

For example, agricultural income is exempt from income tax in India. Suppose Mr. Vineeth incurs a loss of ₹60000 from agricultural activities due to crop failure and earns a salary income of ₹5,00,000 during the same year. Although he has suffered a loss from farming, he cannot adjust this loss against his salary income because agricultural income is exempt from tax. As a result, his taxable income will continue to be ₹5,00,000. The agricultural loss of 60,000 will not be considered for set-off. Thus, losses from exempt sources such as agricultural income cannot be adjusted against any taxable income under the Income Tax Act.

2.1.2 Set-Off Against Income Under Other Heads (Section 71 of Act of 1961 & sec. 109 of new act of 2025) (Inter-head adjustment)

After adjusting losses under the same head of income, there may still be some unadjusted loss remaining. In such cases, the balance loss may be adjusted against income under another head of income. This process is known as inter-head adjustment (different heads).

Salim owns a small handloom business and also receives rental income from a house that he has let out. During the financial year, his handloom business suffered a loss of ₹1,00000 due to low sales. At the same time, he earned ₹3,00,000 as income from house property. After calculating his business results, Salim found that he had a business loss which could not be fully adjusted within the same head of income. The Income Tax Act allows him to adjust the remaining business loss against income from another head, namely income from house property. Therefore, Salim can set off the business loss of ₹100000 against the house property income of ₹300000, leaving only ₹200000 as taxable income from house property. This adjustment is known as inter-head set-off (different heads) because the loss under one head of income is adjusted against income under another head. But, it is important to note that not all losses enjoy this benefit. Certain losses, such as speculation losses, capital losses, losses from specified businesses and losses from the activity of owning and maintaining race horses, are specifically restricted by law and cannot be adjusted against income under other heads.

2.1.2.1 Losses Not Allowed for Inter-Head Adjustment

a. Speculation Loss

Speculation loss cannot be adjusted against income under any other head. It can be adjusted only against speculation income.

b. Loss from Specified Business

Loss from a specified business cannot be set off against income under other heads and can be adjusted only against profits from another specified business.

c. Loss from the Activity of Owning and Maintaining Race Horses

Such loss can be adjusted only against income from the same activity and not against income under other heads.

d. Capital Loss

Loss under the head "Capital Gains" cannot be adjusted against income under any other head.

e. Business or Professional Loss Against Salary Income

A loss under the head "Profits and Gains of Business or Profession" cannot be adjusted against income chargeable under the head "Salaries".

f. Losses Against Lottery Winnings

No loss under any head of income can be adjusted against winnings from lotteries, races, gambling, betting and similar activities.

2.1. 3 Set-Off of Business or Professional Loss (sec 112 of IT Act 2025)

A loss arising from a business or profession, other than a speculation business, enjoys comparatively wider adjustment provisions. Such a loss may be adjusted against income from another business or profession under the same head. It may also be adjusted against income under other heads, except income chargeable under the head "Salaries". if a taxpayer incurs a loss from business but earns income from house property or other sources, the business loss may generally be adjusted against such income. But it cannot be adjusted against salary income.

Unabsorbed Depreciation

Unabsorbed depreciation is not treated as a business loss. It is governed by the provisions of Section 32(2) of the Income Tax Act 1961 . The corresponding provision regarding depreciation is contained in section 33of the I T Act 2025 .Consequently, the restrictions applicable to business losses do not apply to unabsorbed depreciation. Therefore, unabsorbed depreciation may be adjusted against income under any head, including income from salaries, subject to the provisions of the Act.

2.1.4 Set off and carry forward of losses computed in respect of speculation business (Sec 113 0f IT Act 2025)

A speculation business involves transactions where contracts are settled without the actual delivery of goods or securities. The Income Tax Act places special restrictions on losses arising from speculation activities. A loss from a speculation business can be set off only against profits earned from another speculation business. It cannot be adjusted against profits from a normal business, salary income, house property income, or any other head of income.

For example, Mr. Thomas operates a cashew business and also engages in speculative share trading. During the year, he earns a profit of ₹3,00,000 from the cashew business but incurs a speculation loss of ₹1,00,000. He cannot adjust the speculation loss against the cashew business profit. Therefore, the cashew business profit remains fully taxable, and the speculation loss can be adjusted only against future speculation profits.

2.1.5 Set off and carry forward of losses computed in respect of specified Business (sec 114 of IT Act 2025)

A specified business is a business eligible for special deductions under Section 35AD of the Income Tax Act 1961 /sec 46 of new Act . Since these businesses receive special tax benefits, losses arising from them are subject to separate treatment. Any loss from a specified business can be set off only against profits from another specified business and not against profits from a normal business or profession. If Ms..Thanvi owns a cold chain facility that incurs a loss of ₹3,50,000. She also operates a manufacturing unit that earns a profit of ₹9,00,000. The loss from the cold chain facility cannot be adjusted against the manufacturing profit because the cold chain facility is a specified business. The loss can be adjusted only if she earns profits from another specified business.

2.1.6 Set off and carry forward of losses from the activity of owning and maintaining race horses (Sec 115)

Any loss incurred by the assesse in specified activity in any tax year shall be set off only from specified activity.No loss shall be carried forward under this section for more than four years immediately succeeding the tax year for which the tax was first computed. The Income Tax Act provides separate treatment for losses arising from the activity of owning and maintaining race horses. Such losses can be adjusted only against income from the same activity. They cannot be set off against any other income."Horse race" means a horse race upon which wagering or betting may be lawfully made.

Mr. Simon owns race horses and incurs a loss of ₹65,000 during the year. He also earns salary income of ₹5,00,000. The race horse loss cannot be adjusted against the salary income. It can be adjusted only against future income earned from owning and maintaining race horses.

2.1.7 Capital Losses

2.1.7.1 Short-Term Capital Loss

A short-term capital loss can be adjusted against both short-term capital gains and long-term capital gains. Ms. Karthika sells shares held for a short period and incurs a short-term capital loss of ₹50,000. During the same year, she earns a long-term capital gain of ₹5,00,000 from the sale of land. The short-term capital loss can be adjusted against the long-term capital gain, reducing the taxable capital gain to ₹450,000.

2.1.7.2 Long-Term Capital Loss

A long-term capital loss can be adjusted only against long-term capital gains. It cannot be adjusted against short-term capital gains. For example, Dr. Midhun incurs a long-term capital loss of ₹6,00,000 on the sale of a property and earns a short-term capital gain of ₹2,00,000 on the sale of shares. The long-term capital loss cannot be adjusted against the short-term capital gain. It can be adjusted only against long-term capital gains.

2.1.8 Losses from Lottery, Crossword Puzzles, Gambling, Card Games and Betting (sec 115 BB of I T Act 2025)

Where the total income of an assesse includes any income by way of winning from any lottery or crossword puzzle or race including horse race (not being income from the activity of owning and maintaining race horses) or card game and other game of any sort or from gambling or betting of any form or nature whatsoever the income tax payable cannot be adjusted against any income. Similarly, no other loss can be adjusted against winnings from such activities. Mr. Mahesh wins ₹70,000 from a lottery but incurs a loss of ₹10,000 from betting activities. He cannot deduct the betting loss from the lottery winnings. The entire lottery winning remains taxable according to the applicable provisions.

2.1.9 Loss of an Association of Persons (AOP), Body of Individuals (BOI) or Firm

When an Association of Persons (AOP), Body of Individuals (BOI) or a partnership firm incurs a loss, the loss must first be adjusted according to the normal provisions relating to intra-head and inter-head set-off. If any loss still remains unadjusted, it cannot be distributed among the members or partners. The members or partners are not allowed to set off their share of such loss against their personal income. A partnership firm incurs a loss of ₹4,00,000 during the year. One of the partners earns a salary of ₹6,00,000 from another source. The partner cannot claim a proportionate share of the firm's loss and adjust it against his salary income. The loss remains with the firm and is dealt with according to the provisions applicable to the firm.

Table 2.1.1 Set -off of Losses

Type of Loss	Can Be Set Off Against
Loss from House Property	Income from another house property and other heads of income
Business or Professional Loss	Income from another business or profession and other heads except salary
Speculation Loss	Income from speculation business only
Specified Business Loss	Profit from another specified business only
Short-Term Capital Loss	Short-term capital gain and long-term capital gain
Long-Term Capital Loss	Long-term capital gain only
Loss from Owning and Maintaining Race Horses	Income from the same activity only
Loss from Lottery, Gambling, Betting, etc.	Cannot be set off against any income

2.1.10 Carry forward and set-off of losses

Sometimes an assessee may not have sufficient income in a particular assessment year to fully adjust all losses incurred during that year. In such situations, the Income Tax Act permits certain losses to be carried forward to future years and adjusted against eligible income earned in those years. This provision is known as carry forward and set-off of losses.

The benefit of carry forward is available only when the loss has been determined based on a return of income filed within the time prescribed under Section 139(1). Further, the loss must generally be carried forward by the same assessee who originally incurred it.

The following losses may be carried forward:

- ◊ Loss under the head Income from House Property
- ◊ Non-speculation business loss
- ◊ Speculation business loss
- ◊ Specified business loss
- ◊ Short-term capital loss
- ◊ Long-term capital loss
- ◊ Loss from the activity of owning and maintaining race horses

Any loss other than those listed above cannot be carried forward.

1. Carry Forward of Loss from House Property

If a loss under the head Income from House Property cannot be completely adjusted during the current year, the unabsorbed portion may be carried forward to subsequent assessment years. The carried-forward loss can be adjusted only against income from house property. Such loss may be carried forward for a maximum period of eight assessment years immediately succeeding the assessment year in which the loss was first computed. Mr. Aslam owns a house property that results in a loss of ₹2,00,000. During the year, he is able to adjust only ₹50,000 of the loss. The remaining ₹1,50,000 can be carried forward and adjusted against income from house property earned during the next eight assessment years.

2. Carry Forward of Non-Speculation Business Loss

If a taxpayer incurs a loss from a business or profession, other than a speculation business, and the loss cannot be fully adjusted during the year, the unabsorbed portion may be carried forward. The carried-forward loss can be adjusted only against income under the head Profits and Gains of Business or Profession. It may be carried forward for a maximum period of eight assessment years immediately following the assessment year in which the loss was first computed.

Mr. Asish operates a furniture manufacturing business and incurs a loss of ₹5,00,000. Due to insufficient income, only ₹2,00,000 is adjusted during the year. The remaining ₹3,00,000 may be carried forward and adjusted against business profits earned during the next eight assessment years.

i. Discontinued Business and Carry Forward of Loss

Even if the business in which the loss occurred has been discontinued, the loss may still be carried forward and adjusted against profits from another business or profession carried on by the assessee. A trader closes his textile business after incurring a loss. Two years later, he starts a food processing business and earns profits. The carried-forward business loss from the textile business may be adjusted against the profits of the new business.

ii. Losses after Revival of a Discontinued Industrial Undertaking

Where an industrial undertaking is discontinued due to natural calamities such as floods, cyclones, earthquakes, riots, fire or enemy action and is revived within three years, the unabsorbed losses may be carried forward and adjusted against the profits of the revived business. The loss may be carried forward for a maximum period of eight years, calculated from the year in which the business is restarted.

A factory is damaged by floods and remains closed for two years. After reopening, it begins earning profits. The losses incurred before the closure may be carried forward and adjusted against future profits of the revived undertaking.

iii. Business Loss after Succession by Inheritance

When a person carrying on a business dies and the business is inherited by a legal heir, the successor may carry forward and adjust the business losses of the deceased. Mr. Benson operated a trading business and incurred losses. After his death, his son continues the business and earns profits. The son is entitled to carry forward and adjust the losses previously incurred by his father.

3. Carry Forward of Speculation Business Loss

If a speculation business loss cannot be fully adjusted during the same year, it may be carried forward to future years. The carried-forward speculation loss can be adjusted only against profits from speculation business. Such loss may be carried forward for a maximum period of four assessment years immediately succeeding the year in which the loss was first computed. Mr. Amar incurs a speculation loss of ₹1,00,000 in share trading. Since he has no speculation profits during the year, the loss is carried forward. Two years later, he earns speculation profits of ₹80,000. The carried-forward loss may be adjusted against this profit.

4. Carry Forward of Specified Business Loss

A loss from a specified business which remains unadjusted may be carried forward to future years. The loss can be adjusted only against profits from another specified business. Unlike ordinary business losses, there is no maximum time limit for carrying forward such losses. The loss may be carried forward until it is completely adjusted.A taxpayer operates a cold chain facility and incurs a loss of ₹3,00,000. The loss cannot be adjusted during the current year. After several years, he earns profits from another specified business. The carried-forward loss may then be adjusted against those profits.

5. Carry Forward of Capital Losses

a. Short-Term Capital Loss

A short-term capital loss that cannot be fully adjusted during the year may be carried forward for eight assessment years. The loss can be adjusted against both short-term capital gains and long-term capital gains. Ms. Viji incurs a short-term capital loss of ₹60,000 on the sale of shares. Since she has insufficient capital gains during the year, she carries forward the loss and adjusts it against capital gains earned in future years.

b. Long-Term Capital Loss

A long-term capital loss which remains unadjusted may also be carried forward for eight assessment years. But it can be adjusted only against long-term capital gains.

Mr. Robin incurs a long-term capital loss of ₹1,50,000 from the sale of land. Three years later, he earns a long-term capital gain from the sale of another property. The carried-forward loss may be adjusted against that gain.

6. Carry Forward of Loss from Owning and Maintaining Race Horses

A loss from the activity of owning and maintaining race horses can be carried forward if it cannot be adjusted during the year. The loss can be adjusted only against income from the same activity and may be carried forward for four assessment years. A taxpayer incurs a loss from maintaining race horses during the current year. The loss cannot be adjusted against salary, business or house property income. It may be carried forward and adjusted only against future income from race horses.

Note on Filing Return of Loss

To claim the benefit of carrying forward most losses, the assessee must file the return of income within the time prescribed under Section 139(1). If the return is not filed within the due date, the right to carry forward the loss is generally lost. But, this condition does not apply to loss under the head Income from House Property.

Table 2.1.2 Summary of Carry Forward Period

Type of Loss	Period of Carry Forward	Can Be Set Off Against
House Property Loss	8 Years	House Property Income
Non-Speculation Business Loss	8 Years	Business Income
Speculation Business Loss	4 Years	Speculation Profit
Specified Business Loss	Unlimited	Specified Business Profit
Short-Term Capital Loss	8 Years	Short-Term or Long-Term Capital Gain
Long-Term Capital Loss	8 Years	Long-Term Capital Gain
Race Horse Loss	4 Years	Income from Race Horses Only

2.1.10.1 Carry Forward of Unabsorbed Capital Expenditure on Scientific Research and Family Planning

The Income Tax Act encourages businesses to invest in scientific research and family planning programmes by allowing certain capital expenditures as deductions. Still, in some cases, the profits of the business during a particular year may not be sufficient to absorb the entire deduction. In such situations, the unabsorbed portion of the capital expenditure is not lost. Instead, it can be carried forward to future years and adjusted in the same manner as unabsorbed depreciation. This provision ensures that taxpayers receive the full benefit of eligible expenditure even when their profits in a particular year are inadequate. The unabsorbed amount can be carried forward and deducted from future business income according to the provisions of the Income Tax Act.

BCA Ltd. incurred capital expenditure of ₹10,00,000 on scientific research related to its business. During the year, the company earned a business profit of only ₹6,00,000. Since the profit is insufficient to absorb the entire deduction, only ₹6,00,000 can be adjusted in the current year. The remaining ₹4,00,000 becomes unabsorbed capital expenditure and may be carried forward to subsequent years for adjustment against future profits.In the same way , if a company incurs capital expenditure on approved family planning activities and the available profit is insufficient to claim the full deduction, the unabsorbed portion can be carried forward and treated in the same manner as unabsorbed depreciation can be carry forward for unlimited years.

2.1.11 Order of Set-Off

When an assessee has more than one type of deduction available, such as current depreciation, scientific research expenditure, carried-forward business losses and unabsorbed depreciation, the Income Tax Act prescribes a specific order in which these deductions must be adjusted. Following the correct sequence is important because some deductions have a limited carry-forward period while others may be carried forward indefinitely.

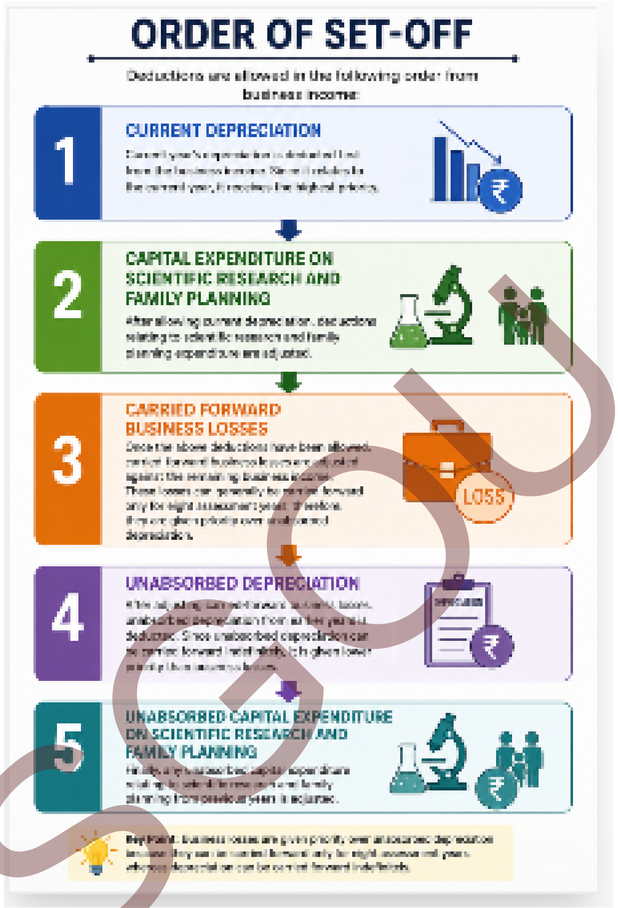

Fig. 2.1.1 Order of set- off

The deductions are allowed in the following order:

1. Current Depreciation

Current year's depreciation is deducted first from the business income. Since it relates to the current year, it receives the highest priority.

2. Capital Expenditure on Scientific Research and Family Planning

After allowing current depreciation, deductions relating to scientific research and family planning expenditure are adjusted.

3. Carried Forward Business Losses

Once the above deductions have been allowed, carried-forward business losses are adjusted against the remaining business income. These losses can generally be carried forward only for eight assessment years; therefore, they are given priority over unabsorbed depreciation.

4. Unabsorbed Depreciation

After adjusting carried-forward business losses, unabsorbed depreciation from earlier years is deducted. Since unabsorbed depreciation can be carried forward indefinitely, it is given lower priority than business losses.

5. Unabsorbed Capital Expenditure on Scientific Research and Family Planning

Finally, any unabsorbed capital expenditure relating to scientific research and family planning from previous years is adjusted.

Let us do some practical problems to understand the set off and carry forward of losses.

Illustration 2.1.1

Mr. Vineeth 's particulars of income for the Previous Years 2024–25 and 2025–26 are as under:

Particulars	Previous Year 2024–25	Previous Year 2025–26
Business Profit (before depreciation)	(₹55,000)	₹35,000
Current Depreciation	₹20,000	₹18,000
Income from Other Sources	₹30,000	₹40,000

Find out the Total Income of Mr. Vineeth for the Assessment Years 2025–26 and 2026–27.

Solution

Computation of Total Income for the Assessment Year 2025–26

Particulars	₹
Income from Other Sources	30,000
Less: Business Loss to the extent of income	30,000
Total Income	Nil

Carried Forward Business Loss = ₹25,000

Carried Forward Unabsorbed Depreciation = ₹20,000

Computation of Total Income for the Assessment Year 2026–27

Particulars	₹
Profits of Business	35,000
Less: Current Depreciation	18,000
Less: Brought Forward Business Loss	17,000

Business Income	Nil
Income from Other Sources	40,000
Less: Unabsorbed Depreciation	20,000
Total Income	₹20,000

Note: Unabsorbed depreciation can be set-off against any income. Brought forward business loss can be set-off only against business income.

Illustration 2.1.2

Shri Dhruvin was assessed to income tax in the Assessment Year 2025–26 for his first year of operation. The assessment order showed that the assessee had suffered a business loss of ₹6,000 and was further entitled to unabsorbed depreciation of ₹15,000 and unabsorbed capital expenditure on scientific research of ₹3,200.

During the Previous Year 2025–26, the assessee had a taxable profit from business amounting to ₹20,000 before charging depreciation of ₹5,200. The other income during the year amounted to ₹4,000. Determine the taxable income of the assessee for the Assessment Year 2026–27.

Solution

Computation of Total Income for the Assessment Year 2026–27

Particulars	**₹**
Business Profit before Depreciation	20,000
Less: Current Depreciation	5,200
Business Income	14,800
Less: Unabsorbed Capital Expenditure on Scientific Research	3,200
Balance Business Income	11,600
Less: Brought Forward Business Loss	6,000
Business Income	5,600
Less: Unabsorbed Depreciation	15,000
Balance Loss	(9,400)

Set-off against Income from Other Sources

Particulars	**₹**
Income from Other Sources	4,000
Less: Unabsorbed Depreciation	4,000
Total Income	**Nil**

Carry Forward

Particulars	**₹**
Unabsorbed Depreciation carried forward	**₹5,400**

Taxable Income for the Assessment Year 2026–27 = NIL.

Illustration 2.1.3

The following particulars are of taxable income under the various heads of Shri Sasi for the Previous Year 2025-26:

Particulars	Amount (₹)
1. Income from House Property	18,000
2. Income from the following business:	
(a) Profit from Cloth Business	35,000
(b) Loss from Sugar Business	16,000
(c) Loss from Silver Business	22,000
(d) Loss from Share Speculation	15,000
(e) Profit from Specified Business	70,000
3. Income from Other Sources	60,000

Loss from House Property for the Assessment Year 2025-26 is brought forward ₹7,500.

Loss from Specified Business for the Assessment Year 2025-26 is brought forward ₹1,00,000.

Compute Gross Total Income after setting off the losses. Is there any loss which can be carried forward?

Solution

Computation of Gross Total Income for the Assessment Year 2026-27

Particulars	Amount (₹)
1. Income from House Property	
Income from House Property	18,000
Less: B/f Loss	(7,500)
Income from House Property	10,500
2. Income from Business	
Profit from Cloth Business	35,000
Less: Loss from Sugar Business	(16,000)
Less: Loss from Silver Business	(22,000)
Business Loss	(3,000)
3. Income from Specified Business	
Profit from Specified Business	70,000
Less: B/f Loss from Specified Business	(1,00,000)

Loss from Specified Business c/f	30,000
4. Income from Other Sources	60,000
Gross Total Income (₹10,500 + ₹60,000 – ₹3,000)	67,500

Losses Carried Forward

Particulars	Amount (₹)
Loss from Share Speculation c/f	15,000
Loss from Specified Business c/f	30,000

Illustration 2.1.4

Ms. Fatima, a resident of India, submits the following particulars of her income for the Assessment Year 2026-27 (Previous Year 2025-26):

Particulars	Amount (₹)
1. Income from house property let out (computed)	9,500
2. Profit from radio business	19,600
3. Interest from firm	1,800
4. Speculation income	1,900
5. Short-term capital gains	3,200
6. Long-term capital gains	1,400

The following items have been brought forward from the preceding Assessment Year 2025-26:

Particulars	Amount (₹)
(i) Loss from radio business	4,600
(ii) Unabsorbed depreciation	1,000
(iii) Speculation loss	3,200
(iv) Short-term capital loss for the Assessment Year 2021-22	4,100
(v) Long-term capital loss for the Assessment Year 2022-23	3,950
(vi) Brought forward loss from house property	3,000

Current year's depreciation amounted to ₹500.

You are required to compute her Gross Total Income and deal with the carry-forward of losses.

Solution

Treatment of Carry-Forward of Losses for the Assessment Year 2026-27

1. Income from House Property

Particulars	Amount (₹)
Income from House Property	9,500
Less: Brought Forward Loss	3,000
Income from House Property	6,500

2. Business Income

Particulars	Amount (₹)
Profit from Radio Business	19,600
Add: Interest from Firm	1,800
Total	21,400
Less: Current Depreciation	500
Balance	20,900
Less: Brought Forward Business Loss	4,600
Balance	16,300
Less: Unabsorbed Depreciation	1,000
Business Income carried to Statement of Gross Total Income	15,300

3. Speculation Business

Particulars	Amount (₹)
Speculation Income	1,900
Less: Brought Forward Speculation Loss	3,200
Loss carried forward	1,300

4. Capital Gains

a. Short-Term Capital Gains

Particulars	Amount (₹)
Short-Term Capital Gains	3,200
Less: Brought Forward STCL	4,100
STCL carried forward	900

b. Long-Term Capital Gains

Particulars	Amount (₹)
Long-Term Capital Gains	1,400
Less: Brought Forward LTCL	3,950
LTCL carried forward	2,550

Statement of Gross Total Income

Particulars	Amount (₹)
Income from House Property	6,500
Profits and Gains of Business or Profession	15,300
Capital Gains	Nil
Gross Total Income	21,800

Notes

1. Speculation loss can be set off against speculation profits only.
2. Brought forward short-term capital loss can be set off against short-term capital gains as well as long-term capital gains.
3. Brought forward long-term capital loss can be set off against long-term capital gains only.

Illustration 2.1.5

Mr. A has:

◊ Profit from Business: ₹40,000

◊ Loss from another Business: ₹15,000

Calculate the taxable business income.

Solution

Particulars	Amount (₹)
Business Profit	40,000
Less: Business Loss	15,000
Taxable Business Income	25000

Illustration 2.1.6

Compute the Gross Total Income of Mr. Amal for the Assessment Year 2026-27:

Particulars	Amount (₹)
Business Profit	80,000
House Property Loss	25,000
Short-Term Capital Gain	30,000
Brought Forward Business Loss	15,000

Solution

Particulars	Amount (₹)
Business Profit	80,000
Less: B/F Business Loss	15,000

Net Business Income	65,000
Add: Short-Term Capital Gain	30,000
Less: House Property Loss	25,000
Gross Total Income	70,000

Illustration 2.1.7

Compute the Gross Total Income of Ms. Fatima:

Particulars	Amount (₹)
Long-Term Capital Gain	75,000
Business Income	60,000
House Property Income	20,000
B/F Long-Term Capital Loss	25,000

Solution

Particulars	Amount (₹)
Long-Term Capital Gain	75,000
Less: B/F Long-Term Capital Loss	25,000
Net LTCG	50,000
Business Income	60,000
House Property Income	20,000
Gross Total Income	1,30,000

Illustration 2.1.8

Compute the Gross Total Income of Ms. Gopika for the Assessment Year 2026-27.

Particulars	Amount (₹)
Income from House Property	40,000
Business Profit before Depreciation	1,20,000
Current Year Depreciation	20,000
Short-Term Capital Gain	50,000
Speculation Profit	15,000
Income from Other Sources	25,000
B/F Business Loss	30,000
B/F Unabsorbed Depreciation	40,000
B/F Speculation Loss	10,000
B/F Short-Term Capital Loss	20,000

Solution

Particulars	Amount (₹)
Business Profit	1,20,000
Less: Current Depreciation	20,000
Balance	1,00,000
Less: B/F Business Loss	30,000
Balance	70,000
Less: B/F Unabsorbed Depreciation	40,000
Business Income	**30,000**

Particulars	Amount (₹)
Speculation Profit	15,000
Less: B/F Speculation Loss	10,000
Speculation Income	**5,000**

Particulars	Amount (₹)
STCG	50,000
Less: B/F STCL	20,000
Capital Gain	**30,000**

Gross Total Income

Particulars	Amount (₹)
House Property	40,000
Business Income	30,000
Speculation Income	5,000
Capital Gains	30,000
Other Sources	25,000
Gross Total Income	**1,30,000**

Illustration 2.1.8

Compute the Gross Total Income of Ms. Athena.

Particulars	Amount (₹)
House Property Income	30,000
Business Profit before Depreciation	90,000
Current Depreciation	10,000
Long-Term Capital Gain	60,000
Income from Other Sources	20,000
B/F Business Loss	25,000
B/F Unabsorbed Depreciation	35,000
B/F Long-Term Capital Loss	15,000

Solution

Particulars	Amount (₹)
Business Profit	90,000
Less: Current Depreciation	10,000
Balance	80,000
Less: B/F Business Loss	25,000
Balance	55,000
Less: B/F Unabsorbed Depreciation	35,000
Business Income	**20,000**

Particulars	Amount (₹)
LTCG	60,000
Less: B/F LTCL	15,000
Capital Gains	**45,000**

Gross Total Income

Particulars	Amount (₹)
House Property Income	30,000
Business Income	20,000
Capital Gains	45,000
Other Sources	20,000
Gross Total Income	**1,15,000**

Illustration 2.1.9

Compute the Gross Total Income of Ms. Sunu.

Particulars	Amount (₹)
Business Profit before Depreciation	1,50,000
Current Depreciation	30,000
House Property Income	20,000
STCG	40,000
Income from Other Sources	15,000
B/F Business Loss	50,000
B/F Unabsorbed Depreciation	25,000
B/F STCL	10,000

Solution

Particulars	Amount (₹)
Business Profit	1,50,000
Less: Current Depreciation	30,000

Balance	1,20,000
Less: B/F Business Loss	50,000
Balance	70,000
Less: B/F Unabsorbed Depreciation	25,000
Business Income	**45,000**

Particulars	Amount (₹)
STCG	40,000
Less: B/F STCL	10,000
Capital Gain	**30,000**

Gross Total Income

Particulars	Amount (₹)
Business Income	45,000
House Property Income	20,000
Capital Gain	30,000
Other Sources	15,000
Gross Total Income	**1,10,000**

Illustration 2.1.10

Compute the Gross Total Income of Ms. Soorya for the Assessment Year 2026-27 and show the treatment of carry forward losses.

Particulars

Particulars	Amount (₹)
Income from House Property	60,000
Business Profit before Depreciation	2,00,000
Current Year Depreciation	30,000
Speculation Profit	25,000
Short-Term Capital Gain	80,000
Long-Term Capital Gain	40,000
Income from Other Sources	35,000

Brought Forward Losses

Particulars	Amount (₹)
Business Loss	70,000
Unabsorbed Depreciation	50,000
Speculation Loss	15,000
Short-Term Capital Loss	30,000
Long-Term Capital Loss	20,000
House Property Loss	25,000

Solution

Step 1: Income from House Property

Particulars	Amount (₹)
Income from House Property	60,000
Less: B/F House Property Loss	25,000
Income from House Property	**35,000**

Step 2: Business Income (Order of Set-Off)

Order Applied

1. Current Year Depreciation
2. Brought Forward Business Loss
3. Unabsorbed Depreciation

Particulars	Amount (₹)
Business Profit	2,00,000
Less: Current Year Depreciation	30,000
Balance	1,70,000
Less: B/F Business Loss	70,000
Balance	1,00,000
Less: Unabsorbed Depreciation	50,000
Business Income	**50,000**

Step 3: Speculation Business

Particulars	Amount (₹)
Speculation Profit	25,000
Less: B/F Speculation Loss	15,000
Speculation Income	**10,000**

Step 4: Capital Gains

(a) Short-Term Capital Gain

Particulars	Amount (₹)
STCG	80,000
Less: B/F STCL	30,000
Net STCG	**50,000**

(b) Long-Term Capital Gain

Particulars	Amount (₹)
LTCG	40,000
Less: B/F LTCL	20,000
Net LTCG	**20,000**

Step 5: Income from Other Sources

Particulars	Amount (₹)
Income from Other Sources	35,000

Statement of Gross Total Income

Particulars	Amount (₹)
Income from House Property	35,000
Business Income	50,000
Speculation Income	10,000
Short-Term Capital Gain	50,000
Long-Term Capital Gain	20,000
Income from Other Sources	35,000
Gross Total Income	**2,00,000**

Explanation of Set-Off Applied

Loss	Set-off Allowed Against
House Property Loss	House Property Income
Business Loss	Business Income Only
Unabsorbed Depreciation	Any Head of Income (except Salary)
Speculation Loss	Speculation Profit Only
Short-Term Capital Loss	STCG or LTCG
Long-Term Capital Loss	LTCG Only

Illustration 2.1.11

Compute the Gross Total Income of Mr. Dany for the Assessment Year 2026-27 and indicate the losses to be carried forward, if any. Show clearly the order of set-off.

Particulars

Particulars	Amount (₹)
Income from House Property	50,000
Business Profit before Depreciation	2,50,000
Current Year Depreciation	40,000

Speculation Profit	20,000
Short-Term Capital Gain	60,000
Long-Term Capital Gain	30,000
Income from Other Sources	40,000

Brought Forward Losses

Particulars	Amount (₹)
Business Loss	80,000
Unabsorbed Depreciation	70,000
Speculation Loss	35,000
Short-Term Capital Loss	25,000
Long-Term Capital Loss	45,000
House Property Loss	20,000

Solution

Step 1: Income from House Property

Particulars	Amount (₹)
Income from House Property	50,000
Less: B/F House Property Loss	20,000
Income from House Property	**30,000**

Step 2: Business Income (Order of Set-Off)

Order Applied

1. Current Year Depreciation
2. Brought Forward Business Loss
3. Unabsorbed Depreciation

Particulars	Amount (₹)
Business Profit	2,50,000
Less: Current Year Depreciation	40,000
Balance	2,10,000
Less: B/F Business Loss	80,000
Balance	1,30,000
Less: Unabsorbed Depreciation	70,000
Business Income	**60,000**

Step 3: Speculation Business

Particulars	Amount (₹)
Speculation Profit	20,000
Less: B/F Speculation Loss	35,000
Speculation Loss Carried Forward	**15,000**
Speculation Income	**Nil**

Step 4: Capital Gains

a. Short-Term Capital Gain

Particulars	Amount (₹)
STCG	60,000
Less: B/F STCL	25,000
Net STCG	**35,000**

b. Long-Term Capital Gain

Particulars	Amount (₹)
LTCG	30,000
Less: B/F LTCL	45,000
LTCL Carried Forward	**15,000**
Net LTCG	**Nil**

Step 5: Income from Other Sources

Particulars	Amount (₹)
Income from Other Sources	40,000

Statement of Gross Total Income

Particulars	Amount (₹)
Income from House Property	30,000
Business Income	60,000
Speculation Income	Nil
Short-Term Capital Gain	35,000
Long-Term Capital Gain	Nil
Income from Other Sources	40,000
Gross Total Income	**1,65,000**

Losses Carried Forward

Particulars	Amount (₹)
Speculation Loss	15,000
Long-Term Capital Loss	15,000

Working Note – Order of Set-Off

Order	Particulars
1	Current Year Depreciation
2	Brought Forward Business Loss
3	Unabsorbed Depreciation
4	Speculation Loss against Speculation Profit
5	Short-Term Capital Loss against STCG/LTCG
6	Long-Term Capital Loss against LTCG
7	Balance Losses carried forward

Note:

Business Profit (₹2,50,000) is adjusted in the following sequence:

Particulars	Amount (₹)
Business Profit	2,50,000
Less: Current Depreciation	40,000
Less: B/F Business Loss	80,000
Less: Unabsorbed Depreciation	70,000
Taxable Business Income	**60,000**

Recap

- ◊ Set-off of losses allows eligible losses to be adjusted against income to reduce taxable income, either through intra-head or inter-head adjustment.
- ◊ Business loss cannot be set off against salary income and can be carried forward for 8 assessment years.
- ◊ House property loss can be carried forward for 8 assessment years and set off only against income from house property.
- ◊ Speculation loss can be set off only against speculation profits and can be carried forward for 4 assessment years.

- ◊ Loss from specified business can be set off only against profits of specified business and carried forward accordingly.
- ◊ Short-term capital loss can be set off against both short-term and long-term capital gains and carried forward for 8 assessment years.
- ◊ Long-term capital loss can be set off only against long-term capital gains and carried forward for 8 assessment years.
- ◊ Loss from owning and maintaining race horses can be set off only against income from the same activity and carried forward for 4 assessment years.
- ◊ Unabsorbed depreciation can be carried forward indefinitely and set off against income under any head except salary.
- ◊ The order of set-off is: current year depreciation, brought forward business loss, and then unabsorbed depreciation, followed by other eligible adjustments.

Objective Questions

1. Which loss can be set off only against speculation profits?
2. Which capital loss can be set off against both STCG and LTCG?
3. Which capital loss can be set off only against LTCG?
4. Which loss can be carried forward indefinitely?
5. Against which head of income cannot business loss be set off?
6. Which type of set-off takes place within the same head of income?
7. Which type of set-off takes place between different heads of income?
8. Which loss can be set off only against income from race horses?
9. For how many years can speculation loss be carried forward?
10. Which loss is adjusted before unabsorbed depreciation in the order of set-off?

Answers

1. Speculation
2. Short-term

3. Long-term
4. Depreciation
5. Salary
6. Intra-head
7. Inter-head
8. Racehorse
9. Four
10. Business loss

Self-Assessment Questions

1. What are the provisions governing the set-off of losses?
2. State the provisions regarding set-off of capital losses.
3. Explain the provisions regarding set-off and carry-forward of losses under the head 'Income from Other Sources'.
4. Discuss the treatment of unabsorbed depreciation under the Income-tax Act.
5. Explain the provisions relating to inter-source and inter-head adjustment of losses.
6. Discuss the restrictions imposed on the set-off and carry-forward of losses under the Income-tax Act.
7. Explain the treatment of a partner's share of loss in a partnership firm.
8. Discuss the carry-forward periods applicable to various losses under the Income-tax Act.
9. The Business Income of an individual for the Assessment Year 2026-27 has been determined by the Assessing Officer at ₹4,20,000. Later, it is found that he has not considered the following while determining the income:

Particulars	Amount (₹)
(i) Depreciation for the current year	15,000
(ii) Unabsorbed depreciation carried forward	20,000
(iii) Brought forward business loss from A.Y. 2024-25	10,000

Determine the Gross Total Income for the Assessment Year 2026-27.

(Answer: Gross Total Income ₹3,75,000.)

10. The following are the particulars of income of Devan for the previous year ended 31st March, 2026:

Particulars	Amount (₹)
Loss from House Property	8,000
Interest on Securities	2,50,000
Business Income	40,000
Share of Loss from a Firm	5,000
Speculation Loss	10,000
Dividend from Indian Company	15,000
Long-Term Capital Loss	25,000
Short-Term Capital Gain	35,000

Compute the Gross Total Income after setting off the different losses and state the amount of losses to be carried forward.

(**Answer**: Gross Total Income ₹3,32,000.)

Assignments

1. Explain the provisions relating to the set-off and carry-forward of losses under the Income-tax Act and discuss the conditions that must be satisfied for claiming such benefits.
2. The following particulars relate to Mr. Parthipan for the Previous Year ended 31st March, 2026:

Particulars	Amount (₹)
Business Income	3,80,000
Current Year Depreciation	20,000
Unabsorbed Depreciation Brought Forward	35,000
Brought Forward Business Loss	25,000

Compute the Gross Total Income for the Assessment Year 2026-27 after considering the permissible deductions and set-offs.

3. The following are the particulars of income of Mr. Raheem for the Previous Year ended 31st March, 2026:

Particulars	Amount (₹)
Loss from House Property	15,000
Business Income	1,20,000

Interest on Securities	2,00,000
Dividend Income	25,000
Speculation Loss	18,000
Short-Term Capital Gain	50,000
Long-Term Capital Loss	40,000

Compute the Gross Total Income and indicate the losses, if any, to be carried forward.

4. The following losses were brought forward by Mr. Manavalan to the Assessment Year 2026-27:

Particulars	Amount (₹)
Business Loss	60,000
Speculation Loss	20,000
Long-Term Capital Loss	30,000

The current year's incomes are:

Particulars	Amount (₹)
Business Income	1,50,000
Speculation Profit	15,000
Long-Term Capital Gain	25,000
Income from Other Sources	40,000

Compute the Gross Total Income and the amount of losses to be carried forward.

5. The following particulars relate to Ms. Mallika for the Previous Year ended 31st March, 2026:

Particulars	Amount (₹)
Income from Salary	4,50,000
Loss from House Property	1,20,000
Business Loss	80,000
Short-Term Capital Gain	60,000
Long-Term Capital Loss	50,000
Income from Other Sources	30,000

Compute the Gross Total Income after applying the provisions relating to inter-source and inter-head adjustment of losses and determine the losses eligible for carry-forward.

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Unit 2
Clubbing of Income

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ comprehend the concept of deemed income
- ◊ get an overview of different types of deemed incomes
- ◊ gain knowledge about the concept of clubbing of incomes
- ◊ explain different circumstances of clubbing of income

Prerequisites

In a small town in Kerala, Mr.Sreekumar lived with his wife Ms.Ambily and his mother Ms.Shantha Harikumar, each earning income in different ways.Mr. Sreekumar once transferred a small piece of land to Ms.Ambily, who started a tailoring unit and earned income from it, while Ms.Shantha Harikumar earned interest from her fixed deposits. During an income tax check, officials examined how certain incomes could be clubbed back to Mr.Sreekumar under tax rules, and how unexplained or unaccounted transactions could be treated as deemed income. The family learned that under the Income Tax Act, income is not always taxed in the hands of the person who earns it, but may be included in another person's income based on the source and nature of transfer, making them more careful in financial matters.

Keywords

Clubbing of income, Deemed income, Unexplained money, Income of spouse, Income of minor child

Discussion

Clubbing of income is one of the most misunderstood provisions of indian income tax law. If you transfer assets or income to your spouse, minor child to reduce tax liability, the Income tax requires that income to be "clubbed" – added back to your total income and taxed in your hands. Under Income Tax Act 2025 (effective 1 st April 2026),these provisions are consolidated under sections 96 to 99,replacing section 60 to 64 of the 1961 Act.

In Kerala, Mr.Ravi was returning home after a long day when income tax officials conducted a routine check in the area. During verification, they found that Mr.Ravi was unable to properly explain the source of certain cash deposits in his bank account and some jewellery found at home. Mr.Ravi's wife Ms.Lissy tried to explain that it was from family savings, but no proper records were available to support it. The officer explained that under Income Tax rules, any unexplained money, investments, or valuable assets found in possession of a person can be treated as "deemed income" and taxed accordingly. Mr..Ravi realised that in taxation, not only actual earnings but also unexplained sources can become taxable income if not properly justified.

2.2.1 Deemed Income (Aggregation of Income)

Deemed income refers to earnings that are not directly declared but treated as taxable under Indian tax laws. It includes unexplained investments, money, expenditure and informal transactions where the source of funds cannot be justified. Section 68 to 69 D of the Income Tax Act define various kinds of deemed income. These are taxed at the highest applicable rate ti discourage tax evasion.

Consider the case of Mr. Muneer, a small businessman. During an income tax assessment, the tax authorities found several transactions that were not properly recorded in his books of account. There were unexplained cash deposits, investments, valuable assets, and large expenditures. When asked to explain the source of these amounts, Mr. Muneer could not provide satisfactory evidence. As a result, the law treated these unexplained amounts as his income and subjected them to tax. This is the basic idea behind deemed incomes.

In certain cases, some amounts are treated as income in the hands of an assessee even though they are not income in the ordinary sense. Such amounts are known as deemed incomes. The main objective of treating these amounts as income is to prevent tax evasion and to ensure that taxpayers properly explain the source of their money, investments, and expenditure.

The following are the major categories of deemed incomes:

1. Cash Credits (Section 68)

If any sum is found credited in the books of an assessee maintained for a previous year and the assessee offers no explanation about the nature and source of the amount, or if the explanation offered is not satisfactory in the opinion of the Assessing Officer, the amount so credited may be charged to income tax as the income of the assessee for that previous year.

The provisions of Section 68 also apply to closely held companies receiving share application money, share capital, or share premium. Such amounts shall be treated as unexplained unless the resident investor provides a satisfactory explanation regarding the nature and source of the amount. However, this provision does not apply where the amount is received from a venture capital fund or venture capital company.

2. Unrecorded and Unexplained Investments (Section 69)

If an assessee has made investments during the previous year which are not recorded in the books of account and fails to explain the nature and source of the investment, or if the explanation is not satisfactory, the value of such investments may be deemed to be the income of the assessee for that previous year.This provision ensures that investments made from undisclosed sources do not escape taxation.

3. Unrecorded and Unexplained Money, Bullion, Jewellery, etc. (Section 69A)

If an assessee is found to be the owner of any money, bullion, jewellery, or other valuable article that is not recorded in the books of account and the assessee cannot satisfactorily explain the nature and source of its acquisition, the value of such assets may be deemed to be the income of the assessee for that financial year. This provision is frequently applied in cases where undisclosed assets are discovered during searches and surveys conducted by the Income Tax Department.

4. Amount of Investments Not Fully Disclosed in Books of Account (Section 69B)

Sometimes the actual amount spent on an investment, bullion, jewellery, or other valuable article is more than the amount recorded in the books of account. If the assessee cannot satisfactorily explain the excess amount spent, the difference between the actual cost and the recorded amount may be deemed to be the income of the assessee for that financial year.The purpose of this provision is to prevent taxpayers from understating the value of their investments and assets.

5. Unexplained Expenditure (Section 69C)

If an assessee incurs any expenditure during a financial year and is unable to explain the source of funds used for such expenditure, or if the explanation offered is not satisfactory, the amount of such expenditure may be treated as the income of the assessee for that financial year.This provision applies to expenditure incurred on functions, travel, luxury purchases, and other activities where the source of funds cannot be properly established.

6. Hundi Borrowings and Repayments (Section 69D)

A hundi is a traditional indigenous financial instrument used in business transactions. According to the Income Tax Act, borrowings on hundis and repayments thereof must be made through an account payee cheque.If any amount is borrowed or repaid otherwise than by an account payee cheque, the amount so borrowed or repaid shall be treated as the income of the person borrowing or repaying the amount for the previous year in which the transaction takes place. The amount repaid includes any interest paid on the borrowed amount. If an amount borrowed on a hundi has already been treated as income at the time of borrowing, it shall not be taxed again when it is repaid.

2.2.1.1 Taxation of Deemed Incomes

The deemed incomes covered under Sections 68, 69, 69A, 69B, 69C, and 69D are subject to tax at a special rate of 30 per cent, along with applicable surcharge and cess.

Further, no deduction in respect of any expenditure or allowance is allowed while computing income under these provisions.

Illustration 2.2.1

During the previous year 2025–26, Vijay maintained proper books of account for his business. The Assessing Officer found a credit entry of ₹4,50,000 in his books. When asked to explain the source of the amount, Vijay could not provide any satisfactory explanation.

Solution

Since the amount of ₹4,50,000 is credited in the books of account and the assessee is unable to explain its nature and source satisfactorily, the amount shall be treated as deemed income under Section 68.

Particulars	Amount (₹)
Unexplained Cash Credit	4,50,000
Deemed Income under Section 68	4,50,000

Illustration 2.2.2

During the previous year 2025–26, Chandran purchased a plot of land for ₹8,00,000. The investment was not recorded in his books of account. He was unable to explain the source of funds used for the purchase.

Solution

Since the investment is not recorded in the books and the assessee has failed to explain the source of funds, the value of the investment shall be treated as deemed income under Section 69.

Particulars	Amount (₹)
Value of Unrecorded Investment	8,00,000
Deemed Income under Section 69	8,00,000

Illustration 2.2.3

Manorama's books show a cash credit of ₹5,00,000 during the previous year. She could not explain the source of the amount satisfactorily.

Solution

The amount is treated as deemed income under Section 68.

Tax Calculation

Particulars	Amount (₹)
Deemed Income	5,00,000
Tax @ 30%	1,50,000
Cess @ 4%	6,000
Total Tax Liability	**1,56,000**

Illustration 2.2.4

Arnav Singh and Raisadha are individuals carrying on business in different cities. During the previous year 2025–26, the Income Tax Department conducted assessments on both of them.

In the case of Arnav Singh, the Assessing Officer found that:

◊ ₹6,00,000 was credited in his books as "loans received", but he failed to explain the source satisfactorily.

◊ He purchased jewellery worth ₹4,50,000, which was not recorded in his books of account.

In the case of Raisadha, it was found that:

◊ She made an investment of ₹7,00,000 in land which was not recorded in her books.

◊ She incurred unexplained expenditure of ₹2,00,000 on a family function, without proper explanation of source.

You are required to:

1. Identify the nature of each item under the Income Tax Act, 1961.
2. Determine whether each item will be treated as deemed income.
3. Compute the total deemed income in the hands of Arnav Singh and Raisadha separately.
4. Explain the applicable sections for each case.

Solution

Particulars	Arnav Singh (₹)	Raisadha (₹)	Section	Nature of Deemed Income
Cash credit (loan shown but not explained)	6,00,000	–	Sec. 68	Unexplained Cash Credit
Unexplained jewellery / asset	4,50,000	–	Sec. 69A	Unexplained Money/Assets
Unexplained investment in land	–	7,00,000	Sec. 69	Unexplained Investment
Unexplained expenditure	–	2,00,000	Sec. 69C	Unexplained Expenditure
Total Deemed Income	**10,50,000**	**9,00,000**		

2.2.2 Clubbing of Incomes (Sections 60 to 65)

There is a growing tendency on the part of taxpayers either not to disclose certain assets or investments in the records maintained by them or to disclose them at a figure lower than their actual value. Instead, they dispose of their property or income in such a way that tax liability may be avoided or reduced. An assessee therefore attempts to shift his income to others so that he may keep his tax liability to the minimum. For that, he arranges to legally shift an income which in fact belongs to him to some other person. To counteract such practices, special provisions relating to clubbing of incomes have been made in Sections 60 to 65. As per these sections, income of other persons shall be included in the assessee' s total income. Such inclusion of income of other person in the income of the assessee is called clubbing of income.

1. Transfer of Income without Transfer of Assets (Section 60)

If a person transfers to another person his income from an asset without transferring the ownership of the asset, the income from such asset shall be deemed to be the income of the transferor and shall be included in his total income.

2. Revocable Transfer of Assets (Section 61)

Income arising to any person as a result of revocable transfer of assets shall be deemed to be the income of the transferor and shall be included in his total income. A revocable transfer means a transfer containing any provision for the re-transfer directly or indirectly of the whole or any part of the income or assets to the transferor or a transfer which in any way gives the transferor a right to re-assume power directly or indirectly over the whole or any part of the income or assets. Even if an insignificant part of income from the transferred asset comes back to the transferor, the whole income shall be included in the income of the transferor.

3. Income of Spouse (Section 64(1))

The following incomes of the spouse of an individual shall be included in the total income of the individual.

i. Income of the spouse by way of salary, commission, fees or any other remuneration from a concern in which the individual has a substantial interest. But, if such remuneration is received due to the technical or professional qualification of the spouse, it shall not be clubbed. Substantial interest means in a company, at least 20% voting power held by the individual along with relatives, and in other cases at least 20% profit share.

ii. Income arising to the spouse from assets transferred by the individual otherwise than for adequate consideration or not in connection with an agreement to live apart shall be clubbed in the hands of the transferor.

4. Income of Son's Wife (Section 64(1)(vi))

If an individual transfers assets without adequate consideration to his son's wife (daughter-in-law), the income arising from such assets shall be included in the total income of the transferor.

5. Transfer of Assets for Benefit of Spouse (Section 64(1)(vii))

If an individual transfers assets without adequate consideration to any person or association of persons for the immediate or deferred benefit of his or her spouse, the income from such assets shall be included in the total income of the transferor to the extent of such benefit.

6. Transfer of Assets for Benefit of Son's Wife (Section 64(1)(viii))

If assets are transferred without adequate consideration to any person or association of persons for the benefit of son's wife, the income arising from such assets shall be included in the total income of the transferor to the extent of such benefit.

7. Income from Business (Section 64)

If an individual transfers any asset directly or indirectly to spouse or son's wife and such asset is invested in a business, the income arising from such business shall be clubbed in the hands of the transferor in the prescribed manner under the Act.

8. Income of Minor Child (Section 64(1A))

The income of a minor child shall be included in the income of the parent. Where the parents are married, it shall be clubbed in the income of the parent whose total income is higher. Where the parents are not living together, it shall be clubbed in the income of the parent who maintains the child. Income from manual work or income from application of skill, talent or specialised knowledge and experience shall not be clubbed. A deduction of ₹1,500 per child is available under Section 10(32).

9. Transfer of Assets to HUF (Section 64(2))

If an individual transfers or converts his self-acquired property into the property of a Hindu Undivided Family (HUF) otherwise than for adequate consideration, the income from such property shall be deemed to be the income of the individual. Even after partition, income in certain cases continues to be clubbed in the hands of the transferor.

10. Benami Transactions

In a small town in Kerala,Ameya purchased a property but registered it in the name of Sindhu. Sindhu had no real money or control over it. Such a case is called a benami transaction. Here, Sindhu is only a benamidar, and Ameya is the real owner. As per the Income Tax Act, the Assessing Officer will treat the income as belonging to Ameya and tax it in his hands because tax is always levied on the real owner and not the name holder.

2.2.2.1 Treatment of Loss (Clubbing Applies to Loss Also)

In another case, the property showed a loss of ₹50,000. Ameya thought he is free from tax responsibility. However, under clubbing rules, if income is included, then loss is also included for computation purposes. This means income includes loss also for tax adjustment, so Ameya must consider both income and loss arising from such transactions.

2.2.2.2 Income from Accretion of Property Transferred

Ameya transferred some property benefits to Sindhu. Later, the property increased in value and also earned rental income. Under clubbing rules, the original income from transferred property is taxed in Ameya's hands, but the income arising from accretion or additional earnings (Section 64 provisions) belongs to Sindhu and is taxed in her hands. Thus, growth income and original income are treated separately.

2.2.2.3 Recovery of Tax (Section 65)

At the end of assessment, tax was calculated on clubbed income. Under Section 65, the Income Tax Department can recover tax either from Ameya (assessee) or from Sindhu (other person). But, Sindhu's liability is limited only to the tax related to income shown in her name. If the asset is jointly held, then both persons are jointly and severally liable, meaning tax can be recovered fully from any one of them.

This story shows that under Sections 60 to 65, the Income Tax Act ensures that income cannot be hidden by using another person's name, and the real owner is always made responsible for tax payment.

Illustration 2.2.5

Geetha owns a house property and earns rent of ₹2,40,000 per year. She transfers only the rent income to Vishnu, without transferring ownership of the property.

Solution

The rent income is taxable in the hands of Geetha.

(Section 60 – Transfer of income without transfer of asset)

Illustration 2.2.6

Devadath transfers shares to Lissy with a condition that he can revoke the transfer at any time. Dividend income from shares is ₹1,20,000.

Solution

Dividend income is taxable in the hands of Devadath.

(Section 61 – Revocable transfer of assets)

Illustration 2.2.7

In the previous year 2025–26, the following transactions took place:

1. Gauri owns a house property and earns rent of ₹3,00,000 per year. She transfers only the rent income to Parvathy, without transferring ownership of the property.
2. Arun transfers shares to Sudheesh with a condition that he can revoke the transfer at any time. Dividend income from shares is ₹1,50,000.
3. Nayana holds 25% voting power in a company. Her husband Vishak receives salary of ₹4,00,000 from the same company without technical qualification.
4. Ajay transfers a fixed deposit to Parvathy without adequate consideration. Interest income earned is ₹60,000.

Required:

i. Identify the correct section applicable in each case

ii. State in whose hands the income is taxable

iii. Compute the total income to be clubbed in each assessee's hands

Solution

Particulars	Section	Income (₹)	Taxable in whose hands
Rent income transferred without asset transfer	Sec. 60	3,00,000	Gauri
Revocable transfer of shares (Dividend income)	Sec. 61	1,50,000	Arun
Salary from company (spouse without technical qualification)	Sec. 64(1)	4,00,000	Nayana
Transfer of FD to another person without adequate consideration	Sec. 64 (General clubbing rule)	60,000	Ajay

Total Income Clubbed:

Assessee	Clubbed Income (₹)
Gauri	3,00,000
Arun	1,50,000
Nayana	4,00,000
Ajay	60,000

Clubbing provisions under Sections 60 to 64 ensure that income is taxed in the hands of the real owner. Income cannot be reduced by transferring assets or income to other persons, and tax liability remains with the person who actually controls or earns the income.

Illustration 2.2.8

Particulars of income of Mr. Aravind and his family members are as under
1. Self Income
(a) Income from house property – 48,000
(b) Income from business – 2,20,000
(c) Interest on deposits – 20,000
2. Wife's Income
(a) Salary from a firm where Mr. Aravind has substantial interest – 1,00,000
(b) Interest on savings – 5,000
3. Minor Child (Son) Income
(a) Interest on bank deposits – 16,000
(b) Income from winning prize in school competition (skill-based) – 8,000
4. Minor Child (Daughter) Income
(a) Income from investments made by father in her name – 10,000
(b) Income from painting (self skill-based talent) – 6,000

Solution

Particulars	**Amount**
Income from house property	48,000
Income from business	2,20,000
Interest on deposits	20,000
Salary of wife (Sec. 64(1))	1,00,000
Income of minor son – Interest on bank deposits (Sec. 64(1A))	16,000
Less: Exemption u/s 10(32)	1,500
Net minor son income	14,500
Minor son income from skill-based activity (excluded u/s 64(1A))	—
Income of minor daughter – Investments (Sec. 64(1A))	10,000
Less: Exemption u/s 10(32)	1,500
Net minor daughter income	8,500
Minor daughter income from painting (excluded u/s 64(1A))	—
Gross Total Income of Mr. Aravind	4,11,000

Illustration 2.2.9

Particulars of income of Mr. Ajay and his family members are as under
1. Self-Income
(a) Income from house property – 50,000
(b) Income from business – 2,40,000
(c) Cash credit found in books without explanation – 60,000
2. Wife's Income
(a) Interest on fixed deposit transferred by husband – 12,000
(b) Rental income from property gifted by father – 10,000
3. Minor Son Income
(a) Interest on bank deposits invested by father – 14,000
(b) Income from manual work – 6,000
4. Minor Daughter Income
(a) Unexplained investment in jewellery found in her name – 20,000
(b) Income from painting talent – 8,000

Required:

Compute the Gross Total Income of Mr. Ajay after applying provisions of

- ◊ Deemed Income (Sections 68 to 69A)
- ◊ Clubbing of Income (Sections 60 to 64)

Solution

Particulars	Amount
Income from house property	50,000
Income from business	2,40,000
Cash credit without explanation (Sec. 68 – deemed income)	60,000
Interest on wife's FD transferred by husband (Sec. 64(1)(iv))	12,000
Income of minor son – interest on bank deposits (Sec. 64(1A))	14,000
Less: Exemption u/s 10(32)	1,500
Net minor son income	12,500
Minor son income from manual work (excluded)	—
Unexplained investment in jewellery in minor daughter's name (Sec. 69A – deemed income)	20,000
Income from minor daughter's painting talent (excluded)	—
Gross Total Income of Mr. Ajay	**3,94,500**

Illustration 2.2.10

Mr. Ashin has the following incomes during the previous year 2013-14:

i. Salary income ₹ 2,20,000.
ii. Income from house property ₹ 60,000.
iii. Interest income of minor child (bank deposits) ₹ 45,000.
iv. Income of minor daughter from acting in advertisements ₹ 1,80,000.
v. Minor child received gift from grandfather ₹ 2,00,000 and earned interest ₹ 20,000.

His wife's total income is ₹ 2,10,000.

Decide in whose hands the above incomes are taxable and compute the total income of Mr. Ashin.

Solution

Income of Mr. Ashin ₹ 2,80,000;

Income of Mrs. Ashin ₹ 2,10,000;

Income of minor child ₹ 2,65,000;

Income of minor daughter ₹ 1,80,000 (taxable separately due to special income);

Gift amount ₹ 2,00,000 not taxable;

Total income of Mr. Anand (after clubbing) ₹ 5,45,000.

Recap

- ◊ Deemed incomes include cash credits, unexplained investments, unexplained money, jewellery, and other valuable articles found with the assessee.
- ◊ Unexplained expenditure and Hundi borrowings or repayments are also treated as deemed income.
- ◊ Deemed incomes are generally taxed at a flat rate of 30% plus applicable surcharge and cess.
- ◊ Clubbing of income means income of another person is included in the assessee's total income in specified cases.
- ◊ If income is transferred without transferring the asset, such income is taxed in the hands of the transferor.
- ◊ In case of revocable transfer, income from the asset is clubbed back with the transferor's income.

◊ Income earned by a spouse from remuneration in a concern where the individual has substantial interest is clubbed.

◊ Income from assets transferred to spouse or daughter-in-law without adequate consideration is included in transferor's income.

◊ Income of a minor child is clubbed with the income of the parent having higher total income, with exemption up to ₹1,500 per child; income of a disabled minor is not clubbed.

◊ Income arising from assets transferred for the benefit of spouse or son's wife, directly or indirectly, is also clubbed in the transferor's income.

Objective Questions

1. What type of income includes unexplained cash credits?
2. Unexplained investments fall under which income category?
3. Unexplained money is treated as which income?
4. Hundi borrowals are classified under which income?
5. What is the tax rate applied on deemed income (basic rate)?
6. What is the concept called when another person's income is included in assessee's income?
7. Income transferred without transferring asset is taxed in whose hands?
8. Revocable transfer income is assessed in the hands of whom?
9. Income of a minor child is clubbed with which person?
10. Income transferred to spouse without consideration is clubbed with whom?

Answers

1. Deemed
2. Deemed
3. Deemed
4. Deemed
5. 30%
6. Clubbing

7. Transferor
8. Transferor
9. Parent
10. Transferor

Self-Assessment Questions

1. In what circumstances is the income of one person treated as the income of another?
2. State the circumstances in which the income of the wife of an assessee are included in the assessee's total income.
3. What do you understand by aggregation of income? Explain.
4. What are the provisions of Income Tax Act regarding the following:
   i. Cash credits
   ii. Unexplained money, etc.
   iii. Unexplained expenditure
   iv. Amount borrowed or repaid on Hundi
5. The income of a family is as under:
   ◊ Mr. Ram from business
   ◊ Mrs. Ram from employment
   ◊ Minor son of Mr. Ram (interest from a company)
   ◊ Minor son of Mr. Ram, Mr. Krishna (from acting in film)
   ◊ Minor daughter of Mr. Ram

The amount for investment received from his grand-father.

Hints:

◊ Income of Mr. Ram ₹ 2,63,000
◊ Income of Mrs. Ram ₹ 1,80,000
◊ Mr. Krishna ₹ 1,60,000

Assignments

1. Master Vijay (Age 16 years) has the following incomes during 2025-26:
   i. Interest on bank fixed deposits ₹ 75,000.
   ii. Interest on Govt. Securities ₹ 80,000.
   iii. Interest on debentures ₹ 40,000.
   iv. Income by acting in a film ₹ 2,00,000.
   v. Income by singing concert held by him ₹ 50,000.

His father's total income ₹ 2,09,000.

His mother's total income ₹ 2,09,100.

Decide about the person in whose hands the above incomes shall be taxable and the amount of income to be taxed.

Ans.

Master Vijay's father ₹ 2,09,000;

Master Vijay's mother ₹ 4,02,600;

Master Vijay ₹ 2,50,000.

2. Discuss the legal situations under which income of another person is added to the assessee's total income under the Income Tax Act.
3. Explain the conditions under which income earned by a spouse is treated as income of the assessee.
4. Describe the concept of aggregation of income and its significance in income tax computation.
5. Examine the treatment of unexplained cash credits, unexplained money, unexplained expenditure, and Hundi transactions under the Income Tax Act.

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3

BLOCK

Gross Total Income and Deductions

Unit 1
Gross Total Income

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ comprehend the meaning of gross total income and taxable income
- ◊ get an idea on the key points regarding five heads of income
- ◊ be aware about the basis of charge of income from five heads
- ◊ compute gross Total income under different heads

Prerequisites

Income tax in India is charged on the total income earned by a person during a financial year. The Income-tax Act, 1961 classifies taxable income under five heads: Income from Salary, Income from House Property, Profits and Gains of Business or Profession, Capital Gains, and Income from Other Sources. Income under each head is calculated separately according to the provisions of the Act. Certain incomes may be fully exempt from tax, while some may be partially exempt or exempt subject to specific conditions. The computation of total income begins with calculating the income under each of the five heads after allowing the deductions and exemptions applicable to each head. If a person has a loss under any head, such loss may, where permitted, be set off against income from another source or another head, or carried forward to subsequent assessment years according to the rules of the Act. After making the necessary adjustments, the net income under all five heads is aggregated to arrive at the Gross Total Income (GTI). From the GTI, eligible deductions under Chapter VI-A, including deductions under Sections 80C to 80U, are allowed as per the prescribed conditions. The amount remaining after these deductions is known as the Total Income or taxable income. Finally, income tax is calculated on the Total Income using the applicable slab rates or special tax provisions. Understanding this process is important because it helps students, professionals, and taxpayers clearly understand how different sources of income are combined, adjusted, and taxed under the Income-tax Act.

Keywords

Gross Total income, Total Income, Income From Salary, House Property, Business/ Profession Income , Capital gain , Other sources

Discussion

3.1.1 Introduction

Gross total income (G T I) is the aggregate income computed under the five heads of income after adjusting for loss set-offs, but before making any tax-saving deductions. Under the income tax Act ,2025,G T I is defined under section 122(10).Section 80B (5) of the income tax Act defines Gross Total Income, received or receivable in the previous year after adjusting eligible set off /carry forward of losses and clubbing provisions. Income tax is charged on the total income of an assessee. Total income is calculated after deducting allowed deductions from the Gross Total Income.

G T I combines earnings from these five heads of income

1. Income from Salaries (Sec 15 to 17)
2. Income From House Property (Sec 22 to 27)
3. Profits and Gains of Business or Profession (Sec 28 to 44)
4. Capital Gains (Sec 45 to 55)
5. Income From Other sources (Sec 56 to 59)

Each heads of income is to be computed separately as per the provisions of the income tax Act. Then income under each head is to be added together after adjusting past and present losses. This will provide gross total income. From the gross total income, we can deduct permissible deductions. The figure is the total income. The tax liability of the assessee is calculated as per prescribed rates of income tax on total income.

3.1.2 Income from Salary

Salary income of an employee is to be computed in accordance with the provisions laid down in sections 15, 16 and 17. Section 15, gives the scope of this head and tells us that which incomes shall form part of this head. Section 16 gives deductions to be allowed out of incomes taxable under this head. Section 17(1) defines the word ‘salary’ as mentioned in section 15 . Section 17(2) and 17(3) further define the term 'Perquisites' and 'Profit in lieu of salary'.

Any compensation provided by an employer to an employee in exchange for services rendered is termed salaries, as per Section 17(1). It encompasses wages and the monetary value of taxable benefits and facilities provided by the employer. The following incomes are chargeable under the head salaries as per Sec. 15 of the Act.

a. Any salary due from an employer or former employer to an assessee in the previous year whether paid or not;

b. Any salary paid or allowed to him in the previous year, by or on behalf of an employer or a former employer, though not due or before it becomes due to him;

c. Any arrears of salary paid or allowed to him in the previous year by or on behalf of an employer, not previously charged.

The following points are relevant in connection with income from salary.

a. Salary due means legally enforceable right of an employee.

b. Every kind of remuneration to every kind of servant is covered under the head income from salary.

c. There should be an 'employer-employee' relationship to constitute salary income. Hence, the remuneration of a Member of Parliament, examination remuneration of teachers from a university, etc., are not taxable under the head salaries. Since there is no employer-employee relationship in the case of such incomes, they are taxed under the head "Income from other sources'.

d. Salary should be real to make it taxable. In other words, notional salary is not taxable. Example, proprietor's salary received from business is not taxable as salary but it is part of business income.

e. Place of accrual of salary is the place where the services are rendered. Amount paid abroad in respect of leave earned in India is deemed to have accrued in India. However, salary paid by the Indian Government to an Indian national abroad is deemed to have accrued in India, even if services are provided outside India.

f. Receipt from a person other than employer, is taxable under the head 'Income from other sources, even if the income is received due to the employment.

g. Payment received after cessation of employment is taxable under the head "Salaries" Voluntary foregoing is mere application of income. Therefore, voluntary foregoing of salary will not make it eligible for tax exemption

h. Salary surrendered to the Central Government shall be excluded from income.

i. Compulsory deductions made by the employer should be added to the salary income. For example, insurance premium, professional tax, etc., deducted by the employer are added back to arrive at gross salary of the employee,

j. If salary paid in advance is included in the total income of an assessee during a previous year, it is not included in the income when it becomes due.

k. Salary paid by a firm to its partner is appropriation of profits and hence, not included under the head 'Salary', It is taxable as 'Profits and gains of business or profession'.

3.1.2.1 Definition of Salary

Sec. 17 (1)] of the Income Tax Act defines salary as an inclusive list of all those items which are covered in the definition of salary.

Salary includes:

1. Wages;
2. Any annuity or pension;
3. Any gratuity;
4. Any fee, commission, perquisites or profits in lieu of salary or in addition to any salary or wages;
5. Any advance of salary; (but not advance in the nature of a loan, e.g., advance for purchasing a car.)
6. Any payment received by an employee in respect of any period of leave not availed of by him;
7. Annual accretion;
8. Transferred balance;
9. Contribution made during the previous year by the Government or any other employer to the account of an employee under a notified pension scheme. (Applicable for those who join service after 1.1.2004 and under contributory pension scheme.).

3.1.2.2 Basis of charge (Section 15)

Conditions of chargeability

Section 15 deals with the basis of charge under the head “Salaries”. Salary is chargeable to tax either on ‘due basis’ or on ‘receipt’ basis, whichever is earlier. However, where any salary, paid in advance, is assessed in the year of payment, it cannot be subsequently brought to tax in the year in which it becomes due. If the salary in arrears has already been assessed on due basis, the same cannot be taxed again when it is paid.

Example: If A draws his salary in advance for the month of April 2025 in the month of March 2025 itself, the same becomes chargeable on receipt basis and is to be assessed as income of the P.Y. 2024-25 i.e., AY 2025-26. However, the salary for the AY 2026-27 will not include that of April 2025.

Components of Salary

1. Basic Salary or Wages
2. Advance Pay
3. Arrear of Salary
4. Dearness Pay/ Dearness allowances
5. Annuity
6. Pension

3.1.2.3 Allowances and deductions

Allowances

Cash payments made by the employer to employees on a monthly basis, apart from salary, are referred to as allowances. It is defined as a fixed amount of money paid by the employer to his employees in addition to the salary. Under the Income-tax Act, 1961, allowance is taxable on due or receipt basis, whichever is earlier. These allowances are generally taxable unless some specific exemption has been provided in respect of such allowance. From the perspective of income tax, there are three types of allowances:

1. Taxable Allowances
2. Fully Exempted Allowances
3. Allowances exempt up to Specified Limit

3.1.2.4 Fully Taxable Allowances

The taxable allowance that are included while computing the taxable income from salary include:

1. Dearness Allowance and Dearness Pay disbursed to employees to offset the increase in price levels. When dearness allowance is provided according to employment terms, it is incorporated into salary to calculate the exemption thresholds of
2. Overtime allowance
3. City Compensatory Allowance
4. Transport Allowance to employee other than blind/deaf and dumb/orthopedically handicapped employee.
5. Telephone Allowance
6. Education Allowance
7. Tiffin Allowance
8. Medical Allowance
9. servant Allowance

3.1.2.5 Fully Exempted Allowance

Fully exempted allowances include:

1. Foreign allowances paid by the Government to employees posted abroad.
2. Allowance to supreme court/ high court judges
3. Allowance paid by United Nation Organisation to its employees
4. Sumptuary Allowances given to judges of High Court and Supreme Court.
5. Per-diem Allowance paid for the purposes of use of hotel, boarding and lodging facilities to an employee.

3.1.2.6 Partly exempted allowances/ Office Duty Allowances

The allowances that are partly exempted from the computation of income from salary include:

1. Travelling Allowance.
2. Daily allowance
3. Conveyance allowance
4. House rent allowance [Section 10(13A)], which is a special allowance specifically graned to an employee by his employer toward payment of rent for residence of the employee.
5. Special allowance granted to meet expenses incurred wholly, necessarily and exclusively in the performance of the duties of an office or employment [Section 10 (14)(ii)]. This includes:
    a. Helper allowance
    b. Research allowance
    c. Uniform allowance
6. Special allowance granted to the assessee either to meet his personal expenses at the place where the duties of his office or employment of profit are ordinarily performed by him or at the place where he ordinarily resides or to compensate him for the increased cost of living [Section 10 (14)(ii)].

3.1.2.7 Perquisites

A perquisite refers to an extra benefit in addition to salary or wages legally due by way of a contract or services rendered. Perks or perquisites may be defined as any casual emoluments, fee, and profit attached to an office or position in addition to salary or wages.

1. It may be in cash, or in kind.
2. Reimbursement of expenses incurred in the official discharge of duties is not a perquisite.

3. Perquisite may arise in the course of employment or in the course of profession. If it arises from a relationship of employer-employee, then the value of the perquisite is taxable as salary. However, if it arises during the course of profession, the value of such perquisite is chargeable as profits and gains of business or profession
4. Perquisite will become taxable only if it has a legal origin. An unauthorised advantage taken by an employee without his employer's sanction cannot be considered as a perquisite under the Act.

Perquisites may be classified into:

1. Perquisites taxable in the case of all employees.
2. Tax free perquisites in case of all employees.
3. Perquisites taxable only in the hands of specified employees.

3.1.2.8 Perquisites taxable in the case of all employees

Perquisites that are taxable in the case of all employees include:

1. Rent free accommodation, which is the value of rent-free accommodation provided to the assessee by his employer computed in prescribed manner [Section 17 (2)(i)]
2. Concession in rent, which is the value of any accommodation provided to the assessee by his employer at a concessional rate. [Section 17 (2) (ii)]
3. Payment by the employer in respect of an obligation of employee.
4. Amount payable by an employer directly or indirectly to effect an assurance on the life of the assessee.
5. Specified security or sweat equity shares allotted or transferred, by the employer.
6. Amount or the aggregate of amounts of any contribution made to the account of the assessee by employer:
    a. In a recognised provident fund
    b. In NPS
    c. In an approved superannuation fund.
7. Annual accretion to the balance at the credit of the recognised provident fund/ NPS/approved superannuation fund which relates to the employer's contribution and included in total income (on account of the same having exceeded Rs/ 750000)
8. Any other fringe benefit or amenity.

3.1.2.9 Tax free Perquisites in case of all employees

Tax-free benefits are not subject to valuation. The value of the following perquisites shall be excluded from an employee's salary income:

1. Telephone provided by an employer to an employee at his residence.
2. Transport facility provided by an employer, being airline or the railways for the purpose of transport of passenger or goods to his employees of an either free of charge or at concessional rate
3. Perquisites allowed outside India by the government to a citizen of Inia for rendering services outside India.
4. Contribution of employer to the staff group insurance scheme.
5. Annual premium paid by the employer on personal accident policy effected by him on the life of his employee.
6. Refreshment provided to all employee during working hours in office premises.
7. Subsidise lunch provided to employee at workplace during working hours, at the office or business premises, provided that the value of the meal is below Rs.50.
8. Recreational facilities such as club facilities provided to employee in general.
9. Expenses incurred by the employer on training of employee or amount paid for referesher management course including expenses on boarding and lodging.
10. Leave travel concession.
11. Medical benefits subject to prescribed limits.
12. Rent free official residence of provided to the Judge of a High Court or a Supreme Court.
13. Conveyance facility provided to High Court Judges under section 22B of the High Court Judges (Conditions of Service) Act, 1954, and Supreme Court Judges u/s 23A of Supreme Court Judges (Conditions of Service) Act, 1958.

3.1.2.10 Perquisites taxable in the case of specified employees Sec17(2)(iii)

Any expenditure of the employee met by the employer is perquisites in the hands of employees as per section 17(2)(iv). However, in certain cases, the employer provides perquisite in the form of facilities to certain employees. Such perquisites are taxable only in the hands of such specified employee. The value of any benefits, which is not mentioned in 3.2.2.1 and 3.2.2.2, provided free of cost or at concessional rates are taxable in the hands of specified employees. Following are the example of such perquisites:

1. Sweeper, gardener, watchman or personal attendant provided to employees.
2. Facility of gas, electricity or water supplied by employer.
3. Free or concessional tickets.
4. Motor car
5. Free or concessional educational facilities.

The following category of employees are considered as specified employees:

a. **Director employee:** An employee who concurrently serves as a director in the employer company, regardless of whether full-time or part-time, and whether maintaining that directorship for the entire year or a portion thereof, is classified as a specified employee.

b. **Employee having substantial interest in the company:** An employee is considered to possess a substantial interest in the employer-company if he is the beneficial owner of equity shares representing at least 20% of the voting power. He is designated as a specified employee.

c. **Employee drawing in excess of Rs. 50000:** Any employee not encompassed by the aforementioned conditions whose income taxable under the category of Salaries, inclusive of all monetary compensation from one or multiple employers, but excluding the value of benefits or amenities provided in kind, exceeds Rs 50,000. To ascertain the Rs 50,000 limit, the following are to be excluded or deducted:

   i. All non-monetary benefits.

   ii. Monetery benfits under Section 10

   iii. Standard deduction:

      - Upto Rs. 50000, if assessee opts out of default tax regime provided under section 115BAC(1A).
      - Upto Rs. 75000 if the assessee continue to pay tax under default tax regime.

   iv. Entertainment allowance and deduction towards professional tax is also allowed if the assesse opts out of the default tax regime as per section 115BAC(1A).

Note: The valuation of perquisites will be discussed in Unit 3.

3.1.2.11 Deductions and Exemptions

The following deductions are allowed while calculating the taxable income from salary:

1. **Standard deduction as per Sec 16 (ia):**

   a. Rs 50,000, if assessee opts out of the default regime.

   b. Rs. 75000, if assessee pays tax as per default regime

2. **Entertainment Allowance as per Sec 16(ii):** The provisions relating to the deduction against entertainment allowance is as follows:

   a. In case of Government employee the least of the following shall be allowed:

      i. Statutory limit of Rs 5,000

   ii. Actual amount received
   iii. 1/5th of basic salary

b. In case of other employees, Nil

3. **Employment Tax Sec 16(iii):** Any amount remitted by an assessee for employment tax, imposed by any statute, is permissible as a deduction.

Exemptions

House Rental Allowance (HRA) [Section 10 (13A)]

HRA is a partly exempted allowance and the least of the following is exempt from tax, while computing income from salary:

a. HRA Actually received.

b. Rent paid less 10% of Salary.

c. 50% of salary (in the case of accommodation provided in Mumbai, Kolkata, Delhi or Chennai)

d. 40% of salary (in the case of accommodation provided in any other city.)

Illustration 3.1.1

Mr. Alwin is an employee in Chennai. He resides in a rented house for which he pays monthly rent ₹4,000. He receives house rent allowance from the employer at the rate of 5,500 per month. Along with HRA, his monthly salary consists of the following.

1. Basic pay 12,000
2. Dearness allowance ₹4,000
3. Uniform allowance 200
4. Bonus 1,000

Compute taxable portion of HRA, if any, for the year 2025-26.

Answer

Computation of Taxable HRA

1.	Actual HRA received (5,500 x12)	Rs. 66,000
2.	Rent paid over 10% of salary (48,000-14,400)	Rs. 33,600
3.	50% of salary	Rs. 72,000

Least 33,600 is exempt,

Taxable HRA (66,000 -33,600) 32,400

Points to remember

1. Salary for the purpose of HRA does not include normal D.A, bonus or allowances.
2. Actual HRA, Rent paid over 10% of salary, 50% of salary in Chennai, Kolkata, Delhi and Mumbai (40% in other places) whichever is least is exempt.

Special allowance [Section 10 (14)]

Special allowances are classified into two for the purpose of computing income from salary.

1. *Section 10 (14) (i):* Special allowances or benefits specifically granted to meet expenses incurred wholly, necessarily and exclusively in the performance of the duties. Such allowances are exempt upto the actual expense incurred for that purpose.
2. *Section 10 (14) (ii):* Special allowances granted to the assessee either to meet his personal expenses at the place where the duties of his office or employment or at the place of residence. This may also include allowance granted to compensate him for the increased cost of living.

3.1.2.12 Proforma for computation under the head salary

Proforma for the computation of income from salary is presented in Table 3.3.1, which can be used for the calculation of gross and net taxable salary income of an assessee:

Sl No	Particulars		Amount
1	Basic salary		xxx
2	Fees/commission		xxx
3	Bonus		xxx
4	Allowance		xxx
	(i) Dearness Allowance		xxx
	(ii) House Rental Allowance (HRA)	xxx	
	Less: Exemption u/s 10 (13A)	xxx	xxx
	(iii) Children allowance	xxx	
	Less: Exemption	xxx	xxx
	(iv) Children hostel allowance	xxx	
	Less: Exemption	xxx	xxx
	(v) Transport allowance	xxx	
	Less: Exemption	xxx	xxx
	(vi) Entertainment allowance		xxx

	(vii) Travelling allowance/daily allowance/conveyance allowance	xxx	
	Less: Exemption	xxx	xxx
	(viii) Other allowances including overtime allowance, city compensatory allowance etc		xxx
5	Taxable perquisites		xxx
6	Leave travel concession	xxx	
	Less: Exemption u/s 10 (5)	xxx	xxx
7	Gratuity		
	(i) Received during the tenure of employment [Taxable]	xxx	
	(ii) Received at the time of retirement or otherwise	xxx	
	Less: Exemption u/s 10 (10)	xxx	xxx
8	Uncommuted pension		xxx
9	Commuted pension	xxx	
	Less: exemption u/s 10 (10A)	xxx	xxx
10	Leave encashment		
	(i) Received during the employment	xxx	
	(ii) Received at the time of retirement or otherwise	xxx	
	Less: exemption u/s 10 (10AA)	xxx	xxx
11	Voluntary retirement compensation	xxx	
	Less: Exemption u/s 10 (10C)	xxx	xxx
12	Retrenchment compensation etc	xxx	
	Less: Exemption u/s 10 (10B)	xxx	xxx
Gross salary			**xxx**
Less: Deduction under section 16			
Standard deduction u/s 16 (i)			xxx
Entertainment allowance u/s 16 (ii)			xxx
Professional tax/tax on employment (paid by employer/employee) u/s 16 (iii)			xxx
Income under the head salary			**xxx**

3.1.2.13 Provident fund

Provident fund is a scheme intended to give substantial benefits to an employee at the time of their retirement. Though it forms part of retirement benefits, contributions made to the provident fund is significant while calculating the gross/taxable income from salary. So, in this section, we discuss the provisions regarding provident fund and the detailed computation of provident fund at the time of retirement will be discussed in Unit 4.

3.1.2.14 Types of provident fund

Recognised provident fund (RPF)

Recognised provident fund (RPF) are funds that are recognised by the Commissioner of Income tax for the purpose of income-tax. It is governed as per Part A of Schedule IV of the Income Tax Act 1961.

A fund which is constituted under the Employee's Provident Fund and Miscellaneous Provisions Act, 1952 will also be considered as RPF.

Unrecognised provident fund (UPF)

UPF means those funds which are not recognised by the commissioner of Income tax.

Statutory provident fund (SPF)

An SPF is a fund, which is governed by Provident Funds Act, 1925 and applies to the emloyees of government, railways, semi-government institutions, local bodies, universities and all recognised educational institutions.

Public provident fund

PPF is functions under the Provident Fund Act, 1968. Eventhough PPF is well suited for self-employed individuals, the membership to PPF is open to every individuals. A salaried employee may also contribute to PPF in addition to the funds operated by his employer. Similarly, an individual can also contribute on his own behalf or on behalf of a minor to whom he is a guardian.

Particulars	RPF	UPF	SPF	PPF
Employer's contribution	Contribution in excess of 12% if salary is taxable u/s 17 (1)	Not taxable at the time of contribution	Fully exempt	N.A
Employee's contribution	Eligible for deduction u/s 80c	Not eligible for deduction	Eligible for deduction u/s 80c	Eligible for deduction u/s 80C
Interest credited on employer's contribution	Amount in excess of 9.5% p.a. is taxable as "salary" u/s 17 (1)	Not taxable at the time of credit of interest	Fully exempt	N.A.

Interest credited on employee's contribution	Amount in excess of 9.5% p.a. is taxable as "salary" u/s 17 (1)	Not taxable at the time of credit of interest	Exempt upto certain limit of contribution	Fully exempt
Amount withdrawn on retirement/ termination	Exempt u/s 10 (12) subject to certain conditions detailed in Fig 3.3.1	• Employee's contribution is not taxable • Interest on employee's contribution is taxable under 'income from other sources • Employer's contribution and interest thereon is salary	Exempt u/s 10 (11)	Fully exempt u/s 10 (11)

Note: Salary for the purpose of provident fund means basic salary and dearness allowance, if provided in the terms of employment for retirement benefits and commission as a percentage of turnover.

Illustration 3.1.2

Monthly salary 20,000, Dearness allowance 40% (50% includible for retirement benefits) Determine taxable portion of contribution to provident fund, in the following cases.

i. Employer and employee each contributed 14% of salary to RPF. Interest at the rate of 11% credited on 31.3.2026 for the financial year 2025-26 on RPF balance ₹2,00,000.

ii. Employer and employee contributed 15% of salary to an unrecognised provident fund. Interest at the rate of 12% is credited annually.

iii. Both the employer and employee contributed 12% of salary to RPF and interest at the rate of 8.5% is credited to the fund.

Answer

Taxable amount of contribution to provident fund

i. Employer's contribution over 12% of salary (2% of 2,88,000*) 5760

*(20,000+4,000) x 12

2 Interest over 9.5% (2,00,000 x 1.5/100) 3000

8,760

ii. Contribution to URPF is not taxable year to year. It will become taxable only when the fund is recognised or the amount is paid back to the employee.

iii. Contribution to RPF up to 12% and interest up to 9.5% are not taxable.

Illustration 3.1.3

Mr. Jothish is working in ABC Ltd. and has furnished the details of his income for the F.Y. 2024-25. You are required to compute his gross salary based on the details provided below:

1. Basic salary – Rs. 10000pm
2. D.A. (50% is for retirement benefits) – Rs. 8000 pm
3. Commission as a percentage of turnover – 0.1%
4. Turnover during the year – Rs. 5000000
5. Bonus – Rs. 40000
6. His own contribution in the RPF – Rs. 20000
7. Employer's contribution to RPF – 20% of his basic salary
8. Interest accrued in the RPF @ 13% p.a. – Rs. 13000

Solution

Computation of Gross Salary of Mr. Jothish for the AY 2025-26		
Particulars	**Amount**	**Amount**
Basic Salary [10000 x 12		120000
Dearness allowance [8000 x 12]		96000
Commission on turnover [0.1% x 5000000]		5000
Bonus		40000
Employer's contribution RPF [20% of 120000	24000	
Less: Exemption	20760	3240
Interest accrued in the RPF @ 13% p.a.	13000	
Less: Exemption @ 9.5% p.a.	9500	3500
Gross Salary		**267740**

Notes:

1. Employer's contribution in the RPF payment is exempt up to 12% of the salary ie. 12% of [Basic Salary + Dearness allowance forming part of retirement benefits + Commission based on turnover]

= 12% of [120000 + (50% of 96000) + 5000]

= 12% of 173000

= 20760

2. Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C.

3.1.2.15 Encashment of Earned Leave [Sec. 10(10AA)]

An employee can encash the earned leave standing to his credit either during service or at the time of retirement. Amount received on encashment of earned leave during services fully taxable. Encashment of earned leave at the time of retirement is exempt as follows

1. Government employees - Fully exempt.
2. Others - Least of the following is exempt.

    a. Cash equivalent of leave due at the rate of average salary of the last 10 months (subject to a maximum of 30 days leave for each completed year of service);

    b. 10 month's salary (based on the average of last 10 months);

    c. ₹25,00,000:

    d. Actual amount received.

The following matters are important in this connection.

1. Average salary means average of 10 month's salary immediately preceding the date of retirement.
2. When encashment of earned leave is received from more than one employer, the exemption shall not exceed the limit specified.
3. Salary includes basic pay, D.A. forming part of pay and fixed percentage of commission on sales target (as in the case of computation of gratuity).

Illustration 3.1.4

From the following details calculate taxable leave salary of Mr. Mahesh for the previous year 2025-26.

1. Leave salary received: 4,00,000
2. Monthly salary at the time of retirement:

    Basic salary 14,000, D.A.₹4,000, Entertainment allowance ₹ 1,000

3. Duration of service: 23 years and 8 months.
4. Leave allowed by the employer: 40 days for each year of service.
5. Leave availed while in service: 4 months.

    Assume that Mr. Mahesh was working in a private limited company.

Answer

Computation of Taxable Leave Salary

1.	Actual amount received	Rs.4,00,000
2.	10 months' salary (14,000 x 10)	Rs. 1,40,000
3.	Statutory limit	Rs. 25,00,000
4.	Cash equivalent of leave due (14,000 x 19)	Rs. 2,66,000
Least 1,40,000 is exempt, balance taxable (4,00,000-1,40,000)		Rs. 2,60,000

Points to remember

1. Salary for the purpose of encashment of earned leave does not include normal D.A and other allowances. D.A will be included if it is includible for retirement benefits.
2. Leave allowed shall not be more than 30 days for each completed year of service.

3.1.2.16 Valuation of perquisites

Rent free accommodation

Where accommodation is provided by the central government of any state government to the employees either holding office or post in connection with the affairs of the Union or of such State.

Unfurnished accommodation: The value of a rent-free furnished residence allocated to the Minister, designated parliamentary officers, or the Leader of the Opposition in Parliament, the value of accommodation shall be the difference between the license fee determined by the Central government or any state government in respect of accommodation in accordance with the rules framed by such government and the rent actually paid by the employee.

Furnished accommodation: If the accommodation provided to such employee is furnished then the value of perquisite shall be calculated by adding the value of unfurnished accommodation with:

1. 10% per annum of the cost of furniture (including television sets, radio sets, refrigerators, other household appliances, air-conditioning plant or equipment) [***if the furniture is owned by the employer],*** or
2. The actual hire charges payable for the furniture, reduced by any charges paid or payable for the same by the employee during the PY [***if the furniture is hired from a third party].***

Where the accommodation is provided by any other employer

Where accommodation is owned by the employer (Furnished): If the accommodation provided to the employee is furnished and owned by the employer, the value of rent-free accommodation occupied by the employee during the PY shall be determined as follows:

1. 10% of salary in cities having population greater than 40 lakhs as per 2011 census.
2. 7.5% of salary in cities having population greater than 15 lakhs and less than 40 lakhs as per 2011 census.
3. 5% of salary in other areas.

The value so obtained shall be reduced by the rent, if any, actually paid by the employee.

When the accommodation is owned by the employer (Unfurnished): If the accommodation provided to the employee is owned by the employer and unfurnished, then the value of rent-free accommodation occupied by the employee during the PY shall be determined by adding the following to the value of furnished accommodation owned by the employer:

1. 10% per annum of the cost of furniture (including television sets, refrigerators, other household appliances, air-conditioning plant or equipment or other similar appliance or gadgets) [***if furniture is owned by employer***]
2. The actual hire charges payable for the furniture, reduced by any actual charges paid or payable for the same by the employee during the PY [***if such furniture is hired from a third party***].

When accommodation is leased or rented by the employer (Furnished): If the employer provides a leased or rental accommodation which is furnished, then in such case the perquisite value shall be the least of the following:

1. Actual lease rental amount paid or payable by the employer, or
2. 10% of the salary

This value has to be reduced by the rent, if any, actually paid by the employee.

When the accommodation is leased or rented by the employer (Unfurnished): If the employer provides a leased or rented property as accommodation, but it is unfurnished, then in such a case the value of the perquisite shall be determined by adding the value calculated for a similar property which is furnished, with the following:

1. 10% per annum of the cost of furniture (including television sets, radio sets, refrigerators, other household appliances, air conditioning plant or equipment or other similar appliances or gadgets) [***if the furniture is owned by employer***]
2. The actual hire charges payable for the furniture, reduced by any charges paid or payable for the same by the employee during the PY. [***if such furniture is hired from a third party***]

3.1.2.17 Motor Car

When a vehicle is owned by the employer

Car used exclusively for official purpose: When the vehicle is utilized entirely and exclusively for the execution of official responsibilities. The value shall be considered as zero.

Car used for private purpose: When the car is utilized solely for the private or personal purposes of the employee or any member of their household, the value of the perquisite will be as follows:

Actual amount of expenses incurred on the running and maintenance of motor car	Xxxx
Add: Remuneration paid to chauffer if any - xxxx	
Depreciation @ 10% per annum of the actual	
cost of motor cars - xxxx	xxxx
Value of motor car	xxxx

Car used party for personal purposes and partly for official purposes: If the motor vehicle is utilized partially for the execution of duties and partially for the personal purposes of the employee or any member of their household, the value of perquisite shalle be determined as follows:

Provided that all expenses related to its maintenance and operation are covered by the employer.

1. Small car (cubic capacity doesnot exceed 1.6 litre) Rs 1,800 pm
2. Large car (cubic capacity exceed 1.6 litre) Rs 2,400 pm

Add Rs. 900 pm to the value so obtained if chauffeur is also provided.

Provided that the expenses for maintenance and operation related to personal use are borne by the assessee.

1. Small Car Rs 600 pm
2. Large Car Rs 900 pm

Add Rs. 900 pm to the value if chauffer is also provided.

Where the motor car is leased by the employer

If a motor car is leased and utilized solely for the private or personal purposes of the employee or any member of their household, the value of the perquisite will be determined as follows:

Actual amount spent on running and maintaining the car	xxxx
Remuneration paid to chauffer if any	xxxx
Less: Amount charged from employee	xxxx
Value of motor car	xxxx

Where multiple cars are owned or hired by employer

When an employer owns or hires multiple motor vehicles, and the employee or any household member is permitted to use these vehicles for work purposes, the value of the perquisite shall pertain to one vehicle.

1. Small Car Rs 1,800 pm
2. Large Car Rs 2,400 pm

Add Rs. 900 pm to the value if chauffer is also provided.

Domestic servant

If the employer reimburses the wages paid to servants appointed by the employee, then such reimbursement will be considered as perquisite in the hands of all employees. However, if domestic servants are engaged by the employer, it will be considered as a perquisite in the hands of specified employees only. The value of such perquisite shall be:

1. The actual cost to the employer.
2. The actual cost in such a case shall be the total amount of salary paid or payable by the employer or any other person on his behalf for such services, which will be reduced by any amount paid by the employee for such services.

Gas, electricity or water

Similar to domestic servants, if the employer reimburses the expenses met by employee in respect of gas, electricity or water connection taken in the name of employee himself, it will be considered as a perquisite in the hands of all employees. However, if the connection is taken in the name of employer then in such case it will be considered as a perquisite only in the hands of specified employee. The valuation will be as follows:

1. **If payment is made to agency supplying gas, electricity or water:** Sum equal to the amount so paid by the employer to the agency.
2. **If supply is made from resources owned by the employer:** Manufacturing cost per unit incurred by the employer.

Any amount paid by the employee in this regard shall be deducted from the value thus arrived.

Concessional educational facilities

Educational facilities will be considered a perquisite in the hands of all employees if the employer reimburses the expenses met by an employee to meet the educational expenses of his children. However, if the education facility is provided in the school maintained by the employer or in any school by reason of his being employment at free of cost or at a concessional rate, it would be perquisite in the hands of specified employees only. The valuation will be as follows:

1. **If the educational institution is owned by the employer:** Cost of such education in a similar institution in or near the locality. However, there would be no perquisite if the cost of such education or the value of such benefit per child does not exceed Rs. 1000 pm.

2. **If free educational facilities are allowed in any other educational institution by reason of his being in employment of that employer:** Same as 1 above
3. **Others:** Amount of expenditure incurred by the employer in that behalf.

Concessional tickets

It refers to any benefit or amenity provided by an employer who is engaged in the carriage of passengers or goods, to any employee or any member of his family for a private or personal journey at free of cost or at a concessional rate. The value of such a perquisite, shall be the value at which such benefit or amenity is offered by such employer to the public, provided if such amenity is provided in any conveyance owned, leased or made available by any other arrangement by such employer for the purpose of transport of passengers or goods. Any amount paid or recovered from the employee for such benefit shall be reduced from the value of the perquisite. However, there would be no such perquisite to employee of an airline or railways.

Fringe benefits

Fringe benefits provided to employee by employer are also considered as perquisites. Fringe benefits include:

1. Interest free or concessional loan for any purpose made available to employee or his family member during the PY
2. Travelling touring and accommodation
3. Free or concessional food and non-alcoholic beverages
4. Gift, voucher or token in lieu of such gift.
5. Credit card expenses
6. Club expenditure
7. Use of moveable assets
8. Transfer of moveable assets.
9. Other benefits or amenities

Illustration 3.1.5

Y Ltd. Provided the following perquisites to its employee Mr. F for the PY 2024-25:

1. Accommodation taken on lease by X Ltd. for Rs. 15000 pm. Rs. 5000 pm is recovered from the salary of Mr. F.
2. Furniture for which the hire charges paid by Y Ltd. is 3000 pm. No amount is recovered from the employee in respect of the same.
3. A car of 1200 cc which is owned by Y Ltd. and given to Mr. F to be used for both official and personal purposes. All running and maintenance expenses are fully met by the employer. He is also provided with a chauffeur.

Compute the value of perquisites chargeable to tax for the AY 2025-26, assuming his salary for perquisite valuation is Rs. 10 lakhs.

Solution

Computation of value of perquisites to tax in the hands of Mr. F the AY 2025-26			
Particulars	**Amount**	**Amount**	
Value of accommodation at concessional rate			
Actual amount of lease rental paid by Y. Ltd	180000		
10% of salary (10% of 1000000)	100000		
Least of the above		100000	
Less: Rent paid by Mr. F (5000 x 12)		**60000**	
		40000	
Add: Hire charges paid by Y Ltd. for furniture provided for the use of Mr. F (3000 x 12)		36000	76000
Perquisite value of car owned by Y Ltd. and provided to Mr. F f [(1800 + 900) x 12]			32400
Value of perquisites chargeable to tax			**108400**

Practical Problems

Illustration 3.1.6

Mr. Ramadas receives the following emoluments during the previous year ending 31.03.2025:

1. Basic pay – Rs. 400000
2. Dearness allowance – Rs. 150000
3. Commission – Rs. 100000
4. Entertainment allowance – Rs. 40000
5. Medical expenses reimbursed – Rs. 25000
6. Professional tax paid – Rs. 2000 (Rs. 1000 was paid by his employer)

Mr. Ramadas contributes Rs. 5000 towards recognised provident fund. He has no other income. determine the income from salary for AY 2025-26, if Mr. Ramadas is a state government employee.

Solution

Computation of salary of Mr. F the AY 2025-26	
Particulars	**Amount**
Basic pay	400000
Dearness allowance	150000
Commission	100000
Entertainment allowance received	40000

Employee's contribution to RPF	0
Medical expenses reimbursed	25000
Professional tax paid by employer	1000
Gross salary	**716000**
Less: Deduction u/s 16 (ia)	
Standard deduction upto 75000	75000
Income from salary	**641000**

Illustration 3.1.7

Mr. George, a resident of Agra receives 1,92,000 as basic salary during the year 2025-26. In addition, he gets 19,200 per annum as dearness allowance forming part of pay, 7% commission on sales made by him (sales made by Mr. George during the year 2025-26 was 86,000) and 24,000 per annum as house rent allowance. He pays 21,500 per annum as rent. Compute the house rent allowance exempt from tax.

Solution

Computation of Taxable HRA

1.	Actual HRA received	Rs.24,000
2.	Rent paid over 10% of salary (21,500-21,722)	Nil
3.	40% of salary (1,92,000+19,200+6,020)	Rs.86,888

Least is nil,

hence HRA is fully taxable (i.e Taxable HRA IS Rs.24,000)

Points to remember

1. Exemption for HRA is available only when the actual rent paid is more than 10% of salary.
2. Salary for HRA includes, D.A forming part of pay and fixed percentage of commission on sales target.

Illustration 3.1.8

Mr. Jose is now working at Cochin on a salary of Rs.6000 p.m. The employer allows him an HRA of Rs.600 p.m. However, the actual rent paid by the employee is Rs.800 p.m. Calculate his taxable HRA.

Solution

Computation of Taxable HRA

HRA actually received (600 * 12)	7200
Less : Exempted HRA u/s 10(13A) * see note below	2400
Taxable HRA	4800

Note : Calculation of exempted amount

1.	Actual HRA received	7200
2.	Rent paid – 10% of salary (9600- 7200)	2400
3.	40% of salary	28,800

Least amount of Rs.2400 is the exempted HRA.

Illustration 3.1.9

During the relevant previous year, Mr.Ravi, a bank employee who is now working at Calicut received Rs.1,50,000 as salary, Rs.30,000 as DA, Rs.5000 bonus and Rs.22500 as HRA. Determine the taxable amount of HRA if the actual rent paid by him for the house occupied by him during the year was Rs.45,000. Calculate his gross salary under normal provisions of the Act.

Solution

Salary		1,50,000
D A		30,000
Bonus		5,000
HRA Received	22,500	
Less : Exempted u/s 10(13A) * see note	22,500	nil
	Gross Salary	1,85,000

Note : Calculation of exempted amount of HRA

1.	Actual HRA Received	22,500
2.	Rent paid-10% of salary [45000 - 15 000]	30,000
3.	40% of salary [40% of 150000]	60,000
	Leat of 22500 is exempted	

3.1.2.18 Gratuity

Gratuity is a voluntary payment made by an employer in appreciation of services rendered by the employee. Nowadays, gratuity has become a normal payment, which is applicable to all employees. In fact, Payment of Gratuity Act, 1972 is a statutory recognition of the concept of gratuity. Almost all employers enter into an agreement with employees to pay gratuity.

3.1.2.18.1 Exemption is respect of gratuity [Section 10 (10)]

1. **Gratuity received during the service:** Gratuity received during the time of service is not exempted and is fully taxable.
2. **Gratuity received at the time of retirement/death:** Gratuity received at the time of retirement or death is treated as under:

a. *Received under the Pension Code or regulations applicable to members of the Defence Service/Employees of Central Government/Members of Civil Services/ local authority employees etc.:* In this case the gratuity received is fully exempt u/s 10 (10) (i).

b. *Other employees:* In case of other employees the provision regarding the exemption of gratuity is as under:

   i. *Covered under the Payment of Gratuity Act, 1972:* If the gratuity provided to other employees is covered under the Payment of Gratuity Act, 1972 the least of the following would be exempt u/s 10 (10)(ii):

      1. Rs. 20 lakhs.
      2. Actual gratuity received.
      3. 15 days' salary[1] (based on last drawn salary) for every completed year of service or part in excess of 6 months (No. of days in a month to be taken as 26)

   ii. *Not covered under the Payment of Gratuity Act, 1972[2]:* If the gratuity payed is not covered un the Payment of Gratuity Act, 1972 least of the following would be exempt u/s 10 (10) (iii):

      1. Rs. 20 lakh.
      2. Actual gratuity received.
      3. Half month salary[3] (based on average of last 10 months salary) for every completed year of service (fraction to be ignored).

Illustration 3.1.10

Mr. Kamal retired from service on 31.3.2026 after serving 34 years and 9 months. At the time of retirement his basic salary was 48,500 per month and D.A. 20,000 per month (not forming part of pay). He was also getting commission of ₹10,000 per month. At the time of retirement, he was paid death cum retirement gratuity 16,00,000.

Compute taxable amount of gratuity if Mr. Kamal is:

a. covered under the Gratuity Act of 1972;

b. not covered under the Gratuity Act of 1972;

c. a Government employee.

Answer. Computation of taxable amount of gratuity

a. If Mr. Kamal is covered under the Gratuity Act of 1972

i. Actual amount received	Rs. 16,00,000
ii. 15 days salary for each completed year of service or part thereof in excess of six months [(48,500+20,000) x (15/26) x 35]	Rs.13,83,173
iii. Statutory limit	Rs.20,00,000
Least Rs. 13,83,173 is exempt, taxable gratuity (16,00,00013 ,83,173)	Rs. 2,16,827

b. If Mr. Kamal is not covered under the Gratuity Act of 1972

i. Actual amount received	Rs.16,00,000
ii. Half month's salary for each completed year of service [48,500 x ½ x 34]	Rs.2,16,827
iii. Statutory limit	Rs.20,00,000
Least Rs**. 8,24,500** is exempt, hence taxable (16,00,000 - 8,24,500)	**Rs.7,75,500/-**

c. If Mr. Kamal is a Govt employee , Taxable gratuity is Nil

Points to remember

1. Dearness allowance is included in salary to determine exemption, only in the case of employees covered under "The Payment of Gratuity Act'.
2. DCRG is not taxable in the case of Government employees.

Illustration 3.1.11

Mr. Jithin retired on 15.6.2024 after completing 26 years and 8 months of service. He received a gratuity of Rs. 1500000. At the time of retirement, his salary was:

1. Basic salary – Rs. 50000 pm
2. Dearness allowance – Rs. 10000 pm (60% of which is for retirement benefits)
3. Commission – 1% of turnover (turnover in the last 12 months was Rs. 1200000)
4. Bonus – Rs. 25000 p.a.

Compute his taxable gratuity assuming that:

a. He is a private sector employee and covered by the Payment of Gratuity Act, 1972.

b. He is private sector employee and not covered by Payment of Gratuity Act, 1972.

c. He is a Government employee.

Solution

a. He is a private sector employee and covered by the Payment of Gratuity Act, 1972.

Gratuity received at the time of retirement		1500000
Less: Exemption u/s 10 (10)		
Least of the following:		
- Gratuity received	1500000	
- Statutory limit	2000000	
- 15 days' salary $\left(\frac{15}{26} \times (50000 + 10000) \times 27\right)$	934615	934615
Taxable gratuity		**565385**

b. He is a private sector employee not covered by the Payment of Gratuity Act, 1972.

Gratuity received at the time of retirement	1500000
Less: Exemption u/s 10 (10)	858000
Taxable gratuity	**642000**

Note: Calculating exemption u/s 10 (10):

When employee is not covered by the Payment of Gratuity Act, 1972 the least of the following will be exemt u/s 10 (10):

◊ Gratuity received: Rs. 1500000

◊ Statutory limit: Rs. 2000000

◊ Half month's salary based on average salary of last 10 months preceeding the month of retirement for each completed year of service

$$\left(\frac{1}{2} \times \frac{[(50000 \times 10) + (60\% \times 10) + \left(1\% \times 1200000 \times \frac{10}{12}\right)]}{10} \times 26\right) = Rs. 858000$$

c. He is a government employee

Gratuity received at the time of retirement	1500000
Less: Exemption u/s 10 (10)	1500000
Taxable gratuity	**Nil**

3.1.2.19 Provident Fund

Provident fund had been discussed in Unit 3. Here we will discuss about the accumulated balance due and becoming payable to an employee.

1. As per section 10 (11), any payment from a Provident Fund (PF) account to which Provident Fund Act, 1925, applies would be exempt. Payment from Public Provident Fund will also be exempt.

2. Accumulated balance due and payable to an employee participating in RPF would be exempt u/s 10 (12).

However, the exemption under section 10 (11) or 10 (12) would not be available in respect of income by way of interest accrued during previous year to the extent it relates to the amount or the aggregate of amounts of contribution made by that person/ employee exceeding Rs. 2500000 in any previous year in that fund, on or after 1st April, 2021.

Illustration 3.1.12

Mr. X retires from service on December 31, 2024 after 25 years of service. Following are the particulars of his income/investments for the previous year 2024-25:

1. Basic pay @ Rs. 16000 per month for 9 months – 144000
2. Dearness pay (50% form part of the retirement benefit) Rs. 8000 per month for 9 months – 72000
3. Lumpsum payment received from the Unrecognised provident Fund – 600000
4. Deposits in the PPF account – 40000

Out of the amount received from the unrecognised provident fund, the employer's contribution was Rs. 220000 and the interest thereon Rs. 50000. The employee's contribution was Rs. 270000 and the interest thereon Rs. 60000. What is the taxable portion of the amount received from the unrecognised provident fund in the hands of Mr. A for the assessment year 2025-26?

Solution

Taxable portion of amount received from the URPF for AY 2025-26 is computed as follows:

Amount taxable under the head salaries:	
Employer's share in the payment received from the URPF	220000
Interest on the employer's share	50000
Total	270000
Amount taxable under the head "Income from other source":	
Interest on the employee's share	60000
Total amount taxable from the amount received from the fund	**330000**

3.1.2.20 Pension

Pension is a periodic payment made especially by Government or a company or other employers to the employee in consideration of past service payable after his retirement. Such payments can of two types:

1. **Uncommunted pension:** Uncommuted pension means pension received periodically, which is fully taxable in the hands of both government and non-government employees.

2. **Commuted pension:** Commutation means inter-change. Thus, commuted pension refer to lump sum amount taken by commuting the whole or part of the pension. Many persons convert their future right to receive pension into a lumpsum amount receivable immeadiately.

For example, suppose a person is entitled to receive a pension of Rs. 10000 pm for the rest of his life. He may commute 1/4th i.e., 25% of this amount and get a lumpsum of Rs. 150000. After commutation, his pension will now be the balance 75% of Rs. 10000 pm ie. Rs. 7500 pm.

Exemption in respect of commuted pension [Section 10 (10A)]

Commuted pension is exempt from tax subject to the specific conditions, and the treatment of the same is described below:

1. For employees of Central govt./local authorities/statutory corporation/member of civil services/defence services the amount of commuted pension is fully exempt u/s 10 (10A) (i).
2. For other employees, if the employee is in receipt of gratuity, the following will be exempt from tax u/s 10 (10A) (ii) (a):

$$\frac{1}{3} \times (Commuted\ pension\ recieved\ \div commutation\ \%)\ \times 100$$

In the case of uncommuted pension, the amount is fully taxable. However, if the employee does not receive any gratuity, the following will be exempt u/s 10 (10A) (ii) (b):

$$\frac{1}{2} \times (Commuted\ pension\ recieved\ \div commutation\ \%)\ \times 100$$

Illustration 3.1.13

Mr. Sagar who retired on 1.10.2024 is receiving Rs. 5000 pm as pension. On 1.2.2025, he commuted 60% of his pension and received Rs. 300000 as commuted pension. You are required to compute his taxable pension assuming that:

1. He is a government employee.
2. He is a private sector employee and received gratuity of Rs. 500000 at the time of retirement.
3. He is a private sector employee and did not receive any gratuity at the time of retirement.

Solution

1. Assuming he is a government employee

Uncommuted pension received (October to March) [(5000 x 4months) + (40% of 5000 x 2 months)]		24000
Commuted pension received	300000	

Less: Exemption u/s 10 (10A)	300000	Nil
Taxable pension		**24000**

2. Assuming that he is private employe in receipt of gratuity Rs. 500000 at retirement

Uncommuted pension received (October to March) [(5000 x 4months) + (40% of 5000 x 2 months)]		24000
Commuted pension received	300000	
Less: Exemption u/s 10 (10A) $\left(\frac{1}{3} \times \frac{300000}{60\%} \times 100\%\right)$	166667	133333
Taxable pension		**157333**

3. Assuming he is a private employee and did not receive any gratuity at retirement

Uncommuted pension received (October to March) [(5000 x 4months) + (40% of 5000 x 2 months)]		24000
Commuted pension received	300000	
Less: Exemption u/s 10 (10A) $\left(\frac{1}{2} \times \frac{300000}{60\%} \times 100\%\right)$	250000	50000
Taxable pension		**74000**

Illustration 3.1.14

Mr. Das received voluntary retirement compensation of Rs. 700000 after 30 years and 4 months of service. He still has 6 years of service left. At the time of voluntary retirement he was drawing a basic salary of Rs. 20000 pm and dearness allowance (which forms part of pay) Rs. 5000 pm. Compute his taxable voluntary retirement compensation, assuming that he does not claim any relief under section 89.

Solution

Voluntary retirement compensation received	700000
Less: Exemption under section 10 (10C)	500000
Taxable voluntary retirement compensation	**200000**

Calculating the extent of exemption

The exemption under section 10 (10C) will be the least of the following:

1. compensation actually received – Rs. 700000
2. statutory limit – Rs. 500000
3. 3 months' salary × completed years of service [(20000 ÷ 5000) × 3 × 30 years] – R.s 2250000
4. Last drawn salary × remaining months of service left [(20000 ÷ 5000) × 6 × 12 months] – Rs.1800000

3.1.2.21 Retrenchment compensation [Section 10 (10B)]

The retrenchment compensation means the compensation paid under Industrial Disputes Act, 1947 or under any 'Act', 'Rule', 'Order' or 'Notification' issued under any law. It also includes compensation paid on transfer of employment under section 25F or closing down of an undertaking under section 25FF of the Industrial Disputes Act, 1947.

Encashment of earned leave or leave salary

Generally, employees are allowed to take leave during the period of service. Employees may avail such leave or in case the leave is not availed, the leave may either get lapse or be accumulated for future or allowed to be encashed every year or at the time of termination/retirement. The payment on account of encashment of unveiled leave would be part of the salary. However, section 10 (10AA) provides exemption in respect of amount received by way of encashment of unutilised earned leave by an employee at the time of his retirement, whether on superannuation or otherwise.

Exemption of amount received by way of encashment of leave

1. Encashment during service : It is taxable in full and is to be included under the head salaries.
2. Encashment after retirement : Exemption in the case of earned leave is only given only when the encashment of earned leave is done by the employee at the time of retirement or his resignation.
   a. Government Employees: The entire amount of leave salary received at the time of retirement from service on superannuation or otherwise, is fully exempt.
   b. In the case of non govt employees, the exempted amount of leave salary will be the lowest of the following amount u/s 10 (10AA) (ii):
      ◊ Rs. 2500000
      ◊ Leave salary actually received
      ◊ 10 months' salary (on the basis of average salary of last 10 months preceding retirement)
      ◊ Cash equivalent of unavailed leave (based on last 10 months average salary) to his credit at the time of retirement. Earned leave entitlement cannot exceed 30 days for every year of actual service rendered for the employer whose service he has retired.

Here salary = Basic salary + DA (if given under the terms of employment) + commission based upon a fixed percentage of turnover achieved by the employee.

Illustration 3.1.15

Mr. Vineeth was employed in a company. He took voluntary retirement on 1st December 2023 after completing 25 years of service. On 1st January 2023 his salary was Rs.4,000/- p.m. after adding the annual increment. The total leave availed during service is 10 months and actual amount received is Rs.1,60,000 on encashment. Compute the amount exempt regarding encashment on earned leave?

Solution

Least of the following is exempted:

i.	Cash equivalent of leave due	15*4000	60,000
ii.	10 months average salary		40,000
iii.	Maximum exemption limit		25,00,000
iv.	Actual amount received		1,60,000

So exempted salary is Rs.40,000.

Note: total leave available = 25 *1 = 25 months

Leave availed = 10 months

Leave on credit = 15 months

Illustration 3.1.16

Mr.Ravisankar retires on 31.10.2023 after 20 years of service and he received Rs.1,80,000/- as leave encashment for 12months . His employer allows him 1&1/2 months of leave for every one year of service. He has already availed leave for 18months. His salary for 2022-2023 was 15000 and from 1.4.2023 it was raised to 16000 p.m. compute the taxable amount of leave encashment.

Solution

Total leave available = 20 * 1.5 = 30 months

Leave availed = 18 months.

Leave due = 12 months (i.e, 30 -18 =12)

Calculation of 10 months average salary

1. Salary from 01-04-2023 to 31-10-2023 = 16000 * 7 = 1,12,000
2. Salary from 01-01-2023 to 31-03-2023 = 15000 * 3 = 45,000

Total salary for 10 months = 112000+45000 = 1,57,000

Average Salary = 1,57,000 /10 = 15,700

Least of the following is exempted :

1.	Cash equivalent of leave due	12 * 15700	= 1,88,400
2.	10 months average salary	15700 *10	= 15,7000
3.	Maximum exemption limit		= 25,00,000
4.	Actual amount received		= 1,80,000

Therefor exempted salary is Rs.1,57,000

Taxable amount of salary = 1,80,000 - 1,57,000 = Rs. 23,000

Illustration 3.1.17

Compute the income from salary of Mr. Justin from the following particulrs for the year ended 31.03.2025:

1. He retired on 31.12.2024 at the age of 60, after 25 years and 9 months of service from a private company at Kochi.
2. He was paid a salary of Rs.25000 pm and house rent allowance of Rs.6000 pm. He paid rent of Rs.6500 pm, during his tenure of service.
3. On retirement, he was paid a gratuity of Rs.350000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.
4. He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of Rs.315000 was received by him in this regard. Employer allowed 30 days leave per annum
5. He is receiving Rs.5000 as pension. On 1.2.2025, he commuted 60% of his pension and received Rs.300000 as commuted pension.
6. The company presented him with a gift voucher of Rs.5000 on the retirement. His colleagues also gifted him a mobile phone worth Rs.50000 from their own contribution.

Solution

Computation income under the head salaries of Mr. Justing for the AY 2025-26		
Particulars	**Amount**	**Amount**
Basic Salary – Rs.25000 × 9months		225000
House Rent allowance	54000	
Less: Exemption	36000	18000
Gratuity	350000	
Less: Exemption	350000	Nil
Leave encashment	315000	
Less:Exemption	250000	65000
Uncommuted pension [(5000 x 1) + (5000 x 2 x 40%)]		9000
Commuted pension	300000	
Less: exemption	166667	133333
Gift voucher		Nil
Mobile phone received as gift from colleagues		Nil

Gross salary		450333
Less: Standard deduction		75000
Income from salary		**375333**

Working Notes:

Exemption on HRA: Least of the following

1. HRA received 54000
2. Actualy rent paid in excess of 10 % of salary [(6500 x 9) – 10% of 225000] – 36000
3. 40% of salary – 90000

Exemption gratuity: Least of the following

1. Actual gratuity received Rs. 350000
2. 15 days salary for every year of completed service [15/26 x 25000 x 26] – Rs.375000
3. Notified limit Rs.2000000

Exemption of leave encashment: Least of the following

1. 2500000
2. Leave salay actually received Rs.315000
3. Rs.250000 being 10 months' salary x Rs.25000
4. Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months 374/30 x 25000 – Rs.312500

[Leave due = Leave allowed – Leave taken] = 750 (30 days per year x 25 years) – 375 days (15 days x 25)

= 375 days]

3.1.3 Income from House Property

House Property

Income arising from any property, being building or land appurtenant thereto, is taxable under the head "Income from House Property" .Properties are categorised as let-out, self -occupied , or deemed let out, and their income is computed based on annual value ,considering factors such as municipal valuation ,fair rent and actual rent. The annual value of upto two self-occupied properties can be considered nil under specific conditions.

Example: Mr. X has one big house. It includes vast open area within its boundaries. The house has been let out at a rent of Rs. 1,00,000 p.m., out of which rent of Rs. 25,000 p.m. is attributable to the open land. In this case, entire rental income is taxable under the head house property.

Essential conditions for taxing income under this head

Income from house property is taxable in the hands of its legal owner in whose name the property stands. ''Owner'' for this purpose means a person who can exercise the rights of the owner not on behalf of the owner but in his own right. A person entitled to receive income from a property in his own right is to be treated as its owner, even if no registered document is executed in his name.

Chargeabilty of Income

The following three conditions must be satisfied before the income of the property can be taxed under the head "Income from House Property":

- ◊ The property must consist of buildings and lands appurtenant thereto;
- ◊ The assessee must be the owner of such house property;
- ◊ The property may be used for any purpose, but it should not be used by the owner for the purpose of any business or profession carried on by him, the profit of which is chargeable to tax. If the property is used for own business or profession, it shall not be chargeable to tax. Ownership includes both free-hold and lease-hold rights and also includes deemed ownership.

Exemptions and Reliefs

- ◊ **Income from farm building** (section 2 (1A) (c) : Any income derived from farm building shall be considered as agriculture income ,and consequently exempt tax.
- ◊ **Agricultural Income** (Section 2(1 A)Income from farm buildings near agricultural land is exempted.
- ◊ **Trust Property** (section 11); Income applied for religious or charitable purposes is exempted.
- ◊ **Ex Rulers Palace** (section 10 (19 A))One Palace of a former ruler is exempted.
- ◊ **Local Authorities** (Section 10 (20) Exemptions for income chargeable under this head.
- ◊ **Educational/Medical Instituitions (**section 10(23 C) **)**
- ◊ **Registered Trade Union** (Section 10 (24))
- ◊ **Self- Occupied Properties (**Section 23 (2)) Annual Value of Up to two properties is nil.
- ◊ **Co-operative Societies** (Section 80 P) Eligible deductions for income from specific operations.

Unrealized Rent

According to the income tax act provisions, if the tenant has not paid the rent due to any reason, it is allowed as a deduction for computing income from house property as unrealized rent. Thus, unrealized rent is the rent that the owner cannot realize from the tenant and the amount of deduction is equal to the amount of rent payable. In our example, if rent is Rs 25,000 per month, unrealized rent for three months = 25,000x3=Rs 75,000.

◊ on the interest paid before the construction or purchase is completed, in 5 equal instalments, from the year in which the house is bought or the construction is completed.

◊ If the loan is taken for renovation or reconstruction of a house, you cannot claim tax exemption until the renovation is completed.

Municipal taxes

Deduction in respect of property taxes is permissible only in the following cases

a. It should be borne by the assessee

b. It should be actually paid during the previous year.

If property taxes levied by a local authority for a particular previous year are not paid during that year, no deduction shall be allowed. However, in later year, if the entire arrears are paid, then actual amount paid during such later year shall be fully allowed as deduction.

Fair Rent

Fair rent means rent which similar property in the same locality would fetch. But if municipal valuation is also available, then municipal valuation or the rent which similar property in the same locality would fetch, whichever is higher shall be taken as fair rent.

Gross Annual Value

Generally fair rent is adopted as Gross Annual Value.

Determination of Annual Value u/s 23

Step – 1 : Compare F.R with M.V – Take Higher as F.R

Step - 2 : Compare F.R. of Step 1 with S.R. – Take Lower as F.R.

Step – 3 : Compare F.R. of Step 2 with A.R. – Take Higher as Annual Value (i.e. Gross Annual Value)

F. R. - Fair rent

M. V. - Municipal Valuation

A. R. – Actual Rent

S. R. – Standard Rent

Determination of Income from House Property

Gross Annual Value	*******
Less: Municipal Taxes	*******
Net Annual Value	*******
Less: Deduction under section 24	
Standard Deduction (@30%)	*******
Interest on borrowed capital	*******
Income from House Property	*******

Illustration 3.1.18

From the following information compute the income from house property of Mr. Sakkeer Hussain for the financial year 2025-26.

Municipal valuation 1,50,000

Fair rental value 1,80,000

Standard rent 1,60,000

Actual rent receivable 20,000 per month

Municipal taxes 4%, half of which is paid by Mr. Sakkeer Hussain and the other half paid by the tenant. Unrealised rent admissible 25,000. Interest on loan taken for repairing the property 40,000.

Solution

Computation of income from house property of Mr. Felix

Gross annual value		2,40,0000
Less: Municipal taxes paid during the previous year	3000	
Unrealised rent	25,000	28,000
Annual Value		2,12,000
Less: Standard deduction 30% of A.V	63,600	
Interest on loan for repairing	40 000	1,03,600
Income from house property		1,08,400

Points to remember

1. When the actual rent is the highest, it is the gross annual value.
2. Municipal taxes paid by the tenant cannot be deducted.
3. Interest on loan for repairing the let out house is deductible without limit.

Illustration 3.1.19

Determine the income from house property in the following case for the year 2025-26 month. The let out portion remained vacant for three months. Further, the tenant did not Two third portion of the house is self occupied and one third is let out for 10.000 per pay one month rent but he is still residing in the house. Municipal tax ₹3,000 was paid during the year, which is 1% of municipal valuation. Interest on loan taken in 2019 for construction of the house, 1,20,000 was due but not paid till 31.3.2026.

Answer

Computation of income from house property (P.Y. 2025-26)

1. GAV of let out portion (1,20,000-30,000)		90,0000
Less: Municipal taxes (1/3)		1,000
Annual value		89,000
Less: Standard deduction u/s 24 (30% of A.V)	26,700	
Interest on loan (1/3)	40,000	66,700
Income from let out portion		22,300

2. GAV of self occupied portion		Nil
Less: Municipal taxes (Not deductible)		Nil
Annual value		Nil
Less: Standard deduction	Nil	
Interest on loan (2/3)	80,000	80,000
Loss from self occupied portion		
Loss from house property	(80,000-22,300)	57,700

Note: GAV of let out portion, actual rent or 1/3 of 3,00,000 whichever is higher.

Points to remember

1. Unrealised rent cannot be deducted when the tenant is residing in the house
2. Interest on loan is deductible on due basis.
3. Municipal taxes in respect of the self occupied house is not deductible.

Illusttration 3.1.20

MR. A has a house in Bangalore, which is let out. (Standard Rent fixed)

Its Municipal Value = Rs 1,08,000 p.a and Fair Rent = Rs 1,20,000 p.a and the Standard Rent is Rs 1,02,000. Compute the Expected Rent.

Solution

Particulars	Amount (RS)
a. Municipal Value	1,08,000
b. Fair Rent	1,20,000
c. Between a and b whichever is higher	**1,20,000**
d. Standard Rent	1,02,000
e. Between c and d Which ever is lower = Expected Rent	**1,02,000**

Illustration 3.1.21

Calculate the Expected Rent from the following details . ((Standard Rent not fixed)

Particulars	Situation A(Rs)
Municipal Value	1,20,000
Fair Rent	1,50,000
Standard Rent	Not Available

Solution

Table Showing the Computation of Expected Rental Value

Particulars	Amount(Rs)
Municipal Value	1,20,000
Fair Rent	1,50,000
Expected Rent is (Muncipal Value or Fair Rent whichever is higher)	1,50,000

3.1.4 Profits and Gains From Business and Profession

Income from business or profession is taxable under the head “Profits and gains of Business or profession” (PGBP) as per chapter IV ,part D of the Income –tax Act 1961. The business income shall be computed in accordance with the method of accounting regularly followed by the tax payer. For the purpose of computation of business income, a tax payer can follow either mercantile system of accounting or cash basis of accounting.

Business

The term business means an economic activity of purchase and sale or manufacturing of a commodity with the prime motive of making a profit. Section 2 (3) defines business as “any trade, commerce, manufacture, or any adventure like trade, commerce or manufacture”.

Profession

The profession is an economic activity carried out for earning a livelihood and which employs the intellectual skills and/or manual skills of the person practicing it. Such professions include activities, such as lawyer, doctor, author, engineer, chartered accountant, etc. The profession also includes Vocation, which means any activity, such as singing, dancing, etc. if it is done for an income.

Chargebility under head Profits and gains of business or profession

Following are the income chargeable to income tax under the head Profits and gains of business or profession.

1. Income of business or profession: any profit or gain on account of the business or profession carried out by the assessee during the previous year is taxable whether it is from India or outside India.
2. Any compensation received:
    - ◊ any compensation received on termination of a managing agency of an Indian company:
    - ◊ any compensation received on termination of managing agency of a foreign company:
    - ◊ any compensation received on termination of any agency or modification of terms of agency
    - ◊ any compensation received from the government or a corporation on taking over of management of property or business:
3. Income of a trade association: A trade association is a non-profit voluntary organisation of business competitors operating in the same line of business. The object of such an organisation is to protect the interests of the members. Income derived from a trade organisation from specific services performed for the members is considered the income from the business.
4. Profits on sale of license: In case any license granted under import order, 1955 or under Export Control Act 1947, is sold, the income from such sale is taxable under this head.
5. Cash assistance: In any case, the subsidy received by any person against export under any scheme of the government of India is taxable under this head.
6. Any drawback of duty of customs or excise: In case any amount is repaid or is repayable as a drawback to any person against export under the customs and central excise duties drawback duty rules 1971 is treated as business income.
7. Value of any benefit and perquisite: In case any benefit or amenity is received by a person who is carrying on any business or profession, the value of such benefit or amenity is taxable under this head.

8. Salary, bonus, commission or remuneration received by a partner from a partnership firm and allowed as deduction under section 40b is taxable under this head.
9. security interest: Any interest received from an investment, if the assessee's business is to carry out investment, then such interest income is taxable under this head. Otherwise, the interest income is taxable under the head income from the other sources.
10. Income from speculation: Speculation means trading on differences in prices without any physical delivery. Speculation loss or gain is covered under this head separately.
11. Profit from illegal business: Income may be earned from legal or illegal business. In the case of a person carrying on any smuggling business, the income of such business shall be taxable under this head. Any expenditure incurred by an assessee for any purpose which is an offence or which is prohibited by any law, shall not be allowed to be deducted from any income of business.

Important rules regarding Assessment

The following are the important rules regarding business income or professional income

1. Business carried on by assessee : - Business or profession must be carried on by the assessee in the relevant previous year.it is immaterial whether the assessee is doing the business or work himself or through some of his employees or agents.
2. Tax is charged on aggregate income from all business or professions
3. Speculation business: - Profit or loss on speculation business carried on by assessee is to be kept separately. Loss incurred in speculation business can be set off only against speculation profit and not against other business profit.

Speculative Business

A speculative business arises from speculative transactions ,which are settled otherwise than through actual delivery. Such transactions are deemed speculative business under Income tax Act. It is defined as contracts for the purchase or sale of any commodities ,including stocks and shares ,that are periodically or ultimately settled other than by actual delivery or transfer of the commodity or scrips. If the intention of the parties is immaterial; It is the method of settlement that determines the speculative nature.

Transactions not deemed to be speculative transactions

The following forms of transactions shall not be deemed to be speculative transactions:

1. Hedging contract in respect of raw materials or merchandise.
2. Hedging contract in respect of stocks and shares.
3. Forward contract.

4. Trading in derivatives.
5. Trading in commodity derivatives.
6. Jobbing or Arbitrage by exchange Members.

Conditions for Exclusions

◊ Transactions must occur in recognized stock exchanges fulfilling Rule 6DDA (Shares) or Rule 6DDC (Commodities)

◊ Contract notes must include clients identity ,P A N, and be time stamped

Deductions expressly disallowed

The following expenses are expressly disallowed as per Income tax Act:

1. Expenditure on advertisement in any souvenir, etc. published by a political party.
2. Payment out of India or within India to a non-resident or a foreign company on which tax is deductible at source, but tax has not been deducted or after deduction the same has not been paid.
3. Any payment to residents on which tax is deductible at source, but tax has not been deducted or after deduction, has not been paid. In this case, only 30% of such payment shall be disallowed.
4. Income Tax paid.
5. Salaries payable outside India or to a non-resident on which tax has not been deducted at source or after deduction the same has not been paid.
6. Tax paid by the employer voluntarily on the value of perquisites provided to employees.

Illustration 3.1.22

Following is the profit and loss account of M/S Prabath & sons.

Items	Amount	Items	Amount
To salaries	14,600	By G/P	1,35,000
To Household expenses	2,000		
To Income tax	900		
To business exp	2,200		
To Gifts	900		
To LIC premium	2100		
To Bad debts reserve	800		
To N.P	1,11,500		

Find out taxable income from business?

Solution

Computation of Income from Business for the A.Y.2025-26.

Profit as per P&L a/c		1,11,500
Add : expense disallowed:		
Household expenses	2,000	
Income tax	900	
Gifts	900	
LIC premium	2100	
Bad debts reserve	800	6,700
Income from business		1,18,200

Illustration 3.1.23

From the following P/L A/c calculate income from business

To Rent	45,000	By Gross Profit	3,80,000
To Salary To Employees	60,000	By House Property Income	1,50,000
To Depreciation	8,000	By Income From Other Sources	2,50,000
To Donation	11,400		
To Net Profit	**6,55,600**		
	7,80,000		7,80,000

1. Depreciation To Be Allowed As Per Income Tax Provision Rs. 6500
2. Business Income Of Rs. 10000 Is Not Shown In The P/L A/C
3. Rs. 5000 Rent Includes Personal Expenditure

Solution

Calculation of income from business

Net Profit As Per P/L A/C		**6,55,600**
Add: Expenses Debited But Disallowed		
a) To Donation	**11,400**	
2. Depreciation	**8,000**	
3. Personal Rent	**5000**	**24,400**
Less: Expressly Allowed Expenses		**6,80,000**
1) Depreciation As Per IT Act		**6,500**
Add: Income to be considered but not credited		**6,73,500**
1) Business Income Not Shown In P/L A/C		**10,000**
Less : Income Credited But Considered Separately		**6,83,500**
1) House Property Income	**1,50,000**	
2) Income From Other Sources	**2,50,000**	**4,00,000**
Taxable Income From Business		**2,83,500**

3.1.5 Capital Gains

Capital gains under Income tax Act ,2025 (Which came into force on April .2026) are governed primarily by section 67,reorganizing the older I T Act of 1961 frame work into a simplified structure. Income from Capital gain is the fourth head of income, taxable under the Income Tax act. Section 45 to 55 of Income Tax Act 1961 deals with capital gain. Capital gain is concerned with the transfer of capital asset. Profit or gains arising from the transfer of a capital asset made in a previous year is taxable under the head " Capital Gains". The tax levied on the profit or gain earned on selling capital assets is called capital gain tax.

Capital gains, a crucial aspect of income tax, arise from the profit generated when a capital asset is sold or transferred. These assets can range from stocks and bonds to real estate and jewellery. Understanding capital gains is essential for effective financial planning and tax compliance.

The taxation of capital gains is structured to differentiate between short-term and long-term gains, each with distinct tax implications. Short-term capital gains, derived from assets held for a shorter duration, are generally taxed at the taxpayer's regular income tax rates. Long-term capital gains, resulting from assets held for a longer period, often benefit from lower tax rates, incentivizing long-term investments.

Basis of charge

The basis of charge is the profits or gains arising from the transfer of capital asset in the previous year. It is taxable under the head capital gains. Capital gains shall be chargeable to tax if the following conditions are satisfied: -

1. There should be a capital asset. In other words, the asset transferred should be a capital asset on the date of transfer.
2. It should be transferred by the tax payer during the previous year.
3. There should be profit or gain as a result of transfer

Capital assets under the new act continue to include

a. Land and building,residential and commercial

b. Flats ,plots and other immovable property

c. Listed shares and units of mutual funds and E T Fs

d. Unlisted shares ,debentures bonds and A I F units

e. Gold ,Jewellery ,gold ETFs, REITs, In VITs and similar investments

If you sell for less than your total cost ,the difference is a capital loss. That loss has its own rulesand set off and carry forwards which was discussed in Block 2 unit 1.The concepts are the same as under the old act 1961 Act: Only sections and wording are re-organised in the 2025Act.

Capital assets maybe movable or immovable, tangible or intangible, fixed or floating. Capital asset includes land, building, plant, machinery, investments, goodwill, leasehold rights, jewellery, shares, a manufacturing license etc.Property includes any rights in, or in relation to an Indian company including rights of management or control or any other rights whatsoever.Business undertaking is a capital asset. Gains on transfer of business undertaking are assessable as Capital gains. However, it does not include

i. Stock-in trade : Any stock-in-trade consumable stores or raw materials held for the purpose of business or profession of the assesse;

ii. Personal effects : Personal effects, that is to say, movable property (including wearing apparel and furniture) held for personal use by the assesse or any member of his family dependent on him.

Exception :

(a) Jewellery for personal use (b) Archaeological collections; (c) Drawings;

(d) Paintings; (e) Sculptures (f) Any work of art. (g) Jewellery for personal use

iii. **Rural agricultural land in India** : Agricultural land in India which is not situated in any specified area. As per the definition, only rural agricultural lands in India are excluded from the purview of the term 'capital asset'. Hence urban agricultural lands constitute capital assets

Types of capital assets

Capital assets are divided into two categories

◊ Short term capital assets
◊ Long term capital assets

Short term capital assets

As per section 2(42A), short-term capital asset means a capital asset held by an assessee for not more than 36 months immediately preceding the date of its transfer. However, w.e.f. 23.7.2024, a capital asset will be a short-term capital asset if it is held by an assessee for not more than 24 months immediately preceding the date of its transfer. Capital gains arising from the transfer of short term capital assets is called short term capital gain.

Long-term capital asset

As per section 2(29A), long-term capital asset means a capital asset which is not a short-term capital asset. Any capital asset held by the tax payer for a period of more than 36 months immediately preceding the date of its transfer will be treated as long term capital asset.

Capital Asset Classification Based on Holding Period

Before 23.07.2024

◊ **Short-Term Capital Gain (STCG):** If held for a period *less than or equal to* the mentioned timeframe.
◊ **Long-Term Capital Gain (LTCG):** If held for a period *greater than* the mentioned timeframe.

Type of Capital Asset	STCG if held for	LTCG if held for
Security (other than unit) listed on a recognized stock exchange	$\leq$ 12 months	> 12 months
Unit of equity-oriented fund/unit of UTI	$\leq$ 12 months	> 12 months
Zero Coupon bond	$\leq$ 12 months	> 12 months
Unlisted shares	$\leq$ 24 months	> 24 months
Land or building or both	$\leq$ 24 months	> 24 months
Unlisted securities other than shares	$\leq$ 36 months	> 36 months
Other capital assets	$\leq$ 36 months	> 36 months

On or After 23.07.2024

◊ **Short-Term Capital Gain (STCG):** If held for a period *less than or equal to* the mentioned timeframe.

◊ **Long-Term Capital Gain (LTCG):** If held for a period *greater than* the mentioned timeframe.

Type of Capital Asset	STCG if held for	LTCG if held for
Security listed on a recognized stock exchange	≤ 12 months	> 12 months
Unit of equity-oriented fund/unit of UTI	≤ 12 months	> 12 months
Zero Coupon bond	≤ 12 months	> 12 months

Transfer of capital asset [Sec. 2(47)]

The term transfer of capital asset refers to the process by which ownership or rights over a capital asset are shifted from one party to another. "Transfer" in relation to a capital asset includes:

i. the sale, exchange or relinquishment of the asset; or

ii. the extinguishment of any rights therein, or

iii. its compulsory acquisition under any law, or

iv. where the asset is converted by the owner into stock-in-trade of a business carried on by him; or

(iva) the maturity or redemption of a zero-coupon bond; or

v. conversion of a business into a limited company; or

vi. any transaction involving the allowing of the possession of any immovable property to be taken or retained in part performance of a contract of the nature referred to in the Transfer of Property Act, 1982, or

vii. any transaction (whether by way of becoming a member of, or acquiring shares in a co-operative society, a company, etc.) which has the effect of transferring the enjoyment of any immovable property.

Computation of capital gains (Sec.48)

The income chargeable under the head 'Capital Gains' shall be computed as below

a. Computation of short-term capital gains

Deduct the following amounts from the full value of the consideration received or accruing as a result of the transfer of the capital asset

i. the cost of acquisition of the capital asset;

ii. the cost of any improvement thereto; and

The cost of acquisition of the asset or the cost of improvement thereto shall not include the deductions claimed on the amount of interest u/s 24(b) or under the provisions of chapter VIA

iii. expenditure incurred wholly and exclusively in connection with such transfer.

This may be explained in the form of equation as under:

Capital Gains = Full value of consideration - (Cost of acquisition+ Cost of improvement + Selling Expenses)

b. Computation of long-term capital gains

Deduct the following amounts from the full value of the consideration received or accruing as a result of the transfer of the capital asset

i. indexed cost of acquisition of the asset;

ii. indexed cost of any improvement of the asset; and

iii. expenditure incurred wholly and exclusively in connection with transfer of the asset. However, the amount paid as securities transaction tax shall not be allowed as a deduction.

Cost of Acquisition

Cost of acquisition of an asset is the value for which it is acquired by the assessee. It means that whatever cost is incurred for getting an asset plus all expenses incurred to acquire it is the cost of acquisition. Interest paid on money borrowed for the purchase of a capital asset would constitute part of the cost of acquisition, provided such interest has not been deducted under any other provision. Similarly, if any loan has been taken to purchase a plot, the interest paid or payable on such loan, till the building is constructed on the plot, shall be included in the cost of land. However, in the following cases the above meaning of cost of acquisition does not hold good and cost of acquisition is taken as a notional figure.

1. Cost to the previous owner

In certain cases, the assessee might not have incurred any cost to acquire the asset. In such cases the cost incurred to the previous owner to acquire the asset will be the cost of acquisition. The following are the cases in which the cost incurred to the previous owner is taken as the cost of acquisition.

◊ In the case of an asset distributed as a result of partition of a Hindu Undivided Family,

◊ When the assessee acquires an asset under a gift or as per a will,

◊ When the assessee acquires an asset by succession, inheritance or devolution,

◊ When assets are distributed as a result of dissolution of a partnership firm, body of individuals or association of persons where the dissolution happened before 1.1.1987,

- ◊ When assets are distributed as a result of liquidation of a company,
- ◊ When the asset is acquired under a transfer to a revocable or an irrevocable trust,
- ◊ On the transfer of an asset by a parent company to its Indian subsidiary company which is wholly owned by the parent company,
- ◊ On the transfer of an asset by a subsidiary company to its Indian holding company which owns the whole of the shares of the subsidiary company,
- ◊ On the transfer of capital asset by the amalgamating company to the amalgamated company, if the amalgamated company is an Indian company,
- ◊ On the transfer of shares of an Indian company by the amalgamating foreign company to the amalgamated foreign company,

2. Cost of Share or Security

Where share or security was acquired before 1st April, 2001, the cost of acquisition will be taken the actual cost or fair market value on 1st April, 2001, whichever is beneficial to the assessee. If it is acquired after 31st March, 2001, the actual cost will be the cost of acquisition.

3. Cost of Bonus Shares

The cost of bonus shares or security which is received by the assessee without any payment on the basis of his holding any financial asset will be as under

i. Where bonus share or security was received prior to 1st April, 2001, the fair market value on 1st April, 2001;

ii. In any other case-Nil

Cost of improvement

The cost of improvement means all expenditure of a capital nature incurred in making additions or alterations to the capital asset. It includes all those expenditures, which are incurred to increase the value of the capital asset.

Cost of transfer

Expenses from sale proceeds from a capital asset that wholly and directly relate to the sale or transfer of the capital asset are allowed to be deducted. Eg. Brokerage, cost of stamp paper etc.

Indexed Cost of Acquisition

Indexed cost of acquisition is the cost of acquisition indexed by applying cost inflation index (CII) . It is done to adjust for inflation over the years of holding of the asset. This increases one’s cost base and lowers the capital gains.

Indexed cost of acquisition is calculated as follows :

Cost of acquisition * CII of year of transfer / CII year of acquisition

Indexed Cost of Improvement

Expenditure incurred on any improvement in asset is permitted as deduction and that cost can also be adjusted on the same principles as above . it is calculated as follows:

Cost of Improvement * CII of year of transfer / CII year of improvement

Illustration 3.1.24

Mr. Mithran purchased a residential house on 20th July 2023 for Rs.10,00,000 and made some addditions to the hou7se incurred Rs.2,00,000 in August 2023. He sold the house property in April 2025 for Rs. 20,00,000 and also paid a brokerage of 0.5% of the sale price of the house at the time of selling the house. What is the amount of capital gains taxable in the hands of Mr.Mithran for the A Y 2026-2027?

Solution

The house is sold before 24 months from the date of purchase . Hence it is a short term capital asset. So short capital gain is calculated as follows:

Sale Consideration		**20,00,000**
Less : 1) Cost of acquisition	10,00,000	
2) Cost of improvement	2,00,000	
3) Cost of transfer (brokerage)	10,000	**12,10,000**
Short term capital gain		**7,90,000**

Depreciable Assets [Section 50]

If an assessee has sold a capital asset forming part of block of assets (building , machinery) on which the depreciation has been allowed under Income Tax Act, the income arising from such capital asset is treated as short term capital gain.

Illustration 3.1.25

The W.D.V. of a block of assets consisting of factory building at the beginning of the financial year 2025-2026 is Rs.20,00,000 and assessee bought a new factory building in June 2025 for Rs.4,00,000 and then sold all the assets in the block in December 2025 for Rs.18,00,000 . Compute capital gain or loss for the A Y 2026-2027.

Solution

WDV of machinery on 01-04-2025	20,00,000
Add : Purchase of new building	4,00,000
Cost of acquisition	24,00,000
Less : Sale value of all assets	18,00,000
Short Term Capital Loss	**6,00,000**

Illustration 3.1.26

Mr. Anoop bought a house property in May, 2010 for ₹5.00.000 and sold it in May, 2025 for ₹15.00.000. He paid brokerage of ₹ 50.000 Compute taxable capital gain of Mr. Anoop for the A Y 2026-2027

Solution

Full Value of Consideration	15,00,000
Less : Cost of transfer	50,000
	14,50,000
Less : Indexed cost of acquisition 5,00,000 *384/167	11,49,700
Long Term Capital Gain	**3,00,300**

Illustration 3.1.27

Mr. Varky purchased equity shares on 20th January 2018 for ₹16,000. FMV of the shares was 11,000 as on 31st January 2018. He sold the shares on 26 th April 2024 for 26.000. What will be the long-term capital gain/ loss?

Solution

Cost of Acquisition will be

Higher of Original Cost of Acquisition i.e. 16,000, and

Lower of FMV on 31.1.18 i.e. ₹ 11,000, and Sale Price i.e. 26,000

Hence, Cost of Acquisition = Higher of (16,000 or₹ 11,000) = 16,000

Capital Gain/ (Loss) = Sale Price - Cost of Acquisition = 26,000-16,000 = ₹10,000

Illustarion 3.1.28

Mr Pillai was bought 1000 shares in 1995 for 20,000. The F.M.V of the share on 1.4.2001 was 40,000. 250 bonus shares are issued to him in 2007-2008. In March 2025 he sold all the shares for₹ 75 per share. Compute capital gain.

Solution

Net Consideration of 1,250 shares (1250 x 75)		= 93, 750
Less F.M.V of 1,000 shares	40,000	
Less cost of acquisition of 250 bonus share	Nil	40,000
Long-Term Capital Gain		**53,750**

Exempted Capital Gain

The Income-tax Act allows exemption from capital gains tax if the amount of capital gains or sale consideration, as the case may be, is further invested in specified new assets. These exemptions are provided as per the following sections:

a. Section 54: Exemption from the capital gains arising from the transfer of residential house property and investment in new house property.

b. Section 54B: Exemption from the capital gains arising from transferring land used for agricultural purposes and investing in new agricultural land.

c. Section 54D: Exemption from the capital gains arising from the compulsory acquisition of land and building, forming part of the industrial undertaking and investing in land or building for setting up or shifting of the industrial undertaking.

d. Section 54EC: Exemption from the capital gains arising from the transfer of land or building or both and investing in specified bonds

e. Section 54EE: Exemption from the capital gains arising from the transfer of any long-term capital asset and investing in specified assets

f. Section 54F: Exemption from the capital gains arising from the transfer of a long-term capital asset other than a house property and investing in a residential house property

g. Section 54G: Exemption from the capital gains arising from the transfer of assets on shifting of industrial undertaking from the urban area to a non-urban area

h. Section 54GA: Exemption from the capital gains arising from the transfer of assets on shifting of industrial undertaking from the urban area to any SEZ

i. Section 54GB: Exemption from the capital gains arising from the transfer of residential property and investing in eligible companies or eligible start-ups.

Illustration 3.1.29

Mr. Jacob owns a residential house at Kozhikode which he acquired in June 2014 for Rs.3,50,000 . He sells his house property for Rs.30,00,000 on June 2025. With this amount he purchases another residential house for Rs.20,00,000. Compute Capital gain for the A y 2026-2027

Solution

Sales of residential house	30,00,000
Less : indexed Cost of acquisition 3,50,000 *384/220	6,10,909
Capital gain	23,89,091
Less : Exemption u/s 54 – Cost of new residential house property	20,00,000
Taxable Capital Gain	**3,89,091**

Section 56: Income From Other Sources

Income from other sources is the fifth and final residuary head of income . Income from Other Sources is one of the five heads of income subject to taxation under the Income TaxAct, 1961. Any income that is not covered in the other remaining four heads of income is taxed under income from other sources. It is referred to as residuary head of income. Incomes excluded from salary, house property, business & profession (PGBP) or capital gains are covered in Income from Other Sources, barring incomes that are exempt under the Income Tax Act.

Under Section 56 of the Act, the following three conditions must be satisfied for a receipt of earning to come under the 'income from other sources' head –

1. You have an income
2. Such income is not tax-exempt under any other Sections of the Income Tax Act 1961
3. Such income cannot be categorized as salary, profits, and gains from business or profession, income from house property, or capital gains.

What does 'Income from Other Sources' Include?

The following types of receipts of income fall under the Income from Other Sources' category –

1. Dividends: Dividends are taxable under 'income from other sources, based on the residential status of the source company that paid out the dividend.
2. Dividend from a Foreign Company: Dividends received from any foreign company are subject to taxation under 'Income from Other Sources.'
3. One-time Income: One-time incomes such as winnings from lotteries, horse races, crossword puzzles,card games, gambling or betting of any form are categorized under 'Income from Other Sources.'
4. Interest on Compensation: Interest received by you (as assesse) on the amount of reimbursement or compensation paid out in situations such as compulsory acquisition is subject to taxation under 'Income from Other Sources' head.
5. Gifts: Gifts received in the form of any sum of money, movable or immovable property, are also taxable.

The following receipts of income, which can only be classified under 'Income from Other Sources' if they are not chargeable as 'Profits and Gains of Profession or Business' –

a. Employees' contribution to any welfare scheme

b. Interest on securities such as debentures or government bonds

c. Rental income received from letting out the plant, furniture, or machinery owned by the assessee

d. Rental income received from letting out the plant, furniture, or machinery along with a building (here, these two cases of letting out are inseparable)

e. Receipts of income under a Keyman Insurance Policy

The following are some of the examples of other receipts of income that automatically fall under the 'Income from Other Sources' category –

a. Income received from subletting a house property by a tenant

b. Insurance commissions received by you (i.e., assesse)

c. Casual income

d. Family pension payments received by the lawful heirs of dead employees

e. Interest earned on deposits with companies and bank deposits

f. Interest on loans

g. Remuneration received by the Members of Parliament (MP)

h. Rental income earned from a vacant plot of land

i. Agricultural income received from an agricultural land situated outside of India

j. Interest paid out by the Government on excess payment of advance tax.

Casual Income: TDS is applicable @ 30% on this. It generally received after deduction of tax. Hence it always gross up while calculating the income under this head as given below:

Gross Income = Net Amount Received * 100/70

Lottery Income: If Lottery Income is less than Rs.5000/- then there will be no TDS. Hence no need to gross up.

Income from Horse Race: If Income from Horse Race is less than Rs.2500/- then there will be no TDS. Hence no need to gross up.

Family Pension: Rs.25,000/- or 1/3 of Actual Amount received, whichever is less, is exempt.

Taxable = Actual Amount Received – Exempted Amount

New Tax Regime (Default): Lower of **₹25,000** or 1/3rd of the family pension

Old Tax Regime: Lower of **₹15,000** or 1/3rd of the family pension

Gifts

As per Income Tax Act, gifts received are taxable in the hands of recipient under the head 'income from other sources'. Here gift means any sum of money, movable or immovable which received without consideration or inadequate consideration.

Taxable Gifts

1. Any amount received as gift up to Rs. 50,000 in one year is not taxable in the hands of recipient. But if amount exceeds Rs.50,000, then whole received amount will be taxable.
2. Any immovable property received without consideration and the stamp duty value of such property exceeds Rs.50,000 , the stamp duty value of such property is taxable.
3. Any immovable property received for inadequate consideration. If consideration is less than the stamp duty value of the property and the difference between the stamp duty value and consideration is more than the higher of a) Rs. 50,000 and b) 10% of consideration , the difference between the stamp duty value and the consideration shall be chargeable to tax in the hands of the assessee as income from other source. However, if the difference between the actual value and stamp duty is less than Rs.50,000, the transfer is not considered as a taxable gift.
4. Any movable property is received without consideration, and the fair market value of which exceeds Rs.50000, the whole of the aggregate fair market value of such property is taxable.
5. Any movable property is received for a consideration which is less than the aggregate fair market value of the property by an amount exceedi9ng Rs.50,000 and then the difference between aggregate fair market value and the consideration is chargeable to tax.

Exempted Gifts

1. Gift received from relatives (such as spouse, brother, sisters, parents, brother-in-aw, sister-in-law, father-in-law and mother-in-law).
2. Gift received on occasion of the marriage of the individual.
3. Gift received under a will or by way of inheritance.
4. In contemplation of death of the payer. A gift received in contemplation of death means when men, who is ill and expects to die shortly because of his illness, give his movable property possession to another to keep as a gift in case if he will die because of that illness.
5. Gift received by a member of the family of a deceased person from the employer of the deceased person(without any limit).

Illustration 3.1.30

During the year 2025-2026, Mr. Ragavan received following gifts. Ascertain the total amount of gift charged to tax.

1. Rs.10,82,000 received on account of will of his grandfather.
2. Gift of Rs.15,100 received from his friend on his birthday.
3. Rs.10,000 received from his friends on the occasion of marriage anniversary.
4. Gift Rs.1,14,000 from his father

5. Rs.1,00,000 received by him due to death of his father by Covid 19 from the employer of the father.

Solution

Tax treatment of various items in the hands of Mr. Ragavan

1. Exempted. Money received on account of will of his grandfather is exempted from tax.
2. Taxable. Gift received from the friends is not covered in any of the exemptions, and hence Rs.15,100 will be chargeable to tax.
3. Taxable. Only money received on account of marriage is exempted. Rs.10,000 received on account of marriage anniversary will be charged to tax.
4. Exempted. Rs. 1,14,000 will not be charged to tax.
5. It is not taxable.

Illustration 3.1.31

Mr. Raju give you the following particulars. You are required to compute his income from other sources.

1. Gifts received from a friend Rs.40,000
2. Gift received from brother Rs. 1,00,000
3. Received from horse race Rs.56,000
4. Winnings from state lottery Rs.3,00,000
5. Gift received from friend at the time of marriage Rs.1,50,000
6. Gift received from NRI friend Rs.20,000

Solution

Computation of income from other sources

Gift received from friend	40,000
Winning from Lottery	3,00,000
Received from horse race 56,000 *100/70	80,000
Gift from NRI Friend	20,000
Gift received from brother - Relative	Exempt
Gift received at the time of marriage	Exempt
Income from Other Sources	**4,40,000**

*Aggregate gift from friends [40,000 +20,000] exceeds Rs.50,000 and hence taxable.

Recap

- ◊ Income from Salary – Income received by an employee from an employer.
- ◊ Salary Components – Includes wages, bonus, allowances and perquisites.
- ◊ House Property Income – Income earned from property owned by the assessee.
- ◊ Deemed Rental Income – Notional income taxable from certain properties.
- ◊ Business Income – Income earned from carrying on a business.
- ◊ Professional Income – Income earned from professional activities.
- ◊ Allowable Expenses – Eligible expenses are deducted from business income.
- ◊ Capital Gains – Profit arising from the transfer of a capital asset.
- ◊ Short-Term Capital Gain – Gain from transfer of a short-term capital asset.
- ◊ Long-Term Capital Gain – Gain from transfer of a long-term capital asset.

Objective Questions

1. Which head of income includes wages, bonus, allowances and perquisites?
2. Income earned from a property owned by the assessee is classified under which head?
3. What is the main source of income from house property?
4. What is income earned from carrying on a business called?
5. Under which head is income from professional activities classified?
6. What is deducted from business income to determine taxable profit?
7. What is the profit arising from the transfer of a capital asset called?
8. Into which two categories are capital gains generally classified?
9. Which head is known as the residual head of income?
10. How many heads of income are recognized for classification of taxable income?

Answers

1. Income from Salary
2. Income from House Property
3. Rental Income
4. Business Income
5. Business or Profession
6. Allowable Expenses
7. Capital Gains
8. Short-Term and Long-Term Capital Gains
9. Income from Other Sources
10. Five Heads

Self-Assessment Questions

1. Explain the different heads of income under the Income Tax Act, 1961.
2. Explain the meaning and important features of Income from Salary.
3. Explain the provisions relating to Income from House Property.
4. Explain the meaning and scope of Profits and Gains of Business or Profession.
5. Explain the concept of Capital Gains and distinguish between STCG and LTCG.
6. Explain the scope of Income from Other Sources with suitable examples.
7. Explain the importance of classification of income under different heads.
8. .Explain in detail the five heads of income under the Income Tax Act, 1961, with suitable examples.
9. Discuss the provisions relating to Income from Salary, Income from House Property, and Profits and Gains of Business or Profession.

Assignments

1. Explain the concept of Capital Gains in detail. Discuss Short-Term Capital Gains and Long-Term Capital Gains with suitable examples.
2. Explain the provisions relating to Income from Other Sources and discuss the major types of income taxable under this head.
3. Explain the procedure for computation of Total Income, starting from income under the five heads up to Gross Total Income and Total Income.

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SREENARAYANAGURU OPEN UNIVERSITY

Unit 2
General Deductions

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ know the purpose and scope of chapter VIA
- ◊ get an idea on the principles for deductions
- ◊ get an awareness on the Rules regarding deductions u/s 80A
- ◊ identify and apply deductions available under various sections of Chapter VI A

Prerequisites

Total Income means the income on which income tax is calculated. It is also known as taxable income. To arrive at Total Income, eligible deductions under Chapter VI-A, mainly Sections 80C to 80U, are deducted from the Gross Total Income (GTI). However, these deductions are not available against certain types of income. Before calculating Total Income, it is important to identify such incomes separately. Chapter VI-A deductions cannot generally be claimed against long-term capital gains taxable under Sections 112 and 112A. Similarly, deductions are not allowed against short-term capital gains covered under Section 111A, such as gains from the transfer of equity shares or units of equity-oriented funds through a recognised stock exchange, subject to the conditions of the section. Deductions are also not available against certain winnings, such as income from lotteries, crossword puzzles, races including horse races, card games, gambling, or betting, as covered by the relevant provisions. Further, deductions under Chapter VI-A are restricted in respect of certain incomes covered under Sections 115A, 115AB, 115AC, 115ACA, 115AD and 115D, subject to the applicable provisions. Therefore, while calculating Total Income, the assessee must first calculate income under the different heads, arrive at GTI, identify incomes against which deductions are not permitted, and then claim only the eligible deductions.

Keywords

General Deductions, Deduction Principles, Section 80A,Sections 80C–80U,Taxable Income

Discussion

3.2.1 Introduction

Income tax deductions under chapter VI A (Sections 80 A to 80 U)are subtracted from your gross total income to arrive at your net taxable income ,subject to the overarching rule that total deductions cannot exceed your gross total income.The primary objective of Chapter VI-A deductions is to encourage individuals to save, invest, insure themselves against risks, and contribute towards social and economic development while reducing their taxable income. These deductions act as incentives provided by the government to promote financial discipline and long-term wealth creation. By investing in eligible instruments or incurring certain qualifying expenses, taxpayers can lower their taxable income and consequently reduce their overall tax liability under the old tax regime.

3.2.2 Basic Rules of Deductions (Sections 80 A, 80 AB, 80 AC)

1. Deductions cannot exceed gross total income (Section 80 AC) : The aggregate amount of deductions under Sections 80 C to 80 U (under Chapter VI A) shall not exceed the Gross Total Income (exclusive of long-term capital gains, short-term capital gains covered under Section 111 A, winnings from lotteries, etc and incomes referred to in Sections 115 A to 115 AD and 115 D of the assessee). They cannot create a negative taxable income or loss.
2. Deductions not allowed to members if allowed to AOP/BOI (Section 80A(3)): If a deduction is allowed under the above sections to the AOP or BOI then deductions for the same payment or income will not be allowed to the members of the Association of Persons or Body of Individuals.
3. Double deduction not allowed and deduction cannot exceed the profit of the particular undertaking or unit or enterprise (Section 80 A(4)): Deductions in respect of certain incomes under sections 801 A to 80 RRB, where, in the case of an assessee, any amount of profits of an undertaking is claimed and allowed as a deduction under any of the provisions for assessment year, deduction in respect of such profits shall not be allowed under any other provisions of the Act.

4. Deductions allowed only when it is claimed by the assessee (Section 80 A(5)): Where the assessee fails to make a claim in his return of income for any deduction, no deduction shall be allowed to him thereunder.
5. Profit or gain to be computed if inter-unit or inter-business transfer is not at market value
6. Assessee's duty to place relevant material: If an assessee approaches a statutory authority for obtaining a concession under the taxing statute, he should place all materials before the said authority and be also in a position to satisfy the said authority that he was entitled to obtain the concession.
7. Deduction to be allowed in respect of net income included in the Gross Total Income (Section 80 AB): Where any deduction is required to be made, the net income computed in accordance with the provisions of the Income Tax Act shall alone be regarded as the income received by the assessee.
8. Benefits of certain deductions not to be allowed in cases where return is not filed within the specified time limit (Section 80 AC): Any deduction is admissible under Sections 80 1A to 80 RRB only if the assessee furnishes a return of income for such assessment year on or before the due date specified under Section 139 (1).

3.2.3 Deductions Under Section 80 (Chapter VI A of the - Income-Tax Act)

Chapter VI A of Income Tax Act contains various sub-sections of section 80 that allows an assessee to claim deductions from the gross total income on account of various tax-saving investments, permitted expenditures, donations etc. Such deductions allow an assessee to considerably reduce the tax payable.

1. **Section 80 C: Deductions in respect of life insurance premium, contribution to provident fund, etc.**

This deduction is available to individuals and HUF. It includes deducation in respect of life insurance premium, deferred annuity, contributions to provident fund (PF), subscription to certain equity shares or debentures, etc. The deduction limit is Rs 1.5 lakh together with section 80CCC and section 80CCD(1).Life insurance premium paid on own life, his or her spouse and children (limited upto 20% of the sum assured). But if the policy is taken after 31.3.2012, limited to 10% of the sum assured. The qualifying amount of premium on policy issued on or after 31-3-2013 shall not exceed 15% of sum assured, if it is on the life of a person who is (a) a person with disability or a person with severe disability or (b) suffering from disease or ailment specified under Section 80 DDB.

2. **Sec. 80 CCC : Deduction in respect of contribution to pension fund**

Deduction in respect of contribution to certain pension funds. The deduction limit is Rs 1.5 lakh together with section 80C and section 80CCD(1).

3. **80CCD(1): Deductions in respect of contribution to Pension scheme of Central Government by Central Government or any other employer**

Deduction in respect of contribution to pension scheme of Central Government in the case of an employee, 10 per cent of salary (Basic+DA) and in any other case, 20 per cent of his/her gross total income in a FY will be tax free. Overall limit is Rs 1.5 lakh together with 80C and 80CCC.

4. **80CCD(1B):** Deduction up to Rs 50,000 in respect of contribution to pension scheme of Central Government (NPS). The employee or the individual referred to in Section 80 CCD(1) shall be allowed a deduction in computation of his total income, whether or not any deduction is allowed under Section 80 CCD (1) to the extent of

    a. the whole amount paid or deposited in the previous year, or

    b. Rs. 50,000

whichever is less.

5. **80CCD(2): Deduction of employer's contribution :** Any amount contributed by the employer (ie.Central Government or any other employer) to such pension scheme shall be allowed as deduction for an amount not exceeding 14% of salary in case of Central Government employees and 10% in case of any other employees.

3.2.4 Aggregate amount of deduction

The aggregate amount of deduction under Section 80 C, Section 80 CCC and Section 80 CCD(1) shall not exceed ₹ 1,50,000.The deduction of upto₹50,000 under Section 80 CCD(1B) is in addition to the overall limit of ₹1,50,000 provided under Section 80 CCE. The amount contributed by the employer in pension scheme under Section 80 CCD (2) shall not be included in the limit of ₹1,50,000.

Illustration 3.2.1

The Gross Total Income of Smt. Devi, who is self-employed, is computed at 6,20,000. She has deposited 90,000 in Public Provident Fund (PPF) and ₹1,80,000 in pension scheme of the Central Government. Compute her taxable income.

Solution

Computation of Total Income of Smt. Devi for the A.Y. 2026-27

Gross Total Income			6,20,000
Less: Deductions			
Under Section	80 C PPF	90,000	
Under Section	80 CCD(1) Rs. 1,80,000	1,24,000	
	(But limited to 20% of GTI)	**2,14,000**	

But limited U/S 80 CCE	1,50,000	
Additional deduction U/S 80 CCD (1B)	50,000	2,00,000
Total Income		4,20,000

Illustration 3.2.2

During 2025-26, Mr. Thomas deposited the following amounts:

1. Statutory Provident Fund Rs. 40,000
2. PPF Rs. 50,000
3. Pension Scheme of Central Government @ 15% of his salary 1,80,000

The employer also contributed 1,20,000 to the fund. Compute the amount of deduction available from gross total income for the Assessment Year 2026-27.

Solution

Computation of Deduction under Section 80

Under Section 80C			
PPF		40,000	
Statutory Provident Fund		50,000	
		90,000	
Under Section 80 CCD			
Pension Fund	1,80,000		
But limited to 10% of salary	1,20,000	1,20,000	
		2,10,000	
Limited U/S 80 CCE			1,50,000
U/S 80 CCD(1B) Additional deduction			50,000
U/S 80 CCD(2) Employer's contribution			1,20,000
Total deduction U/S 80			3,20,000

6. Section 80 D : Deduction in respect of Medical Insurance premium

This deduction is available to an individual and H.U.F. Premium paid up to Rs 25,000 is eligible for deduction for individuals, other than senior citizens. For senior citizens, the limit is Rs 50,000 and overall limit u/s 80D is Rs 1 lakh. Deduction is allowed for the following purposes to an individual:

a. the amount paid to effect or to keep in force an insurance on the health of the assessee or his family or his parents; or

b. any contribution made to the Central Government Health Scheme or such other scheme as may be notified by the Central Government in this behalf.

c. any payment made on account of preventive health check-up of the assessee or his family or parents of the assessee (Family consists of the spouse and dependent children of the assessee).

The deduction limit varies depending on the age of the insured:

i. For Self, Spouse, and Dependent Children: Up to ₹25,000

ii. For Parents Below 60 Years: Up to ₹25,000

iii. For Parents Above 60 Years: Up to ₹50,000

iv. Preventive Health Check-up: Up to ₹5,000

7. **80DD: Deduction in respect of maintenance including medical treatment of a dependent who is a person with disability.** Deduction in respect of maintenance including medical treatment of a dependent who is a person with disability (Sec. 80 DD) towards the expenditure of a disabled dependent, a deduction of₹ 75,000 for disability and 1,25,000 for severe disability (irrespective of the amount spent) is available to an individual and HUF (Severe disability means disability with 80% or more). This deduction is available to a resident individual or HUF for dependent person (spouse, children, parents, brothers and sisters) and in the case of HUF, its members.

Illustration 3.2.3

Mr. Abraham submits the following information regarding his income for the previous year 2026-27.

1.	Salary@30,000 per month.	3,60,000
2.	Dearness allowance @ 10%.	36,000
3.	Rent received from house property per month	8,000

He made the following payments:

a.	Contribution to Recognised Provident Fund	12,000
b.	Contribution to PPF	18,000
c.	Insurance premium paid by cheque on own health	9,000

He has a son being a person with severe disability, dependent on him, for whom he has incurred 62,000 during the year. Compute Total income.

Solution

Salary	3,60,000
DA	36,000

		3,96,000	
Less: Standard deduction		50,000	
Income from salary			3,46,000
Gross Annual Value	96,000		
Less: Standard deduction @ 30%	28,800		
Income from house property			67.200
Gross Total Income			4,13,200
Less: Deductions U/S 80			
80C Recognised P.F.	12,000		
PPF	18,000		
80D Health insurance premium	9,000		
80DD Medical treatment for severe disability	1,25,000		1,64,000
Total income			2,49,200

Note:

In the case of disability the amount deductible under Section 80 DD is irrespective of the amount actually spent.

8. **80 DDB: Deduction in respect of medical treatment** A deduction to a resident individual or a H.U.F for expenditure actually incurred on the medical treatment of individual or dependent in respect of specified diseases upto a maximum of 40,000 (in the case of senior citizens 1,00,000).The specified diseases are Neurological diseases, Cancer, AIDS, Chronic Renal failure, Hemophilia, Thalassaemia.
9. **80E Deduction in respect of interest on loan taken for higher education.** Interest on loan taken for higher education of the assessee, spouse and children or the student for whom the assessee is the legal guardian is fully deductible for 8 years from the year he starts paying interest without any limit .
10. **80EE : Deduction in respect of interest on loan taken for residential house property .** This deduction is available to individuals who is a first-time home owner. The value of property purchased must be less than 50 lakhs and the loan must be taken from home loan must be less than 35 lakhs a financial institution and must be sanctioned between 1-4-2016 to 31-3-2017. A deduction of 50,000 can be claimed (in addition to ₹2,00,000 allowed u/s 24 for a self-occupied house).
11. **80EEA : Deduction in respect of interest on loan taken for certain house property .** This section has been inserted w.e.f. A.Y. 2020-21. Deduction under this section is available if the following conditions are satisfied:

1. The assessee is an individual.
2. He is not eligible to claim any deduction u/s 80 EE.
3. He has taken a loan during 1-4-2019 and 31-12-2020.
4. The stamp duty value of the house does not exceed 45 lakh.
5. The assessee does not own any other residential house property. The amount of deduction is the interest payable on loan upto 1,50,000.

12. **80EEB Deduction in respect of interest on loan taken by an individual for purchase of an electric vehicle upto 1,50,000 .**The loan should be taken during 01-4-2019 to 31-3-2023.
13. **80G: Deductions in respect of donations :** Donations to certain funds, charitable institutions, etc. Depending on the nature of the donee, the limit varies from 100 per cent of total donation, 50 per cent of total donation or 50 per cent of donation with a cap of 10 per cent of gross income. No deduction shall be allowed in respect of donation of any sum exceeding Rs.2,000 unless such sum is paid by any mode other than cash. Donations may be:
    a. 100% no limit donation
    b. 50% no limit donation
    c. 100% with limit donation
    d. 50% with limit donation
14. **80GG : Deduction in respect of rent paid :** An employee who is not in receipt of house rent allowance from his employer or a self-employed person can claim a deduction in respect of rent paid by him towards accommodation occupied by him. The amount deductible is:

Least of the following:

i. Excess of rent paid over 10% of Adjusted Total Income
ii. 25% of Adjusted Total Income
iii. 5,000 per month

Adjusted Total Income means G.T.I. minus all deductions under Sections 80 C to 80 U other than 80 GG, long-term capital gains, short-term capital gains as per Section 111 A, income under Sections 115 A to 115 AD.

Illustration 3.2.4

The Gross Total Income of Mr. Varma for the AY 2026-27 is 3,60,000. He lives in a rented house for which he pays a rent of ₹4,000 p.m. He has paid a life insurance premium of 14,000 and subscribed to P.P.F for 16,000.

Solution

Computation of amount deductible u/s 80 GG

Least of the following is deductible:

i.	48,000-10% 13,60,000-(14,000+16,000)	15,000
ii.	25% of 3,30,000	82,500
iii.	(12 × 5,000)	60,000

The amount deductible is 15,000.

15. **80GGA :** Full deductions in respect of certain donations for scientific research or ruraldevelopment.
16. **80GGC : Deduction in respect of contribution given by any person to political parties provided such donations are non-cash donations.** Any contribution made in the previous year to a political party or an electoral trust by an assessee being a person, except local authority and every artificial juridical person wholly or partly funded by the Government, shall be allowed as deduction while computing total income. No deduction shall be allowed in respect of any sum contributed by way of cash.
17. **80TTA:** Deductions in respect of interest on savings bank accounts up to Rs 10,000 in case of assessees other than Resident senior citizens.
18. **80TTB:** Deductions in respect of interest on deposits up to Rs 50,000 in case of Resident senior citizens.
19. **80U:** Deduction in case of a person with disability. Depending on type and extent of disability maximum deduction allowed under this section is Rs 1.25 lakh.
20. **80QQB: Deduction in relation to copyright, etc.**
    1. Maximum Deduction in case of lump sum consideration –100% of the royalty income etc. subject to a maximum of Rs.3,00,000
    2. Maximum Deduction in other cases–In case of royalty or copyright fees, not in lumpsum consideration, maximum deduction is 15% of the value of books sold duringthe Previous Year
21. **80RRB: Deduction in relation to Royalty.**
    1. Eligibility–Deduction in respect of royalty on patents
    2. Maximum Deduction –100% of such income subject to a maximum Rs.3,00,000

Recap

◊ Section 80C – Deduction for investments such as Life Insurance, PPF and EPF.

◊ Section 80CCC – Deduction for contributions to pension or annuity plans.

◊ Section 80CCD – Deduction for contributions to the National Pension System (NPS).

◊ Section 80D – Deduction for health insurance premiums and medical expenses, subject to conditions.

◊ Section 80DD – Deduction for maintenance and medical treatment of a dependent with disability.

◊ Section 80DDB – Deduction for specified medical treatment, subject to prescribed conditions.

Objective Questions

1. Which section provides deduction for investments such as Life Insurance, PPF and EPF?
2. What does Section 80CCC relate to?
3. Which section covers contributions to the National Pension System (NPS)?
4. Which section provides deduction for health insurance premiums?
5. What is the purpose of Section 80DD?
6. Which section provides deduction for specified medical treatment?
7. Under which section is interest paid on an education loan for higher education deductible?
8. What is the main purpose of Section 80G?
9. Which section provides deduction for rent paid by eligible individuals?

Answers

1. Section 80C
2. Pension or annuity plans
3. Section 80CCD
4. Section 80D
5. Maintenance of a dependent with disability
6. Section 80DDB
7. Section 80E
8. Donations to eligible funds or institutions
9. Section 80GG

Self-Assessment Questions

1. Explain the meaning and purpose of deductions under Chapter VIA.
2. Explain the provisions of Section 80C with examples.
3. Explain the deductions available under Section 80D.
4. Explain the provisions relating to donations under Section 80G.
5. Explain the deductions available under Sections 80TTA and 80TTB.

Assignments

1. Explain in detail the various deductions available under Chapter VIA of the Income Tax Act.
2. Discuss Sections 80C to 80U and explain the major deductions available to individuals and other assessees.
3. Explain the provisions relating to deductions from Gross Total Income and their importance in determining Total Income.
4. Explain the role of Chapter VIA deductions in tax planning and computation of taxable income.

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Unit 3
Specific Deductions

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ know the principles for deductions
- ◊ get an idea on the Rules regarding deductions u/s 80IA TO 80JJAA
- ◊ get an awareness on the maximum limit and number of years of deductions under various sections

Prerequisites

The Income-tax Act provides various deductions under Sections 80-IA to 80-JJAA for taxpayers engaged in specified businesses, activities, investments, and employment-generating activities. These deductions are intended to encourage infrastructure development, industrial growth, employment generation, and investment in selected sectors. Each section applies to a particular type of income or activity and specifies the eligibility conditions, period of deduction, and amount of deduction. The deduction can be claimed only when the conditions prescribed under the respective section are satisfied. These provisions form part of Chapter VI-A of the Income-tax Act, which deals with deductions allowed while computing Total Income. Generally, eligible deductions are allowed from the Gross Total Income (GTI) to arrive at the Total Income, subject to the prescribed limits and conditions. Thus, Sections 80-IA to 80-JJAA provide tax incentives to promote important economic and social activities in the country.

Keywords

80IA , 80IAB, 80IAC, 80IB, 80IBA, 80IE, 80JJA, 80JJAA

Discussion

3.3.1 Deductions in respect of certain income

1. **80-IA. Deductions in respect of profits and gains from industrial undertakings or enterprises engaged in infrastructure development, etc**

Section 80-IA of the Indian Income Tax Act, 1961 allows a 100% tax deduction on profits and gains for up to 10 consecutive assessment years. This benefit applies to eligible businesses engaged in infrastructure development, power generation and distribution, telecommunication services, and industrial parks. Where the gross total income of an assessee includes any profits and gains derived by an undertaking or an enterprise from any business referred to in sub-section (4) (such business being hereinafter referred to as the eligible business), there shall, in accordance with and subject to the provisions of this section, be allowed, in computing the total income of the assessee, a deduction of an amount equal to hundred per cent. of profits and gains derived from such business for ten consecutive assessment years.

2. **Section 80-IAB Deductions in respect of profits and gains by an undertaking or enterprise engaged in development of Special Economic Zone.**

Section 80IAB specifically provides tax benefits to undertakings or enterprises engaged in the development of SEZs. It allows for a deduction of 100% of the profits and gains derived from the business of developing a SEZ. The deduction can be claimed for 10 consecutive assessment years out of a total of 15 years from the year in which the SEZ is notified by the government. Where the gross total income of an assessee, being a Developer, includes any profits and gains derived by an undertaking or an enterprise from any business of developing a Special Economic Zone, notified on or after the 1st day of April, 2005 under the Special Economic Zones Act, 2005, there shall, in accordance with and subject to the provisions of this section, be allowed, in computing the total income of the assessee, a deduction of an amount equal to one hundred per cent of the profits and gains derived from such business for ten consecutive assessment years.

3. **Sec 80IAC : Deductions in respect of profits and gains derived by an eligible start up from an eligible business.**

Where the gross total income of an assessee, being an eligible start-up, includes any profits and gains derived from eligible business, there shall, in accordance with and subject to the provisions of this section, be allowed, in computing the total income of the assessee, a deduction of an amount equal to one hundred per cent of the profits and gains derived from such business for three consecutive assessment years. The deduction specified in sub-section (1) may, at the option of the assessee, be claimed by him for any three consecutive assessment years out of ten years beginning from the year in which the eligible start-up is incorporated.

Eligible business" means a business carried out by an eligible start-up engaged in innovation, development or improvement of products or processes or services or a scalable business model with a high potential of employment generation or wealth creation;

Eligible start-up" means a company or a limited liability partnership engaged in eligible business which fulfils the following conditions, namely: —

(*a*)	it is incorporated on or after the 1st day of April, 2016 but before the 1st day of April, 2030
(*b*)	the total turnover of its business does not exceed one hundred crore rupees in the previous year relevant to the assessment year for which deduction under sub-section (1) is claimed; and
(*c*)	it holds a certificate of eligible business from the Inter-Ministerial Board of Certification as notified in the Official Gazette by the Central Government;

4. Sec 80IB : Deductions in respect of profits and gains from certain industrial undertaking other than infrastructure development undertaking

Where the gross total income of an assessee includes any profits and gains derived from any business referred to in sub-sections (3) to (11), (11A) and (11B) (such business being hereinafter referred to as the eligible business), there shall, in accordance with and subject to the provisions of this section, be allowed, in computing the total income of the assessee, a deduction from such profits and gains of an amount equal to such percentage and for such number of assessment years as specified in this section. Section 80IB allows a 100% deduction of profits for a period of 10 consecutive Assessment Years from the year in which the undertaking commences operations. This applies to industrial undertakings that manufacture or produce specified articles or things, provided they meet certain conditions.

To qualify for deductions under Section 80IB, an undertaking must meet the following conditions:

1. **New Industrial Undertaking:** The business must be a new industrial undertaking that commenced operations after March 31, 2000.
2. **Manufacturing Requirement:** The undertaking must be involved in manufacturing or producing any article or thing (excluding items listed in the Eleventh Schedule).
3. **Location Specifics:**
   - ◊ Located in specified backward areas as defined by the government.
   - ◊ Must not be formed by splitting up or reconstructing an existing business.

4. **Approval from Authorities:** The undertaking must have necessary approvals from prescribed authorities.

The deduction is only available if the profits are derived from eligible activities. The undertaking should maintain separate books of accounts. If a project is not completed within the specified time frame, previously claimed deductions may be reversed and treated as taxable income.

5. Sec 80IBA : Deductions in respect of profits and gains from housing projects/ rental housing projects.

Where the gross total income of an assessee includes any profits and gains derived from the business of developing and building housing projects, there shall, subject to the provisions of this section, be allowed, a deduction of an amount equal to hundred per cent of the profits and gains derived from such business. For the purposes of sub-section (1), a housing project shall be a project which fulfils the following conditions, namely:—

(a)	the project is approved by the competent authority after the 1st day of June, 2016, but on or before the 31st day of March, 2019;
(b)	the project is completed within a period of three years from the date of approval by the competent authority: c) the carpet area of the shops and other commercial establishments included in the housing project does not exceed three per cent of the aggregate carpet area; d) the project is on a plot of land measuring not less than—(i)one thousand square metres, where the project is located within the cities of Chennai, Delhi, Kolkata or Mumbai; or(ii)two thousand square metres, where the project is located in any other place; e) the project is the only housing project on the plot of land as specified in clause (d);

Section 80-IBA of the Income Tax Act, 1961 provides a 100% deduction on profits and gains earned by real estate developers from building and developing eligible affordable housing or notified rental housing projects. It aims to encourage the supply of low-cost housing.

6. Sec 80IE : Deductions in respect of profits and gains from manufacture or production of eligible article or things in North Eastern State .

1. Where the gross total income of an assessee includes any profits and gains derived by an undertaking, to which this section applies, from any business referred to in sub-section (2), there shall be allowed, in computing the total

income of the assessee, a deduction of an amount equal to hundred per cent of the profits and gains derived from such business for ten consecutive assessment years commencing with the initial assessment year.

2. This section applies to any undertaking which has, during the period beginning on the 1st day of April, 2007 and ending before the 1st day of April, 2017, begun or begins, in any of the North-Eastern States,

    i. to manufacture or produce any eligible article or thing;

    ii. to undertake substantial expansion to manufacture or produce any eligible article or thing;

    iii. to carry on any eligible business.

Thus Section 80-IE of the Income Tax Act, 1961, provides tax incentives to businesses operating in certain northeastern states of India, including Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, and Tripura. Introduced to promote economic development and investment in these regions, this section allows eligible businesses to claim a 100% tax deduction on profits for the first 10 years of operation. To qualify, the businesses must be engaged in manufacturing, production, or specific service-related activities and must commence operations within the specified time frame.

7. 80JJA : Deductions in respect of profits and gains from business of collecting and processing of bio-degradable waste

1. Where the gross total income of an assessee to whom section 44AB applies, includes any profits and gains derived from business, there shall, subject to the conditions specified in sub-section (2), be allowed a deduction of an amount equal to thirty per cent of additional employee cost incurred in the course of such business in the previous year, for three assessment years including the assessment year relevant to the previous year in which such employment is provided.

2. No deduction under sub-section (1) shall be allowed,—

(a)	if the business is formed by splitting up, or the reconstruction, of an existing business:
	Provided that nothing contained in this clause shall apply in respect of a business which is formed as a result of re-establishment, reconstruction or revival by the assessee of the business in the circumstances and within the period specified in section 33B;
(b)	if the business is acquired by the assessee by way of transfer from any other person or as a result of any business reorganisation;
(c)	unless the assessee furnishes the report of the accountant, as defined in the Explanation below sub-section (2) of section 288, before the specified date referred to in section 44AB giving such particulars in the report as may be prescribed.

8. 80JJAA : Deduction in respect of employment of new employees

1. Where the gross total income of an assessee to whom section 44AB applies, includes any profits and gains derived from business, there shall, subject to the conditions specified in sub-section (2), be allowed a deduction of an amount equal to thirty per cent of additional employee cost incurred in the course of such business in the previous year, for three assessment years including the assessment year relevant to the previous year in which such employment is provided.
2. (2) No deduction under sub-section (1) shall be allowed,—

(a) if the business is formed by splitting up, or the reconstruction, of an existing business:

Provided that nothing contained in this clause shall apply in respect of a business which is formed as a result of re-establishment, reconstruction or revival by the assessee of the business in the circumstances and within the period specified in section 33B;

(b) if the business is acquired by the assessee by way of transfer from any other person or as a result of any business reorganisation;

(c) unless the assessee furnishes the report of the accountant, as defined in the Explanation below sub-section (2) of section 288, before the specified date referred to in section 44AB giving such particulars in the report as may be prescribed.

Sections 80-IA to 80-JJAA of the Income-tax Act provide deductions to encourage investment in infrastructure, specified businesses, employment generation, and certain socially beneficial activities. Section 80-IA provides deductions for profits from eligible infrastructure facilities, telecommunication services and certain power undertakings, subject to prescribed conditions. Section 80-IAB provides deduction to eligible developers of Special Economic Zones (SEZs) in respect of profits derived from developing SEZs. Section 80-IAC provides a deduction to eligible start-ups for profits derived from an eligible business, subject to specified conditions and the applicable period of eligibility. Section 80-IB provides deductions to certain industrial undertakings and specified businesses, while Section 80-IBA provides deduction for profits from eligible affordable housing projects. Section 80-IC provides deduction to certain undertakings or enterprises operating in specified special category States, subject to conditions. Section 80-ID provides deduction to eligible hotels and convention centres located in specified areas. Section 80-IE provides deduction to eligible undertakings established in the North-Eastern States. Section 80-JJA provides deduction in respect of profits from the business of collecting and processing or treating biodegradable waste and certain related activities. Finally, Section 80-JJAA provides a deduction to eligible employers for additional employee cost incurred in employing new employees, thereby encouraging formal employment generation. Overall, these provisions are incentivebased deductions designed to promote infrastructure development, industrial growth, entrepreneurship, housing, environmental activities and employment generation.

Recap

- ◊ Section 80-IA – Profits from infrastructure facilities, telecommunications and power undertakings.
- ◊ Section 80-IAB – Profits earned by developers of Special Economic Zones (SEZs).
- ◊ Section 80-IAC – Profits of eligible start-ups.
- ◊ Section 80-IB – Profits from specified industrial undertakings and businesses.
- ◊ Section 80-IBA – Profits from eligible affordable housing projects.
- ◊ Section 80-IC – Profits of eligible undertakings in specified special-category States.
- ◊ Section 80-ID – Profits from eligible hotels and convention centres in specified areas.
- ◊ Section 80-IE – Profits of eligible undertakings in the North-Eastern States.

Objective Questions

1. Which section provides deductions for profits from infrastructure facilities, telecommunications and power undertakings?
2. Which section provides deductions for profits earned by developers of Special Economic Zones (SEZs)?
3. Which section provides deductions for profits of eligible start-ups?
4. Which section provides deductions for profits from specified industrial undertakings and businesses?
5. Which section provides deductions for profits from affordable housing projects?
6. Which section provides deductions for profits of eligible undertakings in specified special-category States?
7. Which section provides deductions for profits from eligible hotels and convention centres in specified areas?

8. Which section provides deductions for profits of eligible undertakings in the North-Eastern States?
9. Which section provides deductions for profits from collecting, processing and treating biodegradable waste?
10. Which section provides a deduction for additional employee costs to encourage employment generation?

Answers

1. Section 80-IA
2. Section 80-IAB
3. Section 80-IAC
4. Section 80-IB
5. Section 80-IBA
6. Section 80-IC
7. Section 80-ID
8. Section 80-IE
9. Section 80-JJA
10. Section 80-JJAA

Self-Assessment Questions

1. Explain the general provisions relating to deductions under Sections 80-IA to 80-JJAA.
2. Explain the eligibility conditions for claiming deduction under Section 80-IA.
3. Explain the provisions relating to deduction for eligible industrial undertakings under Section 80-IB.
4. Discuss the objectives and important provisions of Section 80-IC.
5. Explain the provisions of Section 80-IE relating to undertakings in the North-Eastern States.
6. Explain the deduction available under Section 80-JJAA for employment of new employees.

7. Discuss the major conditions that must be satisfied for claiming deductions under Sections 80-IA to 80-IE.

Assignments

1. Explain in detail the provisions relating to specific deductions under Sections 80-IA to 80-JJAA, including their objectives, eligibility conditions and nature of deductions.
2. Discuss the various tax incentives available to specified businesses and undertakings under Sections 80-IA to 80-IE of the Income-tax Act.
3. Explain Section 80-JJAA in detail and discuss how the provision encourages employment generation by providing deduction for employment of new employees.

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Unit 4
Rebate , Reliefs and Taxable income

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ know the concept of rebate and relief
- ◊ get an idea on the taxable income and tax calculation
- ◊ explain the assessment of tax liability of individuals

Prerequisites

The Income Tax Rebate under Section 87A is an important provision of the Indian Income-tax Act that provides tax relief to eligible individual taxpayers with lower taxable income. Unlike deductions, which reduce taxable income, Section 87A provides a direct rebate from the tax payable. The provision has been revised from time to time to suit changing economic conditions and to provide greater relief to eligible taxpayers. Under the applicable tax regime and conditions, the rebate can substantially reduce the tax liability of individuals. Under the old tax regime, an eligible individual with total income up to ₹5,00,000 can claim a maximum rebate of ₹12,500. Under the new tax regime, eligible individuals with total income within the prescribed limit may claim a higher rebate, subject to the conditions applicable for the relevant assessment year. The rebate helps reduce the overall tax burden and increases the taxpayer's disposable income. It also makes tax planning easier, particularly for individuals who may not have significant investments in tax-saving instruments. By providing direct tax savings, Section 87A offers financial support to lower-income taxpayers and promotes greater participation in the tax system. Thus, Section 87A is an important measure for providing tax relief and improving financial inclusiveness.

Keywords

87A, Rebate and Relief, clubbing , set off and carry forward

Discussion

3.4.1 Rebate under section 87A

Section 87A provide a rebate from the tax payable by an assessee being an individual resident in India. . Under the old tax regime, individuals with taxable income up to ₹5,00,000 get a maximum rebate of ₹12,500. Under the new tax regime, individuals with taxable income up to ₹12,00,000 can claim a rebate of up to ₹60,000. a maximum rebate of Rs. 60,000 is allowed under section 87A from the amount of income tax on total income, which is chargeable to tax under section 115BAC(1A). However, this rebate is allowed if the total income of assessee chargeable to tax under section 115BAC(1A) is up to Rs. 12,00,000. Furthermore, if the total income chargeable to tax exceeds Rs. 12,00,000 and the tax payable on such income exceeds the difference between the total income and Rs. 12,00,000, he can claim a rebate with marginal relief to the extent of the difference between the tax payable on such total income and the amount by which it exceeds Rs. 12,00,000.

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

If the total income of such individual does not exceed Rs.12,00,000, the rebate shall be equal to the amount of income tax payable on his total income for an assessment year or an amount of rs.60,000, whichever is less.

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

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

To illustrate how Section 87A works, let's consider the following example:

a. Gross Income: ₹6,65,000

b. Deductions (80C & 80D): ₹1,70,000

c. Taxable Income: ₹4,95,000

Tax Calculation:

a. Tax on first ₹2,50,000: 0% = ₹0

b. Tax on next ₹2,00,000: 5% = ₹12,250

c. Less: Rebate under Section 87A = ₹12,250

Final Tax Payable: ₹0

This example highlights how the rebate under Section 87A can completely eliminate the tax liability for individuals in the specified income bracket

3.4.4 Marginal Relief

Marginal relief is a provision of the Income Tax Act that aims to reduce the tax burden on individuals having an income within a specific range. In Budget 2024, marginal relief, previously applicable only to surcharges in the old regime, was extended to the new tax regime. Under the new regime, the marginal relief provision is applicable to rebates u/s 87A.

For salaried individuals, this effective zero-tax threshold rises to ₹12.75 lakh after factoring in the standard deduction. While tax is still calculated according to tax slab rates, the rebate under Section 87A of the new regime offsets the liability up to the eligible income limit. This means even though the tax on ₹12 lakh income would be ₹60,000, taxpayers do not actually pay it because of the rebate. For example, if your income slightly exceeds the rebate limit, say by ₹5,000, and if the benefit of marginal relief did not exist, then you would have to pay full ₹60,000 tax on your income, meaning a person who earns up to ₹12 lakh will have more money in hand despite earning less than you. Marginal relief ensures that taxpayers do not face a disproportionately high tax burden when their income marginally exceeds the rebate threshold. For example, if your income reaches ₹12.5 lakh, your tax liability as per the new regime's slab rates would be ₹70,200, (including 4% health and education cess). However, after applying marginal relief, the tax payable gets restricted to ₹50,000, equal to the amount by which the income exceeds ₹12 lakh. This benefit continues until the point where the regular slab-based tax becomes lower than the marginal relief amount. For salaried individuals claiming the ₹75,000 standard deduction under the new regime, zero tax benefit is available up to a gross salary of ₹12.75 lakh.

3.4.5 Relief in tax in respect of salary under section 89 of Income Tax Act

Tax is charged on salary in the year in which the salaries are due or paid, get in advance or pending salaries. If the number of salaries in a year is more than 12, the rate of tax to the income for that year may be charged at a higher rate than the normally rate for salaries. Like arrears in salary received or salary getting in advance, profits in lieu of salary may be rated at higher rate. There is a provision in income tax under section 89 of Income tax where an assessee is entitled to claim relief. An assessee is required to furnish all the details of the salary in the Form 10E to the assessing officer and the assessee can request for granting the necessary relief under section 89.

3.4.6 Clubbing Of Income (Section 60-65)

People are trying to avoid the payment of tax by shifting their income or property in the name of some other persons. To prevent such practices, income tax act provides certain special provisions related with clubbing of income. There are certain cases where an assessee Inclusion of income of other with the income of assessee is known as clubbing of income. The provisions for the same are contained in sections 60 to 64 of the Act.

1. **Transfer of income without transfer of assets. (Section-60):-** A person transfers his income from a property to another person's name without transferring the ownership of property. The income from such asset shall be deemed to be the income of the transferor and is included in his total income.
2. **Revocable transfer of assets. (Section-61):** By virtue of section 61, if an asset is transferred under a "revocable transfer", income from such asset is taxable in the hands of the transferor. The purpose of such kind of transfer includes any trust settlement, covenant, agreement or arrangement.
3. **Income of individual to include income of spouse, minor child, etc. (Section-64):-**The following income shall be included in computing the total income of any individual

i. **Income of the spouse by way of salary, commission, fees or any other form** of remuneration whether in cash or in kind from a concern in which such an individual has a substantial interest. Substantial interest arises

◊ If equity shares carrying 20% or more of voting power in a company are beneficially owned by such person or partly by such person and partly by one or more of his relatives at any time during the P.Y

◊ If such person is entitled, or such person and one or more of his relatives are entitled in the aggregate, to receive 20% or more profit of a concern at any time during the P.Y

If income is eamed by the spouse with his/her professional qualification, it is not clubbed with the income of the assessee.

ii. **If an asset is transferred by an individual directly or indirectly to the spouse** without adequate consideration or inconnection with an agreement to live apart, the income from such asset shall also be included in the total income of the assessee.

iii. **Transfer of asset to son's wife :** income arising whether directly or indirectly from the assets transferred to son's wife for inadequate consideration shall be clubbed in the income of that individual

iv. **Income of minor child :** the income of minor child will be clubbed in the income of that parent(mother or father) whose total income (excluding the income of minor child) is greater.

3.4.7 Set Off and Carry Forward of Losses

If there is a loss under ahead of income in an assessment year , then it can be adjusted against other incomes according to the provisions given below. Set off and carry forward of losses is mandatory in computation of taxable income of assessee. Set off means adjustment of loss against income under other source or head. Such set off can be of two types:-

1. Intra source set off – Section 70

Inter head set off takes place when income from one head is set off against loss from the same head. Loss from one source of income is first set off against income from that source only. However there are exceptions to the rules: -

a. Loss of speculation can be set off only against speculation gain.

b. Loss from business or other activity can be set off against profit from other business.

c. Long term capital loss can be set off only against long term capital gains

d. Song term capital loss can be set off against long term and short term capital gains

e. Loss from owning and maintaining horse races shall be set off only against income from such activity.

f. Loss from lottery, cross word puzzles, gambling, card games or betting etc. can not be set off against any income.

2. Inter head set off -section 71

In this situation, after setting off a loss from the same head and still there is some loss, then the remaining loss can be set off against income under any other head. For example, after setting off all business losses, the net result is a business loss, this business loss may be set off against income under any other head. This is known as inter head set off.

3.4.8 Carry Forward and Set Off of Loss

When loss cannot be set off in the same previous year in which it has been incurred, it is transferred to the next year for set-off. This is known as carry forward of loss and subsequent set off. However, loss under the head income from other sources cannot be carried forward and set off. It has to be set off in the year in which it has been incurred only

1. **Loss from House Property carry forward:-If the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)**

1. The loss from one house property can be set off against the income from another house property. The remaining loss, if any, will be set of against incomes under any other heads like salary. But such set off shall be allowed subject to a maximum of ₹2,00,000.

If the assessee pays tax at concessional rate u/s 115BAC: The loss from one house property can be set off against the income from another house property. The loss from house property cannot be set off against the income of other head. The unabsorbed loss will be carried forward to the following assessment year to be set-off against income under the head "Income from house property".

If there is any balance of loss under the head income from house property may be carried forward of eight assessment years to be set off against income from house property in those years.

2. Carry forward and set off of Business Loss

The following are the principles of carry forward and set off in the case of business loss.

1. After carry forward in subsequent year, it can be set off against any business income. They can also be set off against speculation profit.
2. In order to get the benefit of carry forward of loss, the business in respect of which the loss was incurred should be continued for at least part of the year in which set off is claimed. Discontinuation and restart would be treated as violation of this condition.
3. However brought forward business loss can be set off against any income in respect of a discontinued business.
4. Loss can be carried forward for 8 assessment years only.
5. Loss cannot be carried forward unless the return of income for that previous year is filed on time.
6. Loss can be carried forward only by the person who has incurred it. However in case of amalgamation, inheritance of business, take over of sole proprietorship by partnership where the sole proprietorship becomes the partner, some other person may also carry forward the loss.

Example: Y. Krishnan is a salary earner getting taxable salary of₹ 1,00,000. He is also Carrying on two businesses, X and Y. X yield a loss of 2,00,000 and Y leads to a loss of Rs.50,000 . Taxable income will be Rs.1,00,000 and he can carry forward the business loss of Rs.2,50,000 to the next year. This loss can be carried forward for set off against the business income of subsequent years.

3. Carry forward and set off of speculation loss

Speculation loss can be set off only against income from speculation. If it is not possible to set off against income of that year then it can be carried forward as set off but only against income from speculation, Buch carry forward is allowed only for up to a period of 4 assessment years from the period from which the loss was incurred. However in order to claim the benefit of this set off, the return of income for the previous year must be filed on time.

4. **Loss under the head "Capital Gain"**

◊ Short-term capital loss:- Short-term capital loss can be set off in the same assessment year with the capital gains arising out of short term or long-term capital asset, if it cannot be wholly set off in the same assessment year, it can be carried forward for a maximum period of eight assessment years immediately succeeding the assessment in which the loss has incurred and can be set off against capital gains

◊ Long term Capital loss:- Such loss can be set off against the gain from any other long-Term capital asset only. If it cannot be wholly set off in the same assessment year against long term capital gains, it can be carried forward for a period of eight years from the assessment year in which the loss was incurred and can be set off against long term capital gains

5. **Carry forward and set off losses of a discontinued business**

When a business have been discontinued before 1-4-99 and brought forward loss of such a business cannot be set off against the income of any other business or profession.

6. **Loss on maintenance of horse races**

Racehorse owners are allowed to carry forward and set off loss incurred by them on maintenance of racehorse against the income arising out of owning and maintaining racehorses. This loss can be carried forward for four assessment years following the assessment year in which the loss was first computed. Loss from activity of owning and maintaining racehorses cannot be carried forward if the activity in which the loss is incurred, is discontinued.

7. **Losses from specified business [Section 73A(1)]**

A loss in any specified business referred in section 35AD can be set-off only against any other specified business, whether eligible for deduction under 35AD or not (optional Tax regime) However, losses from other business can be set-off against profits from specified business.

3.4.9 Total Income

Total income refers to the taxable amount calculated after summing up an individual's earnings from all sources and subtracting applicable deductions. It serves as the basis for levying income tax as per the provisions of the Income-tax Act, 1961. Total income is not merely gross earnings but the residual amount after considering exemptions, allowances, and deductions outlined in the law. For example, if an individual earns a salary, profits from a business, and rental income, all these incomes are aggregated under their respective heads. Next, exemptions (e.g., agricultural income) and deductions (e.g., under Section 80C) are applied. The resultant amount is the computation of total income, forming the foundation for tax calculation. The process ensures fairness by adjusting for non-taxable income and legitimate deductions, thereby reflecting the true taxable capacity of the assessee.

3.4.10 Steps for calculation of Total Income and Tax Payable

Income Tax is levied on an assessees total income. Such total income has to be computed as per previous provisions contained in the Income tax Act 1961.We will understand here step by step to understand the procedure of computation of total income for the purpose of levy of Income tax.

Step 1 - Determination of residential status

Step 2 - Classification of Income under different heads- The Act prescribes five heads of income. These are :

a. Income from salary

b. Income from house property

c. Income from business & profession

d. Income from Capital Gains

e. Income from Other sources

Step 3 - Exclusion of income not chargeable to tax: There are certain income which are fully exempt from income tax e.g. Agriculture Income. These income have to be excluded and will not form part of Gross Total income. Also some incomes are partially exempt from income tax e.g. House Rent Allowance, Education Allowance. These incomes are excluded only to the extent of the limit specified in the Act. The balance income over and above the prescribe b exemption limit would enter computation of total income and have to be class under the relevant head of income.

Step 4 - Computation of income under each head. (Discussed in step 2)

Step 5 - Clubbing of income of spouse, minor, child etc.:- In case of individual , income tax is levied on a slab system on the total income. The Tax system is progressive i.e. as the income increases the applicable tax rate increases. Some tax payer in the higher tax bracket have a tendency to divert some portion of their income to their spouse, minor child etc. To minimize their tax burden. I n order to prevent such tax avoidance , clubbing provision have been incorporated in the Act.

Step 6 - SET off or carry forward losses. Taxpayers often have profits from one source and losses from another. These losses can be:

1. Set-off within the same head
2. Inter-head set-off
3. Carried forward

Step 7 - Computation of Gross Total Income: The final figure of income or loss under each head of income. After allowing the deductions allowance and other adjustments, are then aggregated, after giving effect to the provisions for clubbing of income and set off and carry forward losses to arrive at the gross total income.

Step 8 - Deduction from Gross Total Income : There are deductions prescribed from Gross Total income. These deduction are of three types:-

Deduction from Gross Total Income

a. Deduction in respect of certain payments like : LIC premium paid, Contribution to provident fund, Medical insurance premium paid, rent paid, donation to certain charitable institution .

b. Deduction in respect of certain income like : Royalty on patents, Profit and gains from industrial Undertakings engaged in infrastructure development , Etc.

c. Other Deduction : example Deduction in case of person with disability.

Step 9 - Total Income: The income arrived at , after claiming the above deductions from the gross total income is known as the total Income. It is also called the taxable income.

Step 10 – Application of the rates of tax on the total Income : The rates of tax for the different classes of assessees are prescribed by the Annual Finance Act.

3.4.11 Slab and Slab rate for A Y 2026-2027

Old Tax Regime Slabs for AY 2026–27

Taxable Income	Tax Rate
UP TO 250000	Nil
Rs. 250000 to Rs. 500000	5%
Rs. 500000 to 1000000	20%
Above Rs. 1000000	30%

New Tax Regime Slabs (Section 115BAC) for AY 2026–27

Taxable Income	Tax Rate
UP TO Rs.4,00,000	Nil
Rs. 4,00,000 to Rs. 8,00,000	5%
Rs. 8,00,000 to 12,00,000	10%
Rs. 12,00,000 to Rs. 16,00,000	15%
Rs. 16,00,000 to 20,00,000	20%
Rs. 20,00,000 to 24,00,000	25%
Above Rs. 24,00,000	30%

Standard Deduction of ₹75,000 under the New Tax Regime; ₹50,000 under the Old Tax Regime (for salaried individuals/pensioners) can be deducted from gross salary while calculating total income. Section 87A Rebate is also applicable Up to ₹60,000 for net taxable income up to ₹12,00,000 under the New Regime; up to ₹12,500 for income up to ₹5,00,000 under the Old Regime.

Step 11 - Surcharge/ rebate under Sec 87(a). Surcharge Ranges from 10% to 25% (capped at 25% for the new regime) depending on higher income brackets above ₹50 lakhs.

Step 12 - Education Cess: Levied at 4% of income tax and surcharge, (if applicable) under both regimes

Step 13 - Advance Tax and Tax deducted at source: Although the tax liability of an assessee is determined only at the end of year. Tax is required to be paid in advance in certain instalment on the basis of estimated income.

3.4.12 Illustrations

Illustration 3.4.1

Mr. Sakkeer Hussain furnishes the following particulars of his income and loss for the previous year 2025-2026 (He has shifted out the default tax regime under Section 115BAC)

1. Income From House Property Rs.12,000
2. Profits and Gains of Business Rs.37,500
3. Short Term Capital Gains Rs.12,000
4. Long Term Capital Gains Rs.25,500
5. Long Term Capital Loss Rs.36,000

The following items have been brought forward from previous year 2025-2026

1. Business Loss Rs.45,000
2. Loss from House Property Rs.15,000

You are required to compute his total income taking in to account adjustments regarding carried forward losses.

Solution

Computation of Gross Total Income For A Y 2026-2027

1	Income From House Property Less : Loss From House Property B/F	12,000 15,000	
	Loss Carried Forward	3,000	
2	Profits and Gains of Business Less : Business Loss	37,500 45,000	
	Business Loss Carried Forward	7,500	

3	Capital Gains Short Term Capital Gains Long Term Capital Gains Less Long Term Capital Loss B/F	 25,500 36,000	 12,000
	Long Term Capital Loss C/F	10,500	
		Total Income	**12,000**

Illustration 3.4.2

MR. Rajesh has given the following information about his income. Compute his total income for the A Y 2026-2027

Income from Salary Rs.1,00,000 (after standard deduction)

Income from House Property (net) Rs.32,000

Profit from ready made garment business Rs.80,000

Speculative profits Rs.20,000

Long term capital gains Rs.48,000

Short term capital gains Rs.16,000

Share of profit from partnership firms Rs.15,600

Current years depreciation Rs.9,000

The following items were brought forward from the A Y 2025-2026

Unabsorbed depreciation Rs.10,000

Speculative Loss Rs.30,000

Long Term Capital Loss Rs.30,000

Short Term Capital Loss Rs.12,000

Solution

Computation Of Gross Total Income for the A Y 2026-2027

1	Salary Income		**1,00,000**
2	Income from House Property		
3	Income from Business Less : Current year depreciation Less : Unabsorbed depreciation	80,000 9,000 71,000 10,000	 **61,000**
4	Share in Partnsrship Firm		**Exempt**
5	Speculative Profit Less : Speculative Loss b/f	20,000 30,000	
	Speculative Loss c/f	10,000	
6	Long term capital gain Less : Long term capital loss b/f	48,000 30,000	 **18,000**
7	Short term capital gains Less : Short term capital loss b/f	16,000 12,000	 **4,000**
		Gross Total Income	**2,15,000**

Illustration 3.4.3

The income of family is given below. Discuss on whose hands the income is taxed?

1. Mr. Raju earned income from business Rs.5,00,000
2. Mrs. Raju earned income from employment Rs.3,60,000
3. Their minor son earned interest income from a company for the investment done by his grandfather Rs.20,000
4. Another son of Mr.Raju, Akhil earned income from acting in a film Rs.3,00,000
5. Mr. Raju's minor daughter received income Rs.12,000

Solution

Computation of Income of Mr. Raju

1	Income from business		5,00,000
2	Interest of minor son	20,0000	
	Less : amount exempt u/s 10(32)	1,500	18,500
3	Income of minor daughter	12,000	
	Less :amount exempt u/s 10(32)	1500	10,500
	Total		5,29,000

Income of Mrs. Raju

Salary Rs. 3,60,000

◊ Income from acting – not includable in the income of parents.

Illustration 3.4.4

From the following information of Mr. Mohit for the financial year 2025-26, you are required to compute the total income for the financial year 2024-25 and ascertain the amount of losses that can be carried forward to the next year. (He has shifted out the default tax regime under section 115BAC)

(1)He owns two houses:

House No. I-Income after all statutory deductions ₹80,000

House No. II-Current year loss ₹38,000

(ii) He has three proprietary businesses:

<u>(a) Textile Business:</u>

Discontinued from 30/9/2024- Current year loss ₹40,000

Brought forward business loss of A.Y.2022-23 ₹95,000

(b)Chemical Business: since discontinued

Bad debts allowed in earlier years recovered during this year ₹35,000

Brought forward business loss of A.Y. 2023-24 ₹50,000

(c)Leather Business: Profit for the current year ₹1,00,000

(d)Share of profit in a firm in which he is partner since 2009 ₹16,550

(iii)Short-term capital gain ₹60,000

Long-term capital loss	Rs.35,000
(iv) Contribution to LIC towards premium	₹10,000

Solution

Computation of total income of Mr. Mohit for the A.Y. 2026-27

1. income from house property			
House No 1.	Rs. 80,000		
Less House No.ll Loss	38,000		42,000
2. Profits and gains of business or profession			
Profit from leather business		1,00,000	
Bad debts recovered taxable(section 41(4))		35.000	
		1,35,000	
Less:Current year loss of textile business		(-) 40,000	
		95,000	
Less: Brought forward business loss of textile business for			
A.Y.2020-21 set off against the business income of current year		95,000	
	Balance	Nil	
3. Capital Gains			
Short-term capital gain			60,000
Gross Total Income			1,02,000
Less:Deduction under Chapter VI-A Under section 80C			
LIC premium paid			10,000
Total Income			**92,000**

Recap

- ◊ Rebate – Reduction in tax payable, not total income.
- ◊ Section 87A – Provides tax rebate to eligible resident individuals, subject to prescribed conditions.
- ◊ Relief – Concession given to reduce the tax burden in specified situations.
- ◊ Clubbing of Income – Including another person's income in the assessee's income. Sections 60–64 deal with it.
- ◊ Intra-head Set-off – Section 70 – Set-off of loss against income under the same head.
- ◊ Inter-head Set-off – Section 71 – Set-off of eligible loss against income under a different head.

Objective Questions

1. What is meant by a tax rebate?
2. Which section provides tax rebate to eligible resident individuals?
3. Which section provides relief for salary received in arrears or advance?
4. What is the maximum tax rebate available under Section 87A under the old tax regime?
5. What is the main difference between a deduction and a rebate?
6. Which sections deal with clubbing of income?
7. Which section deals with intra-head set-off of losses?
8. Which section deals with inter-head set-off of losses?

Answers

1. Rebate – Reduction in tax payable.
2. Section 87A
3. Section 89(1)
4. ₹12,500
5. Deduction reduces taxable income, while rebate reduces tax liability.

6. Sections 60–64
7. Section 70
8. Section 71

Self-Assessment Questions

1. Explain the concept of rebate under the Income Tax Act.
2. Explain relief under Section 89(1).
3. Explain clubbing of income.
4. Explain set-off of losses.
5. Explain carry forward of losses.

Assignments

1. Explain the provisions relating to rebate and relief under the Income Tax Act.
2. Explain the provisions relating to clubbing of income under the Income Tax Act.
3. Explain the provisions relating to set-off and carry forward of losses.

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4
BLOCK

Personal Tax Planning

Unit 1
Tax Liability of Individuals

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ comprehend the provisions relating to the computation of tax liability of individuals under the Income-tax Act
- ◊ compute the tax liability of individuals under the Old Tax Regime
- ◊ calculate the tax liability of individuals under the New Tax Regime
- ◊ compare and evaluate the tax liability under the Old and New Tax Regimes to determine the most beneficial option

Prerequisites

The introduction of the New Tax Regime through the Union Budget 2020 & the new I T Act of 2025, marked a significant change in the Indian income tax system. The reform aimed to simplify tax compliance by offering lower tax rates in exchange for foregoing several exemptions and deductions available under the old regime. Following its introduction, taxpayers across India began comparing their tax liabilities under both regimes to determine the more beneficial option. Many salaried employees with limited investments and deductions found the new regime advantageous due to its reduced tax rates, while those claiming substantial deductions for provident fund contributions, insurance premiums and housing loans often preferred the old regime. This development highlighted the importance of understanding the computation of tax liability under both regimes, enabling individuals to make informed tax planning decisions.

Keywords

Tax Liability, Individual Assessee, Old Tax Regime, New Tax Regime, Total Income. Marginal relief, surcharge, cess

Discussion

Imagine two friends,Mr. Arun and Ms.Meera, who earn the same annual income. When the time comes to pay income tax, Mr.Arun chooses the Old Tax Regime because he has invested in tax-saving schemes and pays medical insurance premiums. Ms.Meera chooses the New Tax Regime because she prefers a simple system without maintaining records of deductions. Surprisingly, even though their incomes are the same, the amount of tax they pay is different. This happens because India offers two methods for calculating tax liability. Understanding these methods helps taxpayers choose the most beneficial option and legally reduce their tax burden.

4.1.1 Tax Liability

Tax liability refers to the amount of income tax payable by an individual to the Government after considering taxable income, deductions, exemptions, rebates, surcharge, and cess.

At present, an individual taxpayer can choose between:

1. Old Tax Regime
2. Default (New) Tax Regime under Section 115BAC

The New Tax Regime is the default system. But taxpayers may opt for the Old Tax Regime if it provides a lower tax burden.

4.1.1.1 Old Tax Regime

The Old Tax Regime is the traditional method of taxation followed in India for several decades. This regime allows taxpayers to reduce their taxable income through various deductions and exemptions provided under the Income Tax Act, 1961.The philosophy behind this regime is to encourage savings, investments, insurance coverage, retirement planning, and home ownership. The Government offers tax benefits to individuals who invest in specified schemes or incur certain eligible expenditures. Major Deductions and exemptions commonly claim under the Old Tax Regime are as follows:(Deductions are discussed in detailed in block 3)

1. Deduction under Section 80C

Under section 80 c of the income tax Act ,individuals and Hindu Undivided Families (H U F))can claim a maximum tax deduction of upto Rs.1.5 Lakhs per financial year on specified investments and expenses.

Eligible investments include:

- ◊ Public Provident Fund (PPF)
- ◊ Employees' Provident Fund (EPF)
- ◊ National Savings Certificate (NSC)
- ◊ Equity Linked Savings Scheme (ELSS)
- ◊ Life Insurance Premium
- ◊ Sukanya Samriddhi Account
- ◊ Tuition Fees for Children
- ◊ Principal Repayment of Housing Loan

For example**,** Mr. Asura invests ₹80,000 in PPF and ₹70,000 in Life Insurance Premium.

Deduction under Section 80C:

₹80,000 + ₹70,000 = ₹1,50,000

Therefore, he can claim the maximum deduction of ₹1,50,000.

2. Deduction under Section 80D

Section 80D provides deduction for medical insurance premiums.

Table 4.1.1 deductions under section 80D

Particulars	Maximum Deduction
Self, Spouse and Children	₹25,000
Parents (Senior Citizens)	₹50,000

Mrs. Anvitha pays:

- ◊ Mediclaim Premium for family = ₹22,000
- ◊ Mediclaim Premium for senior citizen parents = ₹45,000

Total deduction under Section 80D:

₹22,000 + ₹45,000 = ₹67,000

3. House Rent Allowance (HRA) Exemption

House Rent Allowance (HRA) is an allowance provided by employers to employees to help meet the cost of rented accommodation. Section 10(13A) of the Income Tax Act, 1961 grants exemption for HRA received by a salaried employee, subject to certain conditions.

The exemption is available only when the employee:

- ◊ Receives HRA as part of salary.

◊ Actually, resides in a rented house.

◊ Pays rent for the accommodation occupied.

The exemption is limited to the least of the following three amounts:

1. Actual HRA received.
2. Rent paid minus 10% of salary.
3. 50% of salary if the residential house is situated in Mumbai, Kolkata, Delhi, or Chennai, or 40% of salary if situated in any other city.

For this purpose, salary generally includes:

◊ Basic Salary

◊ Dearness Allowance (to the extent it forms part of retirement benefits)

◊ Commission based on a fixed percentage of turnover achieved by the employee

Illustration 4.1.1

Mr. Jyothish receives:

Particulars	Amount (₹)
Basic Salary	6,00,000
HRA Received	1,20,000
Rent Paid	12,000 per month (₹1,44,000 annually)
Place of Residence	Kochi

Step 1: Actual HRA Received

= ₹1,20,000

Step 2: Rent Paid – 10% of Salary

Rent Paid = ₹1,44,000

10% of Salary = ₹60,000

Excess Rent = ₹1,44,000 − ₹60,000

= ₹84,000

Step 3: 40% of Salary (as Kochi is not a metro city)

40% of ₹6,00,000

= ₹2,40,000

Particulars	Amount (₹)
Actual HRA Received	1,20,000
Rent Paid minus 10% of Salary	84,000
40% of Salary	2,40,000

The least amount is ₹84,000.

Therefore,

HRA Exempt = ₹84,000

Taxable HRA = ₹1,20,000 − ₹84,000 = ₹36,000

Thus, Section 10(13A) reduces the taxable salary of Mr. Jyothish by ₹84,000.

4. Leave Travel Allowance (LTA)

Leave Travel Allowance (LTA) is an allowance granted by an employer to an employee to cover travel expenses incurred while proceeding on leave. Section 10(5) of the Income Tax Act provides exemption for such travel expenses subject to prescribed conditions. The purpose of this provision is to encourage domestic tourism and provide tax relief for employees travelling within India during leave periods. Following are the Conditions for Claiming LTA Exemption:

1. The employee must actually undertake the journey.
2. The journey must be within India.
3. Exemption is available only for travel expenses.
4. Expenses on hotel accommodation, food, shopping, and local sightseeing are not exempt.
5. The exemption is available for the employee and eligible family members.
6. The exemption can generally be claimed for two journeys in a block of four calendar years.

Family for LTA Purpose Includes the following:

◊ Spouse
◊ Children
◊ Dependent parents
◊ Dependent brothers and sisters

Table 4.1.2 Eligible Travel Expenses

The exemption is restricted to the actual fare incurred.

Mode of Travel	Amount Eligible for Exemption
Air Travel	Economy class fare by the shortest route
Rail Travel	First-class or AC fare by the shortest route
Other Modes	Equivalent rail fare or prescribed limit

Illustration 4.1.2

Mr. Soju works in a private company and receives LTA of ₹40,000 during the year.

He travels with his family from Kochi to Delhi on leave and incurs the following expenses:

Particulars	Amount (₹)
Air Fare	32,000
Hotel Charges	15,000
Food Expenses	8,000
Shopping Expenses	5,000

The exemption is available only for travel fare.

Solution

LTA Received = ₹40,000

Eligible Travel Expense = ₹32,000

LTA Exempt = ₹32,000

Taxable LTA = ₹8,000

The expenses on hotel accommodation, food, and shopping are not eligible for exemption.

5. Interest on Housing Loan

Section 24(b) permits deduction for interest paid on a self-occupied residential house.

Maximum Deduction allowed is ₹2,00,000

Housing Loan Interest Paid = ₹1,80,000

Deduction under Section 24(b) = ₹1,80,000

4.1.1.1.1 Tax Liability of Individuals under the Old Tax Regime Based on Age Categories

Under the Old Tax Regime, individual taxpayers are classified into different age categories. The Income Tax Act provides a higher basic exemption limit to senior citizens and super senior citizens. This provision recognises that elderly individuals may have limited earning capacity and therefore deserve greater tax relief.

For the purpose of income tax, individuals are classified into three categories:

1. Individuals below 60 years of age
2. Senior Citizens (60 years or above but below 80 years)
3. Super Senior Citizens (80 years or above)

The tax liability of an individual depends not only on taxable income but also on the age category to which the taxpayer belongs.

a. Tax Liability of Individuals Below 60 Years of Age

Individuals who have not attained the age of 60 years during the relevant previous year fall under this category.

Table 4.1.3 Tax Slabs for Individuals Below 60 Years

Taxable Income	Tax Rate
Up to ₹2,50,000	Nil
₹2,50,001 – ₹5,00,000	5%
₹5,00,001 – ₹10,00,000	20%
Above ₹10,00,000	30%

The first ₹2,50,000 of income is exempt from tax. Income above this limit is taxed according to the applicable slab rates.

Illustration 4.1.3

If Mr. Nisar, aged 45 years, has a taxable income of ₹8,00,000, tax will be calculated as follows:

Particulars	Amount (₹)
Tax on first ₹2,50,000	Nil
Tax on next ₹2,50,000 @ 5%	12,500
Tax on next ₹3,00,000 @ 20%	60,000
Income Tax	72,500

b. Tax Liability of Senior Citizens (60 Years or Above but Below 80 Years)

A resident individual who is 60 years or above but less than 80 years of age during the relevant previous year is treated as a Senior Citizen.

The Income Tax Act grants a higher basic exemption limit to senior citizens.

Table 4.1.4 Tax Slabs for Senior Citizens

Taxable Income	Tax Rate
Up to ₹3,00,000	Nil
₹3,00,001 – ₹5,00,000	5%
₹5,00,001 – ₹10,00,000	20%
Above ₹10,00,000	30%

The first ₹3,00,000 of income is exempt from tax.

Illustration 4.1.4

Mr. Chandran, aged 68 years, has a taxable income of ₹8,00,000.

Particulars	Amount (₹)
Tax on first ₹3,00,000	Nil
Tax on next ₹2,00,000 @ 5%	10,000
Tax on next ₹3,00,000 @ 20%	60,000
Income Tax	70,000

Thus, senior citizens enjoy a tax saving due to the higher exemption limit.

c. Tax Liability of Super Senior Citizens (80 Years or Above)

A resident individual who has attained the age of 80 years or more during the relevant previous year is known as a Super Senior Citizen.

The Income Tax Act provides the highest basic exemption limit to this category.

Table 4.1.5 Tax Slabs for Super Senior Citizens

Taxable Income	Tax Rate
Up to ₹5,00,000	Nil
₹5,00,001 – ₹10,00,000	20%
Above ₹10,00,000	30%

There is no 5% slab for super senior citizens because income up to ₹5,00,000 is completely exempt.

Illustration 4.1.5

Mr. Raghavan, aged 83 years, has a taxable income of ₹8,00,000.

Particulars	Amount (₹)
Tax on first ₹5,00,000	Nil
Tax on next ₹3,00,000 @ 20%	60,000
Income Tax	60,000

Therefore, super senior citizens receive the maximum tax relief among individual taxpayers.

Table 4.1.6 Comparison of Age-wise Tax Slabs

Taxable Income	Below 60 Years	Senior Citizen (60–80 Years)	Super Senior Citizen (80 Years & Above)
Up to ₹2,50,000	Nil	Nil	Nil
₹2,50,001 – ₹3,00,000	5%	Nil	Nil
₹3,00,001 – ₹5,00,000	5%	5%	Nil
₹5,00,001 – ₹10,00,000	20%	20%	20%
Above ₹10,00,000	30%	30%	30%

4.1.2 Rebate under Section 87A under the Old Tax Regime

Section 87A of the Income Tax Act, 1961 provides tax relief to resident individual taxpayers belonging to the lower-income group. The rebate directly reduces the amount of income tax payable and helps ensure that individuals with relatively modest incomes either pay no tax or a reduced amount of tax.

The rebate is available only under specified conditions and is deducted from the income tax calculated before adding Health and Education Cess. A rebate is different from a deduction. A deduction reduces taxable income, whereas a rebate reduces the actual tax payable. Therefore, the benefit of Section 87A is received after computing the income tax liability. The objective of this provision is to reduce the tax burden on small taxpayers and provide financial relief to resident individuals. To claim the rebate under the Old Tax Regime, the following conditions must be satisfied:

1. The taxpayer must be a Resident Individual.
2. The taxpayer's total taxable income should not exceed ₹5,00,000.
3. The rebate is available to:
    - ◊ Individuals below 60 years of age.
    - ◊ Senior citizens (60 years and above but below 80 years).
4. The rebate is not available to:
    - ◊ Non-Resident Indians (NRIs).
    - ◊ Hindu Undivided Families (HUFs).
    - ◊ Firms and companies.

Under the Old Tax Regime, the maximum rebate available under Section 87A is ₹12,500 or the actual tax payable, whichever is lower. Thus, if the income tax payable is less than ₹12,500, the rebate is restricted to the actual amount of tax.

Table 4.1.7 Features of Rebate under Section 87A

Particulars	Details
Applicable Section	Section 87A
Eligible Assesse	Resident Individual

Maximum Taxable Income	₹5,00,000
Maximum Rebate	₹12,500

To understand the concept clearly, we can discuss a story of two friends.Mr. Saidalvi and Ms.Vasantha are colleagues working in the same organisation. At the end of the financial year, both prepare to file their income tax returns under the Old Tax Regime. After claiming eligible deductions for investments, insurance premiums, and other tax-saving expenses, Ms.Vasantha's taxable income comes within the prescribed limit for Section 87A. When the income tax is calculated, she worries that she will have to pay tax. Seeing her concern, Mr.Saidalvi explains that the Government provides a rebate under Section 87A to eligible resident individuals with lower taxable incomes. He tells her that the rebate does not reduce her income, instead it reduces the income tax payable after the tax has been calculated. As a result, if the calculated tax is within the eligible rebate limit, Ms.Vasantha does not have to pay any income tax. Through this experience, both understand that deductions reduce taxable income, whereas the rebate under Section 87A reduces the tax payable, providing financial relief to eligible taxpayers under the Old Tax Regime.

Illustration 4.1.6

Suppose Ms. Thahani, a resident individual aged 35 years, has a taxable income of ₹5,00,000. Computation of Rebate under Section 87A

Solution

Step 1: Calculate Income Tax

Particulars	Amount (₹)
Tax on first ₹2,50,000	Nil
Tax on next ₹2,50,000 @ 5%	12,500
Income Tax	12,500

Step 2: Less Rebate under Section 87A

Particulars	Amount (₹)
Income Tax	12,500
Less: Rebate under Section 87A	12,500
Tax after Rebate	Nil

Step 3: Add Health and Education Cess

Particulars	Amount (₹)
Tax after Rebate	Nil
Health and Education Cess @ 4%	Nil
Final Tax Liability	Nil

Thus, Ms. Thanhani is not required to pay any income tax.

Illustration 4.1.7

Ms. Deepam, a resident senior citizen aged 67 years, has a taxable income of ₹4,80000,.Compute tax liability:

Particulars	Amount (₹)
Taxable Income	4,80,000
Less: Basic Exemption Limit	3,00,000
Balance Income	1,80,000
Tax @ 5%	9,000

Rebate Calculation

Particulars	Amount (₹)
Income Tax	9,000
Less: Rebate under Section 87A	9,000
Tax after Rebate	Nil

Final Tax Liability = Nil

Since the tax payable is less than ₹12,500, the rebate is restricted to the actual tax amount of ₹9,000.

4.1.3 Tax Liability of Individuals under the New Tax Regime (Section 115BAC)

The New Tax Regime was introduced through Section 115BAC of the Income Tax Act, 1961. Under the restructured Income tax Act,2025 effective from April 1,2026 section 115 BAC of the old 1961 Act is numbered and mapped to section 202 .The core rules ,default status and tax rates remain unchanged. This was with the objective of simplifying the taxation system. Under this regime, taxpayers are offered lower tax rates in exchange for foregoing most exemptions and deductions available under the Old Tax Regime. The New Tax Regime has been made the default tax system for individuals and Hindu Undivided Families (HUFs). If the eligible tax payer does not opt for the old regime, income tax is computed under new regime. The philosophy behind the New Tax Regime is simple. Instead of encouraging tax-saving investments through numerous deductions and exemptions, the Government provides lower tax rates and a simplified method of tax computation. As a result, taxpayers need not invest merely for the purpose of reducing tax liability. Provide ease in tax liability calculation and filing.

4.1.3.1 Applicability of Section 115BAC

Section 115BAC applies to:

◊ Individuals

◊ Hindu Undivided Families (HUFs)

The regime is the default option for taxpayers. However, eligible taxpayers may choose the Old Tax Regime if it is more beneficial.

Table 4.1.8 Tax Slabs under Section 115BAC

Taxable Income	Tax Rate
Up to ₹4,00,000	Nil
₹4,00,001 – ₹8,00,000	5%
₹8,00,001 – ₹12,00,000	10%
₹12,00,001 – ₹16,00,000	15%
₹16,00,001 – ₹20,00,000	20%
₹20,00,001 – ₹24,00,000	25%
Above ₹24,00,000	30%

Unlike the Old Tax Regime, these slab rates apply uniformly to all individuals irrespective of age. Therefore, there is no distinction between ordinary individuals, senior citizens, and super senior citizens under the New Tax Regime.

4.1.3.2 Deductions and Benefits Available under the New Tax Regime

Although the New Tax Regime does not permit most deductions and exemptions available under the Old Tax Regime, certain important tax benefits continue to be available. These deductions help reduce the taxable income of eligible taxpayers.

1. Standard Deduction under Section 16(ia)

Salaried employees and pensioners are entitled to a Standard Deduction of ₹75,000. This deduction is allowed automatically while computing taxable salary, and no proof of expenditure is required.

Illustration 4.1.8

Ms. Kalhara receives a salary income of ₹12,75,000. Calculate her taxable income.

Particulars	Amount (₹)
Gross Salary	12,75,000
Less: Standard Deduction u/s 16(ia)	75,000
Taxable Income	12,00,000

Therefore, her taxable income becomes ₹12,00,000.

2. Employer's Contribution to National Pension System (NPS)

Deduction under Section 80CCD (2) for the employer's contribution to the National Pension System (NPS) continues to be available under the New Tax Regime. The employer's contribution up to 14% of salary, subject to the prescribed conditions, is eligible for deduction. This provision encourages retirement savings and remains one of the major benefits retained under Section 115BAC.

3. Deduction for Agniveer Corpus Fund

Contributions made by eligible Agniveers to the Agniveer Corpus Fund under Section 80CCH (2) continue to be deductible under the New Tax Regime. The corresponding contribution made by the Central Government is also eligible for deduction.

4. Interest on Home Loan for Let-Out Property

Interest paid on a housing loan for a let-out (rented) property can be fully claimed as a deduction while computing income from house property. Still, any resulting loss from house property cannot be set off against income under other heads during the same financial year and can only be carried forward according to the provisions of the Income-tax Act.

5. Family Pension Deduction

Recipients of family pension are eligible for a deduction under Section 57(iia). The deduction is ₹25,000 or one-third (1/3) of the family pension received, whichever is lower. This benefit continues to be available under the New Tax Regime and helps reduce the taxable family pension.

6. Deduction under Section 80JJAA (Employment of New Employees)

Although the New Tax Regime withdraws most deductions available under Chapter VI-A, the deduction under Section 80JJAA continues to be available to encourage formal employment generation. Eligible businesses can claim a deduction equal to 30% of the additional employee cost incurred for hiring eligible new employees. This deduction is available for three consecutive assessment years, resulting in a cumulative tax benefit of 90% of the additional employee cost over three years. To claim this deduction, the business must be liable for tax audit under Section 44AB, its gross total income must include profits and gains from business or profession, it must be registered under the Employees' Provident Funds (EPF) Act, and the new recruitment should result in an actual increase in the number of employees compared to the previous year. An employee qualifies as an eligible additional employee only if monthly emoluments do not exceed ₹25,000, the employee has worked for at least 240 days during the financial year (or 150 days for businesses engaged in apparel, footwear, or leather manufacturing), and is enrolled under the Employees' Provident Fund (EPF) Scheme. This provision enables businesses opting for the New Tax Regime to reduce their tax liability while promoting employment generation.

Table 4.1.9 Deductions Available under the New Tax Regime

Deduction	Benefit Available
Standard Deduction	₹75,000 for salaried employees and pensioners
Employer's Contribution to NPS	Employer's contribution up to 14% of salary, subject to prescribed conditions
Agniveer Corpus Fund	Deduction for eligible contributions under Section 80CCH (2)
Home Loan Interest (Let-Out Property)	Full deduction against rental income while computing income from house property
Family Pension Deduction	Lower of ₹25,000 or one-third of the family pension received

Table 4.1.10 Major Deductions Not Allowed

Section	Particulars
80C	PPF, LIC Premium, ELSS, NSC, Tuition Fees
80D	Medical Insurance Premium
10(13A)	House Rent Allowance (HRA)
10(5)	Leave Travel Allowance (LTA)
24(b)	Interest on Housing Loan
80E	Interest on Education Loan
80G	Donations
80TTA	Savings Bank Interest Deduction

Consequently, taxpayers opting for the New Tax Regime cannot reduce taxable income through most traditional tax-saving investments.

4.1.4 Rebate under Section 87A Under new tax regime

One of the most significant features of the New Tax Regime is the enhanced rebate under Section 87A.Eligibility for claiming rebate under section 87 A under new tax regime:

- ◊ Taxpayer must be a resident individual.
- ◊ Taxable income should not exceed ₹12,00,000.

The maximum rebate available is ₹60,000. This rebate can reduce the tax liability to Nil for eligible taxpayers.

Illustration 4.1.9 Rebate under Section 87A

Mr. Deepa has a taxable income of ₹12,00, 000.Calculate tax liability.

Solution

Tax Calculation

Particulars	Amount (₹)
Tax on first ₹4,00,000	Nil
Tax on next ₹4,00,000 @ 5%	20,000
Tax on next ₹4,00,000 @ 10%	40,000
Income Tax	60,000

Rebate Calculation

Particulars	Amount (₹)
Income Tax	60,000
Less: Rebate u/s 87A	60,000
Tax Payable	Nil

Therefore, Mr. Deepam pays no tax.

Zero Tax Liability up to ₹12.75 Lakh Salary

Because of the Standard Deduction of ₹75,000 and the rebate under Section 87A, a salaried individual can effectively enjoy zero tax liability on salary income up to ₹12,75,000.

Illustration 4.1.10

Mrs. Smitha earns a salary of ₹12,75,000.

Particulars	Amount (₹)
Gross Salary	12,75,000
Less: Standard Deduction	75,000
Taxable Income	12,00,000

Solution

Since taxable income is ₹12,00,000, she qualifies for the rebate under Section 87A.

Particulars	Amount (₹)
Income Tax	60,000
Less: Rebate u/s 87A	60,000
Final Tax Liability	Nil

Thus, the effective tax payable is Nil.

4.1.5 Health and Education Cess

After calculating tax and surcharge, Health and Education Cess is levied at 4%. Formula for calculating health and education cess is below:

Health and Education Cess = 4% × (Income Tax + Surcharge)

if tax liability becomes Nil after rebate, no cess is payable.

4.1.6 Surcharge under the New Tax Regime

The surcharge is calculated on the amount of income tax and is added before applying Health and Education Cess. Surcharge is an additional tax levied on taxpayers whose net taxable income exceeds specified limits. It is calculated as a percentage of the income tax payable and is charged before the Health and Education Cess. High-income taxpayers are required to pay surcharge in addition to income tax.

Table 4.1.11 Surcharge Rates of individuals and HUF

Net Taxable Income	Old Tax Regime	New Tax Regime
Up to ₹50,00,000	Nil	Nil
Above ₹50,00,000 up to ₹1,00,00,000	10%	10%
Above ₹1,00,00,000 up to ₹2,00,00,000	15%	15%
Above ₹2,00,00,000 up to ₹5,00,00,000	25%	25%
Above ₹5,00,00,000	37%	25%

Illustration 4.1.11

Ms. Aswani has a taxable income of ₹18,00,000 under the New Tax Regime.

Income Slab	Tax (₹)
Up to ₹4,00,000	Nil
₹4,00,001 – ₹8,00,000 @ 5%	20,000
₹8,00,001 – ₹12,00,000 @ 10%	40,000
₹12,00,001 – ₹16,00,000 @ 15%	60,000
₹16,00,001 – ₹18,00,000 @ 20%	40,000
Total Income Tax	1,60,000

Health and Education Cess:

₹1,60,000 × 4%= ₹6,400

Particulars	Amount (₹)
Income Tax	1,60,000
Health and Education Cess	6,400
Total Tax Liability	1,66,400

Table 4.1.12 Comparison of Old and New Tax Regimes

Basis	Old Tax Regime	New Tax Regime
Governing Provision	Normal Provisions	Section 115BAC
Status	Optional	Default Regime
Standard Deduction	₹50,000	₹75,000
Section 80C	Available	Not Available
Section 80D	Available	Not Available
HRA Exemption	Available	Not Available
LTA Exemption	Available	Not Available
Rebate u/s 87A	Up to ₹12,500	Up to ₹60,000
Rebate Income Limit	₹5,00,000	₹12,00,000
Age-based Slabs	Available	Not Available
Compliance Burden	High	Low

The New Tax Regime under Section 115BAC represents a significant shift in India's taxation policy. Instead of offering numerous deductions and exemptions, it provides lower tax rates and a simplified tax structure. The new tax regime ease in tax. The higher Standard Deduction under Section 16(ia), the enhanced rebate under Section 87A, and the wider slab structure make the regime particularly attractive for salaried employees and taxpayers with limited investments. Individuals who claim substantial deductions under Sections 80C, 80D, HRA, and housing loan provisions should carefully compare both regimes before selecting the most beneficial option. The ultimate choice should be based on the regime that results in the lowest overall tax liability while ensuring compliance with the provisions of the Income Tax Act, 1961.

Illustration 4.1.12

Mr. Anwar has a net taxable income of ₹45,00,000.

Particulars	Amount (₹)
Income Tax Payable	8,10,000
Surcharge	Nil
Tax + Surcharge	8,10,000
Health and Education Cess @ 4%	32,400
Total Tax Liability	8,42,400

Observation: No surcharge is payable as income does not exceed ₹50 lakh.

Illustration: 4.1.13

Mr. Anzer has a net taxable income of ₹70,00,000.

Particulars	Amount (₹)
Income Tax Payable	18,90,000
Surcharge @ 10%	1,89,000
Tax + Surcharge	20,79,000
Health and Education Cess @ 4%	83,160
Total Tax Liability	21,62,160

Illustration 4.1.14

Ms. Ambily has a net taxable income of ₹1,50,00,000.

Particulars	Amount (₹)
Income Tax Payable	49,50,000
Surcharge @ 15%	7,42,500
Tax + Surcharge	56,92,500
Health and Education Cess @ 4%	2,27,700
Total Tax Liability	59,20,200

Illustration 4.1.15

Mr. Chandran has a net taxable income of ₹3,00,00,000.

Particulars	Amount (₹)
Income Tax Payable	1,04,00,000
Surcharge @ 25%	26,00,000
Tax + Surcharge	1,30,00,000
Health and Education Cess @ 4%	5,20,000
Total Tax Liability	1,35,20,000

Illustration 4.1.16

Mr. Ravi has a net taxable income of ₹6,00,00,000. Comparison of Old and New Regimes

Particulars	Old Regime (₹)	New Regime (₹)
Income Tax Payable	2,13,00,000	1,77,00,000
Surcharge	37%	25%
Surcharge Amount	78,81,000	44,25,000
Tax + Surcharge	2,91,81,000	2,21,25,000
Health and Education Cess @ 4%	11,67,240	8,85,000
Total Tax Liability	3,03,48,240	2,30,10,000

For incomes above ₹5 crore, the new tax regime is more beneficial because the surcharge is restricted to 25%, whereas under the old regime it can be as high as 37%. After adding surcharge, a Health and Education Cess of 4% is levied on Income Tax plus Surcharge. This cess is applicable under both tax regimes.

4.1.7 Marginal Relief

Ms. Kalhara, Mr. Parthasarthy,Mr. Ajmal and Mr. Sam met again a few weeks later to discuss another important concept in income tax. This time,Ms.Kalhara had received a small salary increment and her taxable income increased from ₹50,00,000 to ₹50,20,000. She was happy about the additional income but became worried when she learned that income exceeding ₹50 lakh attracts surcharge under both the old and new tax regimes. She asked her friends, "My income has increased by only ₹20,000. Will I have to pay a huge amount of extra tax because I crossed the ₹50 lakh limit?"

Mr.Sam smiled and replied, "No. The Income-tax Act contains a provision called Marginal Relief to prevent such situations. Marginal Relief ensures that the additional tax payable, including surcharge, does not exceed the amount by which your income exceeds the surcharge threshold."

Mr. Ajmal was curious and asked for a simpler explanation. Sam said, "Imagine that because of your ₹20,000 salary increase, your tax liability increases by ₹35,000 due to surcharge. This would be unfair because the extra tax is greater than the additional income earned. Therefore, Marginal Relief reduces the tax so that the increase in tax does not exceed ₹20,000."

Mr. Parthasarathy then asked whether this rule applies under both tax regimes. Sam explained that Marginal Relief is available under both the old tax regime and the new tax regime whenever taxable income slightly exceeds the surcharge limits of ₹50 lakh, ₹1 crore, ₹2 crore or ₹5 crore. The purpose is the same in both regimes to ensure that taxpayers are not penalised for earning a little more income.

Mr. Sam pointed out an important difference between the two regimes. Under the old tax regime, the highest surcharge rate is 37% for taxable income exceeding ₹5 crore. Under the new tax regime, the maximum surcharge is restricted to 25%. Therefore, while Marginal Relief is available under both regimes, taxpayers with very high incomes generally benefit more under the new regime because the surcharge itself is lower.

After listening to the discussion, Ms. Kalhara understood that Marginal Relief acts as a protection mechanism for taxpayers. It ensures that a small increase in income does not result in an unreasonable increase in tax liability. In simple words, Marginal Relief guarantees that taxpayers are always better off earning additional income rather than losing most of it through surcharge and higher taxes.

Marginal Relief is a tax relief provided to taxpayers whose income exceeds a surcharge threshold by a small amount. It ensures that the additional tax payable, including surcharge, does not exceed the amount by which the income exceeds the specified threshold limit. That means a taxpayer should not be required to pay more additional tax than the additional income earned merely because the income has crossed a surcharge limit.

4.1.7.1 Applicability of Marginal Relief

Marginal Relief is available to individuals, Hindu Undivided Families (HUFs), Associations of Persons (AOPs), Bodies of Individuals (BOIs) and Artificial Juridical Persons liable to surcharge.

4.1.7.2 Surcharge Thresholds for Marginal Relief

Marginal Relief is available when taxable income exceeds any of the following limits:

Taxable Income Threshold
₹50,00,000
₹1,00,00,000
₹2,00,00,000
₹5,00,00,000

4.1.7.3 Condition for Allowing Marginal Relief

The total amount of income tax and surcharge payable on the excess income should not exceed: Tax payable on the threshold income Plus Amount by which the income exceeds the threshold.

> **Formula for Marginal Relief**
>
> Marginal Relief = (Tax including surcharge) – [Tax on threshold income + Excess income over threshold
>
> Where:
>
> Excess Income = Actual Taxable Income – Threshold Income

Suppose a taxpayer has a taxable income of ₹50,10,000.

Particulars	Amount (₹)
Taxable Income	50,10,000
Threshold Limit	50,00,000
Excess Income	10,000

The increase in tax liability due to surcharge should not exceed ₹10,000. If the additional tax is more than ₹10,000, Marginal Relief will be granted to reduce the excess tax burden.

Illustration 4.1.17

Compute the tax liability of Mr. Parthasarthy for the Assessment Year 2026-27 under both the Old Tax Regime and the New Tax Regime from the following particulars:

Particulars	Amount (₹)
Basic Salary	12,00,000
Dearness Allowance	2,00,000
House Rent Allowance Received	1,80,000
Rent Paid (Mumbai)	2,40,000
Interest on Savings Bank Deposit	15,000
Interest on Fixed Deposit	40,000
Contribution to PPF	1,50,000
Medical Insurance Premium paid for Self and Family	25,000

Assume that Mr. Parthasarthy is entitled to HRA exemption of ₹1,20,000 under Section 10(13A).

Required:

1. Compute Total Income under the Old Tax Regime.
2. Compute Total Income under the New Tax Regime.
3. Calculate the Tax Liability under both regimes.
4. Suggest the beneficial regime.

Solution

Computation of Total Income under the Old Tax Regime

Particulars	Amount (₹)
Basic Salary	12,00,000
Dearness Allowance	2,00,000
HRA Received	1,80,000
Gross Salary	15,80,000
Less: HRA Exemption	(1,20,000)
Taxable Salary	14,60,000
Interest on Savings Deposit	15,000
Interest on Fixed Deposit	40,000
Gross Total Income	15,15,000
Less: Deduction under Section 80C (PPF)	(1,50,000)
Less: Deduction under Section 80D	(25,000)
Total Income	13,40,000

Tax Liability under Old Tax Regime

Particulars	Amount (₹)
Tax on first ₹2,50,000	Nil
Tax on next ₹2,50,000 @ 5%	12,500
Tax on next ₹5,00,000 @ 20%	1,00,000
Tax on balance ₹3,40,000 @ 30%	1,02,000
Income Tax	2,14,500
Health and Education Cess @ 4%	8,580
Total Tax Liability	2,23,080

Computation of Total Income under the New Tax Regime

Particulars	Amount (₹)
Basic Salary	12,00,000
Dearness Allowance	2,00,000
HRA Received	1,80,000

Taxable Salary (No HRA Exemption)	15,80,000
Interest on Savings Deposit	15,000
Interest on Fixed Deposit	40,000
Gross Total Income	16,35,000
Less: Deductions under Sections 80C and 80D	Not Available
Total Income	16,35,000

Tax Liability under New Tax Regime

Particulars	Amount (₹)
Tax up to ₹4,00,000	Nil
Tax on next ₹4,00,000 @ 5%	20,000
Tax on next ₹4,00,000 @ 10%	40,000
Tax on next ₹4,00,000 @ 15%	60,000
Tax on balance ₹35,000 @ 20%	7,000
Income Tax	1,27,000
Health and Education Cess @ 4%	5,080
Total Tax Liability	1,32,080

Conclusion

Regime	Tax Liability (₹)
Old Tax Regime	2,23,080
New Tax Regime	1,32,080

The New Tax Regime is more beneficial as it results in a lower tax liability of ₹1,32,080

Illustration 1.4.18

Compute the tax liability of Mr. Bino Joy for the Assessment Year 2026-27 under both the Old Tax Regime and the New Tax Regime from the following particulars:

Particulars	Amount (₹)
Basic Salary	10,50,000
Dearness Allowance	1,50,000
House Rent Allowance Received	1,20,000
Rent Paid (Kochi)	1,80,000
Interest on Savings Bank Deposit	12,000
Interest on Fixed Deposit	28,000
Contribution to Public Provident Fund (PPF)	1,50,000
Life Insurance Premium	30,000
Medical Insurance Premium for Self and Family	25,000

Assume that Mr. Bino Joy is entitled to HRA exemption of ₹80,000 under Section 10(13A).

Required:

1. Compute the Total Income under the Old Tax Regime.
2. Compute the Total Income under the New Tax Regime.
3. Calculate the Tax Liability under both regimes.
4. State the beneficial regime.

Solution

Computation of Total Income under the Old Tax Regime

Particulars	**Amount (₹)**
Basic Salary	10,50,000
Dearness Allowance	1,50,000
House Rent Allowance Received	1,20,000
Gross Salary	13,20,000
Less: HRA Exemption	(80,000)
Taxable Salary	12,40,000
Interest on Savings Bank Deposit	12,000
Interest on Fixed Deposit	28,000
Gross Total Income	12,80,000
Less: Deduction under Section 80C (PPF + LIC)	(1,50,000)
Less: Deduction under Section 80D	(25,000)
Total Income	11,05,000

Tax Liability under the Old Tax Regime

Particulars	**Amount (₹)**
Tax on first ₹2,50,000	Nil
Tax on next ₹2,50,000 @ 5%	12,500
Tax on next ₹5,00,000 @ 20%	1,00,000
Tax on balance ₹1,05,000 @ 30%	31,500
Income Tax	1,44,000
Health and Education Cess @ 4%	5,760
Total Tax Liability	1,49,760

Computation of Total Income under the New Tax Regime

Particulars	Amount (₹)
Basic Salary	10,50,000
Dearness Allowance	1,50,000
House Rent Allowance Received	1,20,000
Taxable Salary	13,20,000
Interest on Savings Bank Deposit	12,000
Interest on Fixed Deposit	28,000
Gross Total Income	13,60,000
Less: Deductions under Sections 80C and 80D	Not Available
Total Income	13,60,000

Tax Liability under the New Tax Regime

Particulars	Amount (₹)
Tax up to ₹4,00,000	Nil
Tax on next ₹4,00,000 @ 5%	20,000
Tax on next ₹4,00,000 @ 10%	40,000
Tax on balance ₹1,60,000 @ 15%	24,000
Income Tax	84,000
Health and Education Cess @ 4%	3,360
Total Tax Liability	87,360

Conclusion

Regime	Tax Liability (₹)
Old Tax Regime	1,49,760
New Tax Regime	87,360

The New Tax Regime is more beneficial to Mr. Bino Joy as it results in a lower tax liability of ₹87,360.

Illustration 1.4.19

Particulars	Amount (₹)
Basic Salary	9,60,000
Dearness Allowance (forming part of salary)	1,20,000
Interest on Savings Bank Deposit	15,000
Gross Total Income	10,95,000

Additional Information:

1. Contribution to Public Provident Fund (PPF) eligible under Section 80C – ₹1,50,000.
2. Medical Insurance Premium paid for self and spouse eligible under Section 80D – ₹25,000.
3. Interest on Savings Bank Account eligible under Section 80TTA – ₹10,000.

Compute the tax liability of Mr. Gopakumar for the Assessment Year 2026–27 under:

a. Old Tax Regime

b. New Tax Regime

Assume that all conditions prescribed under the Income-tax Act, 1961 are satisfied.

Solution

Old Tax Regime

Particulars	**Amount (₹)**
Gross Total Income	10,95,000
Less: Deduction under Section 80C	1,50,000
Less: Deduction under Section 80D	25,000
Less: Deduction under Section 80TTA	10,000
Total Deductions	1,85,000
Taxable Income	**9,10,000**

Computation of Tax Liability

Particulars	**Amount (₹)**
Tax on first ₹2,50,000	Nil
Tax on next ₹2,50,000 @ 5%	12,500
Tax on next ₹4,10,000 @ 20%	82,000
Income Tax	94,500
Add: Health and Education Cess @ 4%	3,780
Total Tax Liability	**98,280**

New Tax Regime

Particulars	**Amount (₹)**
Gross Total Income	10,95,000
Less: Deductions under Sections 80C, 80D and 80TTA	Not Allowed
Taxable Income	10,95,000

Computation of Tax Liability

Particulars	Amount (₹)
Tax on first ₹4,00,000	Nil
Tax on next ₹4,00,000 @ 5%	20,000
Tax on next ₹2,95,000 @ 10%	29,500
Income Tax	49,500
Rebate under Section 87A (Not available as income exceeds ₹12,00,000 after considering special provisions)	Nil
Add: Health and Education Cess @ 4%	1,980
Total Tax Liability	**51,480**

Comparison

Particulars	Old Regime (₹)	New Regime (₹)
Taxable Income	9,10,000	10,95,000
Tax Liability	98,280	51,480

In this case, the New Tax Regime is more beneficial because the tax liability is lower by ₹46,800 (₹98,280 – ₹51,480). To make the Old Tax Regime more beneficial, the assessee must generally claim substantial deductions and exemptions (such as Sections 80C, 80D, housing loan interest, NPS contribution, HRA exemption, etc.) so that the reduction in taxable income outweighs the lower tax rates available under the New Tax Regime.

Recap

- ◊ Total income refers to the aggregate income of an individual computed in accordance with the provisions of the Income-tax Act.
- ◊ Tax liability is the amount of income tax payable by an individual on the total income earned during a financial year.
- ◊ The Old Tax Regime allows taxpayers to claim various exemptions and deductions while computing taxable income.
- ◊ The New Tax Regime offers lower tax rates with limited exemptions and deductions.
- ◊ Surcharge is an additional tax imposed on individuals whose income exceeds specified limits.
- ◊ Marginal relief ensures that the additional tax payable due to surcharge does not exceed the increase in income.

◊ Health and Education Cess is levied on the amount of income tax and surcharge at the prescribed rate.

◊ Tax computation involves determining the final tax payable after applying tax rates, rebate, surcharge, marginal relief and cess.

Objective Questions

1. What is the aggregate income computed under the provisions of the Income-tax Act known as?
2. What is the amount of tax payable by an individual called?
3. Which tax regime permits taxpayers to claim various exemptions and deductions?
4. Which tax regime offers concessional tax rates with limited exemptions and deductions?
5. What is the additional tax levied on individuals with income exceeding specified limits called?
6. What is the relief provided to ensure that surcharge does not exceed the increase in income called?
7. What is the percentage of Health and Education Cess levied on income tax and surcharge?
8. Which tax regime generally provides lower tax rates?
9. Which rebate is available to eligible resident individuals under the Income-tax Act?
10. What is the process of determining the final tax payable by an individual known as?

Answers

1. Total Income
2. Tax Liability
3. Old Tax Regime
4. New Tax Regime
5. Surcharge
6. Marginal Relief

7. 4%
8. New Tax Regime
9. Rebate under Section 87A
10. Tax Computation

Self-Assessment Questions

1. Mrs. Sophia furnishes the following particulars for the Previous Year 2025–26:

Particulars	Amount (₹)
Basic Salary	9,60,000
Dearness Allowance (forming part of salary)	1,20,000
Bonus	80,000
Interest on Savings Bank Deposit	15,000

Additional Information:

- ◊ Contribution to PPF eligible under Section 80C – ₹1,50,000.
- ◊ Medical Insurance Premium paid for self and family eligible under Section 80D – ₹25,000.
- ◊ Contribution to NPS eligible under Section 80CCD(1B) – ₹50,000.
- ◊ Deduction under Section 80TTA – ₹10,000.

Compute the tax liability of Mrs. Sophia under the Old Tax Regime and the New Tax Regime for the Assessment Year 2026–27 and determine the more beneficial regime.

2. Mr. Vincent provides the following details for the Previous Year 2025–26:

Particulars	Amount (₹)
Salary Income	12,00,000
Income from House Property	1,20,000
Interest on Savings Bank Account	12,000

Additional Information:

- ◊ Investment under Section 80C – ₹1,50,000.
- ◊ Medical Insurance Premium under Section 80D – ₹25,000.
- ◊ Contribution to NPS under Section 80CCD(1B) – ₹50,000.
- ◊ Deduction under Section 80TTA – ₹10,000.

Compute the tax liability under both tax regimes and state which regime is more advantageous.

3. Mr. Krishnakumar submits the following particulars for the Previous Year 2025–26:

Particulars	Amount (₹)
Basic Salary	11,00,000
Dearness Allowance	1,50,000
Commission	75,000
Interest on Fixed Deposit	30,000
Interest on Savings Bank Deposit	10,000

Additional Information:

◊ Eligible investment under Section 80C – ₹1,50,000.

◊ Medical Insurance Premium under Section 80D – ₹25,000.

◊ Contribution to NPS under Section 80CCD(1B) – ₹50,000.

◊ Interest on Housing Loan eligible under Section 24(b) – ₹2,00,000.

Calculate the tax liability under the Old and New Tax Regimes and identify the beneficial regime.

4. Explain the salient features of the Old Tax Regime and the New Tax Regime under the Income-tax Act, 1961. Compare the tax rates, deductions, exemptions, and rebate provisions available under both regimes.

5. Examine the provisions relating to tax rebate under Section 87A under the Old Tax Regime and the New Tax Regime. Highlight the conditions for eligibility and the amount of rebate available.

Assignments

1. Mr. Jagathy Raj has the following income details for the Previous Year 2025–26:

Particulars	Amount (₹)
Salary Income	14,50,000
Income from House Property	80,000
Interest on Savings Bank Deposit	15,000
Interest on Fixed Deposit	40,000

Additional Information:

◊ Deduction under Section 80C – ₹1,50,000.
◊ Deduction under Section 80D – ₹25,000.
◊ Deduction under Section 80CCD(1B) – ₹50,000.
◊ Deduction under Section 80TTA – ₹10,000.

Compute the tax liability under the Old Tax Regime and the New Tax Regime and conclude which regime is more beneficial.

2. Mrs. Saranya furnishes the following particulars for the Previous Year 2025–26:

Particulars	Amount (₹)
Basic Salary	15,00,000
Dearness Allowance	2,00,000
Bonus	1,00,000
Interest on Savings Bank Deposit	20,000

Additional Information:

◊ Investment qualifying under Section 80C – ₹1,50,000.
◊ Medical Insurance Premium under Section 80D – ₹25,000.
◊ Contribution to NPS under Section 80CCD(1B) – ₹50,000.
◊ Interest on Housing Loan eligible under Section 24(b) – ₹2,00,000.
◊ Deduction under Section 80TTA – ₹10,000.

Compute the tax liability under both the Old and New Tax Regimes for the Assessment Year 2026–27 and comment on the most beneficial regime.

3. Explain the tax slabs applicable to individuals under the New Tax Regime. Discuss the rationale behind the introduction of the New Tax Regime and its advantages and limitations.
4. Differentiate between the Old Tax Regime and the New Tax Regime. Discuss the circumstances under which an assessee may prefer one regime over the other.

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Unit 2
Tax Planning

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ comprehend the concept of tax planning
- ◊ describe the tax planning initiatives to individuals
- ◊ discuss the concept of personal tax planning
- ◊ provide hints for tax planning

Prerequisites

Mr.Ravi and Mr.Suresh. Both earned ₹10,00,000 during the year. Mr.Ravi spent his income without thinking about taxes and finally paid ₹2,00,000 as income tax.Mr. Suresh planned his finances carefully by investing in eligible tax-saving schemes and claiming the deductions and exemptions available under the Income Tax Act. As a result, he paid much less tax and retained more of his hard-earned money. This is called tax planning. Tax planning is the process of arranging your financial affairs in a legal and systematic way to minimize tax liability while fully complying with the law. It does not involve hiding income or evading taxes. Instead, it makes use of the tax benefits, deductions, exemptions, and rebates provided by the government. Effective tax planning not only reduces the amount of tax payable but also encourages savings, investments, retirement planning, and long-term wealth creation. In simple words, tax planning is like solving a puzzle the government provides several tax-saving opportunities, and a wise taxpayer fits these opportunities together to legally reduce taxes while achieving financial goals.

Keywords

Tax planning, personal tax planning, hints for tax planning

Discussion

All taxpayer tries to minimise tax liability while complying with the provisions of the Income-tax Act. The law itself provides opportunities to reduce tax through proper financial planning. A taxpayer may arrange financial affairs in a manner that legally reduces tax liability. Such an approach is known as tax planning. At present, individual taxpayers in India can choose between the Old Tax Regime and the New Tax Regime. Therefore, tax planning should be understood in the context of both regimes. The nature and scope of tax planning differ under each regime because the tax benefits available are different.

Consider two friends, Mr. Robin and Mr. Nowfal, who earn the same annual salary of ₹20,00, 000.Mr,Robin opts for the Old Tax Regime. He invests in Public Provident Fund (PPF), pays life insurance premiums, contributes to the National Pension System (NPS), and purchases medical insurance. These investments and expenditures qualify for deductions under various provisions of the Income-tax Act. As a result, his taxable income is reduced and his tax liability decreases. Mr.Nowfal opts for the New Tax Regime. He does not make tax-saving investments only for claiming deductions. Instead, he benefits from the concessional tax rates available under the new regime. After comparing the tax liability under both regimes, he finds that the new regime is more beneficial for his financial situation. Both Robin and Mr.Nowfal legally reduce their tax burden by selecting the option best suited to their circumstances. This represents tax planning.

4.2.1 Tax Planning

Imagine two neighbours, Mr.Arjun and Mr.Bharat, who both earn an annual income of ₹12,00,000. At the end of the financial year,Mr.Arjun is worried because he has to pay a large amount of income tax. He never thought about tax throughout the year and started looking for ways to reduce his tax burden only a few days before filing his return. Mr.Bharat, on the other hand, remains calm. From the beginning of the financial year, he planned his finances carefully. He invested in eligible tax-saving schemes, maintained proper records of his investments, purchased health insurance, contributed towards his retirement, and selected the most suitable tax regime after comparing the available options. As a result, Mr.Bharat pays only the amount of tax that is legally required while also creating wealth for his future.

The difference between Mr.Arjun and Mr.Bharat is not the amount of income they earn but the way they manage their finances. Mr.Bharat practises tax planning, which enables him to reduce his tax liability legally without violating any provision of the Income Tax Act. This example highlights the true meaning of tax planning. Tax planning is not about escaping tax or hiding income. Instead, it is about arranging financial affairs intelligently so that a taxpayer can enjoy every legitimate tax benefit provided by law while remaining fully compliant with tax regulations.

Tax planning refers to the systematic arrangement of a taxpayer's financial affairs in such a manner that the tax liability is reduced to the minimum possible extent through legal means. It involves analysing income, investments, expenditures, assets, liabilities, and future financial goals before making financial decisions. Every decision is taken within the framework of the law, ensuring that the taxpayer pays only the tax legally due and no more.

For example, Ms.Meera is a salaried employee earning ₹10 lakh annually. Instead of waiting until the last month of the financial year, she begins planning in April. Every month she contributes to her retirement fund, purchases health insurance for her family, and makes eligible investments that qualify for tax benefits. At the end of the year, she not only reduces her taxable income but also builds long-term financial security. This demonstrates that tax planning benefits both the taxpayer and society because it promotes legal compliance while encouraging productive savings. Features of Tax Planning are as follows:

◊ Tax planning is a legal process that helps taxpayers reduce their tax liability by making use of the provisions, deductions, exemptions, rebates, and incentives permitted under the Income Tax Act.

◊ Tax planning aims to minimise tax liability by ensuring that taxpayers pay only the amount of tax legally due without resorting to tax evasion or tax avoidance.

◊ Tax planning requires advance planning because financial decisions, investments, and tax-saving measures are most effective when implemented throughout the financial year rather than at the last minute.

◊ Tax planning is goal-oriented, as it not only reduces tax liability but also helps individuals achieve long-term financial goals such as purchasing a house, funding children's education, planning for retirement, and creating wealth.

◊ Tax planning promotes financial discipline by encouraging regular savings, systematic investments, proper budgeting, and the maintenance of accurate financial records.

◊ Tax planning is dynamic and flexible because it must be revised periodically to reflect changes in tax laws, government policies, tax rates, deductions, exemptions, and other statutory provisions.

◊ Tax planning is individual-specific, as the most suitable tax planning strategy depends on factors such as income level, age, occupation, family responsibilities, investment preferences, and financial objectives.

◊ Tax planning enhances overall financial well-being by integrating tax savings with effective financial management, wealth creation, retirement security, risk management, and long-term financial stability.

- ◊ Tax planning ensures compliance with tax laws by encouraging taxpayers to file accurate tax returns, maintain proper documentation, and fulfil all statutory obligations within the prescribed time limits.
- ◊ Tax planning supports efficient financial decision-making by enabling taxpayers to evaluate the tax implications of investment, financing, and expenditure decisions before committing their financial resources.

In the modern economic environment, tax planning has become an essential part of personal and business financial management. Rising incomes, changing tax laws, multiple investment opportunities, and evolving financial goals require individuals and businesses to plan their taxes carefully. Proper tax planning not only reduces tax liability but also encourages savings, investment, retirement security, wealth creation, and financial discipline. Objectives of tax planning are as follows:

1. To Minimise Tax Liability

The primary objective of tax planning is to reduce the tax liability of taxpayers through legal means. It enables individuals and businesses to make effective use of deductions, exemptions, rebates, tax credits, and other incentives available under the Income Tax Act. The aim is to ensure that taxpayers pay only the amount of tax that is legally due without violating any provisions of the law.

2. To Ensure Compliance with Tax Laws

Tax planning seeks to ensure full compliance with the provisions of the Income Tax Act. It encourages taxpayers to maintain proper books of account, preserve supporting documents, disclose all sources of income accurately, pay taxes on time, and file income tax returns within the prescribed due dates. Proper compliance helps avoid interest, penalties, and legal disputes.

3. To Maximise Savings and Investments

Another important objective of tax planning is to promote systematic savings and productive investments. Tax incentives provided by the government encourage taxpayers to invest in approved financial instruments, retirement schemes, insurance products, and other eligible investments. This not only reduces tax liability but also supports long-term wealth creation.

4. To Promote Long-term Financial Security

Tax planning helps individuals prepare for future financial needs such as retirement, children's education, medical emergencies, and other life goals. By integrating tax-saving opportunities with financial planning, taxpayers can build adequate financial resources while simultaneously enjoying tax benefits.

5. To Support Better Financial Decision-making

Tax planning enables taxpayers to evaluate the tax implications of various financial decisions before making investments, purchasing assets, starting businesses, or undertaking other financial activities. This helps them select the most tax-efficient alternatives while achieving their financial objectives.

6. To Improve Cash Flow

Effective tax planning reduces the amount of tax payable, allowing taxpayers to retain a larger portion of their income. The additional disposable income can be invested, saved, or utilised for productive purposes, thereby improving overall cash flow and financial stability.

7. To Avoid Interest, Penalties, and Legal Disputes

Proper tax planning ensures that taxpayers fulfil all statutory obligations within the prescribed time limits. Timely payment of taxes, accurate filing of returns, and proper maintenance of records help avoid interest charges, penalties, scrutiny, and unnecessary litigation with tax authorities.

8. To Facilitate Wealth Creation

Tax planning encourages disciplined investment and efficient financial management, which contribute to the accumulation of wealth over time. By combining tax-efficient investment strategies with long-term financial planning, taxpayers can achieve sustainable growth in their assets and financial resources.

9. To Encourage Productive Investments

Governments provide various tax incentives to encourage investments in sectors that contribute to economic growth, such as infrastructure, pensions, insurance, renewable energy, and specified savings schemes. Tax planning helps taxpayers take advantage of these incentives while supporting national development.

10. To Achieve Overall Financial Well-being

The ultimate objective of tax planning is to integrate tax management with comprehensive financial planning. It enables taxpayers to reduce taxes legally, increase savings, build wealth, manage risks, achieve financial goals, and ensure long-term financial security. Thus, tax planning contributes to the overall financial well-being of individuals and businesses.

4.2.1.1 Tax Planning under the Old Tax Regime

The Old Tax Regime is based on the principle of encouraging savings, investments, insurance protection, housing ownership, retirement planning, and socially desirable expenditures by granting various deductions and exemptions. Under this regime, taxpayers are permitted to reduce their taxable income by claiming deductions under Chapter VI-A, exemptions in respect of certain allowances, and deductions under different provisions of the Income-tax Act. Therefore, tax planning under the old regime primarily focuses on identifying eligible deductions and exemptions and arranging financial affairs to maximise these benefits.

A taxpayer who adopts the old regime must carefully plan investments, insurance policies, housing finance, retirement contributions, and other eligible expenditures so that taxable income can be reduced legally. Since tax is levied on taxable income, every deduction claimed results in a reduction of the tax burden. (Deductions discussed detailed in Block 3)

i. Deduction under Section 80C

Section 80C is one of the most important tax planning provisions available under the old regime. It allows deduction for specified investments and expenditures up to the prescribed limit. The objective of this provision is to encourage savings and long-term financial security. The following investments and expenditures qualify for deduction under Section 80C:

- ◊ Contribution to Public Provident Fund (PPF)
- ◊ Investment in Equity Linked Savings Schemes (ELSS)
- ◊ National Savings Certificate (NSC)
- ◊ Life insurance premium
- ◊ Employee's contribution to recognised provident fund
- ◊ Tuition fees paid for children's education
- ◊ Principal repayment of housing loan
- ◊ Five-year tax-saving fixed deposits with banks

A taxpayer can select a suitable combination of these investments depending on financial goals and risk appetite. For example, an individual who invests ₹1,50,000 in PPF during a financial year can claim deduction of the same amount from gross total income, thereby reducing taxable income.

ii. Deduction under Section 80D

Section 80D provides deduction in respect of medical insurance premiums paid for self, spouse, dependent children, and parents. The provision promotes health insurance coverage and financial protection against medical emergencies. The deduction is available only when the premium is paid through prescribed modes other than cash, except for preventive health check-ups within the specified limits. Tax planning under this provision involves purchasing adequate health insurance coverage for family members. Besides ensuring financial security, such insurance enables the taxpayer to claim deduction and reduce taxable income.

iii. Deduction for Contribution to the National Pension System (NPS)

The National Pension System is a retirement-oriented savings scheme designed to provide financial security after retirement. Contributions made to NPS qualify for deduction under the Income-tax Act subject to prescribed conditions and limits. Taxpayers who plan for retirement through NPS not only build a retirement corpus but also obtain tax benefits. Since retirement planning is a long-term financial objective, NPS serves both investment and tax planning purposes.

iv. House Rent Allowance (HRA) Exemption

House Rent Allowance is an allowance granted by employers to employees for meeting rental accommodation expenses. Under the old regime, exemption is available in respect of HRA subject to prescribed conditions. The exemption depends upon factors such as:

- ◊ Amount of HRA received
- ◊ Salary of the employee
- ◊ Actual rent paid
- ◊ Place of residence

Tax planning through HRA is particularly beneficial for salaried employees residing in rented accommodation. Proper maintenance of rent receipts and rental agreements helps in claiming the exemption legally.

v. Leave Travel Allowance (LTA) Exemption

Leave Travel Allowance is provided by employers to employees for travel expenses incurred while on leave. Under the old regime, exemption is available for travel expenses incurred for journeys within India, subject to prescribed conditions. The exemption is generally available for the actual travel fare and is restricted to specific journeys during a block period. Taxpayers who plan domestic travel in accordance with the provisions of the Act can claim exemption and reduce taxable income.

vi. Deduction for Interest on Housing Loan under Section 24(b)

The Income-tax Act encourages home ownership by allowing deduction for interest paid on borrowed capital used for acquisition, construction, repair, renewal, or reconstruction of house property. For a self-occupied house property, interest deduction is available up to the prescribed limit subject to fulfilment of statutory conditions. A taxpayer purchasing a residential house through a housing loan can therefore obtain dual benefits:

- ◊ Deduction of principal repayment under Section 80C.
- ◊ Deduction of interest payment under Section 24(b).

Consequently, housing finance represents one of the most significant tax planning opportunities available under the old regime.

vii. Other Deductions under Chapter VI-A

Apart from Sections 80C and 80D, several other deductions are available under Chapter VI-A, including:

- ◊ Section 80E – Interest on education loan.
- ◊ Section 80G – Donations to approved charitable institutions.
- ◊ Section 80TTA and 80TTB – Interest on savings accounts and deposits.
- ◊ Section 80U – Deduction for persons with disabilities.
- ◊ Section 80DD and 80DDB – Specified medical treatment and maintenance expenses.

Proper utilisation of these deductions can substantially reduce taxable income and overall tax liability. Tax planning under the old regime is essentially deduction-oriented. The taxpayer attempts to minimise taxable income through eligible investments and expenditures. Therefore, successful tax planning requires:

- ◊ Early identification of tax-saving opportunities.
- ◊ Systematic investment throughout the year.
- ◊ Maintenance of proper documentation.
- ◊ Selection of suitable financial instruments.
- ◊ Effective utilisation of available deductions and exemptions.

A taxpayer who plans investments and expenditures carefully can significantly reduce taxable income and consequently lower tax liability under the old tax regime.

4.2.1.2 Tax Planning under the New Tax Regime

The New Tax Regime was introduced to simplify the tax system by offering lower tax rates in exchange for the withdrawal of most deductions and exemptions. Unlike the old regime, where tax planning focuses on claiming deductions, the new regime emphasises simplicity, flexibility, and efficient tax structure selection. Ensures ease of doing business in India. Under this regime, taxpayers generally cannot claim many popular deductions and exemptions such as deductions under Section 80C, Section 80D, HRA exemption, LTA exemption, and several other benefits available under the old regime. Consequently, tax planning under the new regime takes a different approach.

i. Selection of the Appropriate Tax Regime

The most important tax planning decision under the new regime is the selection between the old and new tax regimes. Before filing the return of income, taxpayers should compare tax liability under both regimes. The regime resulting in lower tax liability should generally be selected. This comparison has become one of the most significant aspects of modern tax planning. A taxpayer with substantial deductions may find the old regime beneficial, whereas a taxpayer with limited deductions may prefer the new regime.

ii. Utilisation of Standard Deduction

The standard deduction is a fixed deduction allowed from salary income and pension income without requiring any proof of expenditure. It is available to salaried employees and pensioners irrespective of their actual employment-related expenses and helps reduce taxable income. Under the New Tax Regime, the standard deduction continues to be available and serves as one of the major tax benefits retained despite the withdrawal of most exemptions and deductions. As amended by the Finance (No. 2) Act, 2024, the amount of standard deduction has been increased from ₹50,000 to ₹75,000 with effect from Assessment Year 2025–26 (Previous Year 2024–25). Thus, a salaried employee earning a gross salary of ₹10,00,000 can deduct ₹75,000 and pay tax on only ₹9,25,000.

iii. Investment Decisions Based on Financial Objectives

One of the major changes under the new regime is that investments are no longer driven primarily by tax-saving motives. Under the old regime, taxpayers frequently invested in particular schemes solely to claim deductions. Under the new regime, investments are selected primarily on the basis of:

◊ Risk-return characteristics.
◊ Liquidity requirements.
◊ Retirement objectives.
◊ Wealth creation goals.
◊ Financial security.

This approach promotes rational investment behaviour because financial decisions are based on economic considerations rather than tax incentives.

iv. Efficient Salary Structuring

Although many exemptions are unavailable, salary structuring remains an important aspect of tax planning. Employers and employees may structure compensation packages in a manner consistent with statutory provisions and organisational policies. Retirement benefits, employer contributions, and other permissible components should be reviewed carefully to achieve optimum tax efficiency.

v. Retirement Planning

Retirement planning continues to remain important under the new regime even when tax incentives are reduced. Taxpayers should continue investing for retirement because the primary objective of retirement planning is financial security rather than tax savings. Long-term investments help create wealth and ensure economic stability after retirement.

vi. Income and Expenditure Planning

Tax planning under the new regime also involves efficient management of income and expenditure.

Taxpayers should:

◊ Analyse sources of income.
◊ Review investment returns.
◊ Manage borrowing costs effectively.
◊ Plan long-term financial commitments.
◊ Monitor cash flows regularly.

Such planning helps in optimising financial resources and minimising overall tax burden within the framework of the law. The new regime shifts the focus of tax planning from deductions to tax-rate optimisation. Therefore, tax planning under this regime involves:

◊ Comparing both tax regimes before making a choice.
◊ Understanding the impact of lower tax rates.
◊ Making investments based on financial goals rather than tax incentives.
◊ Structuring income efficiently.
◊ Maintaining long-term financial discipline.

Thus, while tax planning remains important under the new regime, its emphasis has shifted from claiming deductions and exemptions to selecting the most beneficial tax structure and making financially sound decisions. This approach seeks to combine tax efficiency with simplicity and long-term financial well-being.

4.2.2 Tax Planning for Individuals

Tax planning is an important aspect of personal financial management. Every individual seeks to maximise income, increase savings, and achieve financial goals while complying with the provisions of tax laws. Personal tax planning involves the systematic arrangement of an individual's financial affairs to minimise tax liability through lawful means. It helps taxpayers utilise available deductions, exemptions, rebates, and reliefs while ensuring full compliance with the Income-tax Act.

Personal tax planning is not merely concerned with reducing taxes. It also aims to improve financial security, encourage disciplined savings, facilitate retirement planning, and support long-term wealth creation. In the modern tax environment, individuals must evaluate both the Old Tax Regime and the New Tax Regime to determine the most beneficial option.

Consider the case of Anjali, a school teacher in Thiruvananthapuram. At the beginning of the financial year, she reviewed her expected salary income and future financial needs. She planned to save for her daughter's higher education, secure her family's health through medical insurance, and build a retirement corpus. After consulting a tax adviser, she invested in eligible instruments under Section 80C, purchased a health insurance policy eligible under Section 80D, and contributed to the National Pension System. She also compared the tax liability under both the old and new tax regimes before making her choice. By planning her finances in advance, Anjali reduced her tax liability, increased her savings, and moved closer to achieving her long-term financial goals. This illustrates the practical significance of personal tax planning.

4.2.2.1 Scope of Personal Tax Planning

The scope of personal tax planning is broad and extends beyond the mere reduction of tax liability. It encompasses all aspects of an individual's income, investments, expenditures, savings, and wealth management.

1. Income Structuring

One of the most important areas of personal tax planning is the proper structuring of income. Under the Income-tax Act, income is classified under five heads:

- ◊ Income from Salaries
- ◊ Income from House Property
- ◊ Profits and Gains of Business or Profession
- ◊ Capital Gains
- ◊ Income from Other Sources

A taxpayer should analyse each source of income and arrange financial affairs efficiently. Salaried employees, for example, may benefit from properly structured salary packages that include eligible allowances and retirement benefits. Under the old tax regime, allowances such as House Rent Allowance (HRA) and Leave Travel Allowance (LTA) may provide tax benefits subject to prescribed conditions. Effective income structuring ensures that taxable income is computed correctly and all lawful tax benefits are fully utilised.

2. Investment-Linked Deductions

Personal tax planning involves selecting suitable investments that provide both financial returns and tax benefits. The Income-tax Act provides several deductions under Chapter VI-A, including:

◊ Section 80C for investments such as PPF, ELSS, life insurance premium, NSC, and repayment of housing loan principal.

◊ Section 80CCD for contributions to the National Pension System.

◊ Section 80D for medical insurance premiums.

◊ Other deductions available under various provisions of Chapter VI-A.

Such investments not only reduce taxable income but also help individuals achieve financial goals such as wealth creation, retirement security, and family protection.

3. Selection of the Appropriate Tax Regime

The introduction of the new tax regime has expanded the scope of personal tax planning. Individuals must now compare: The Old Tax Regime, which offers numerous deductions and exemptions and the New Tax Regime, which provides lower tax rates but restricts most deductions and exemptions. The selection of the appropriate regime depends upon factors such as income level, eligible deductions, investment preferences, and financial objectives. Consequently, tax regime selection has become a crucial component of modern personal tax planning.

4. Capital Gains Management

The sale of assets such as shares, mutual funds, land, buildings, and gold may generate capital gains that are taxable under the Income-tax Act. Proper planning can help minimise tax liability by:

◊ Timing the sale of assets appropriately.

◊ Qualifying for long-term capital gain treatment where applicable.

◊ Utilising available exemptions and rollover benefits.

◊ Reinvesting gains in eligible assets as permitted by law.

Capital gains planning is particularly important for individuals involved in investment activities and property transactions.

5. Retirement Planning

Retirement planning forms an integral part of personal tax planning. Individuals should build a retirement corpus through long-term investment avenues such as:

◊ Employees' Provident Fund (EPF)
◊ Public Provident Fund (PPF)
◊ National Pension System (NPS)
◊ Pension and annuity plans

Proper retirement planning ensures financial independence after retirement while also providing tax advantages where permitted under the Income-tax Act.

6. Estate and Wealth Transfer Planning

Personal tax planning also includes planning for the transfer of wealth to future generations.

Individuals may arrange their affairs through:

◊ Wills
◊ Gifts
◊ Family settlements
◊ Succession planning

Effective estate planning ensures smooth transfer of assets and minimises legal complications for heirs and beneficiaries.

4.2.2.2 Hints for Effective Tax Planning

Tax planning should be systematic, lawful, and aligned with personal financial objectives. The following guidelines help taxpayers implement effective tax planning strategies.

1. Start Tax Planning Early

Tax planning should begin at the commencement of the financial year rather than at the end. Many taxpayers make hurried investments during the last few months of the year merely to save tax. Such decisions may not always be financially beneficial. Early planning provides sufficient time to evaluate investment alternatives and make informed decisions.

2. Align Tax Planning with Financial Goals

Tax planning should support broader financial objectives. Investments should not be selected solely because they provide tax benefits. Instead, they should contribute towards achieving long-term goals such as:

◊ Children's education
◊ Purchase of a house
◊ Retirement security
◊ Wealth creation
◊ Family protection

This approach is often referred to as purposive tax planning because it integrates tax savings with overall financial planning.

3. Review Tax Liability Regularly

Taxpayers should periodically estimate taxable income and likely tax liability. Regular review helps in:

- ◊ Identifying additional tax-saving opportunities.
- ◊ Determining the most suitable tax regime.
- ◊ Monitoring advance tax obligations.
- ◊ Avoiding interest and penalties arising from underpayment of taxes.

Periodic review also facilitates better financial decision-making throughout the year.

4. Monitor Tax Deducted at Source (TDS)

Taxpayers should verify whether tax is being deducted correctly from salary, interest income, professional receipts, and other payments. Regular monitoring of TDS helps prevent:

- ◊ Excess tax deductions.
- ◊ Short payment of taxes.
- ◊ Refund delays.
- ◊ Compliance issues during return filing.

5. Maintain Proper Documentation

Proper record-keeping is essential for successful tax planning. Taxpayers should preserve documents such as:

- ◊ Salary statements
- ◊ Rent receipts
- ◊ Insurance premium receipts
- ◊ Investment certificates
- ◊ Medical insurance records
- ◊ Bank statements
- ◊ Loan repayment certificates

Proper documentation facilitates accurate return filing and helps substantiate claims during assessment proceedings.

6. Choose Investments Prudently

Tax-saving investments should be evaluated on the basis of:

- ◊ Risk
- ◊ Return
- ◊ Liquidity

◊ Lock-in period
◊ Financial objectives

A tax benefit should never be the sole criterion for making an investment decision. Sound financial planning requires balancing tax efficiency with overall investment suitability.

Personal tax planning is a comprehensive process that extends beyond reducing tax liability. It encompasses income structuring, investment decisions, tax regime selection, capital gains planning, retirement planning, and wealth transfer strategies. Effective tax planning enables individuals to maximise savings, improve financial security, and achieve long-term financial goals while remaining fully compliant with the provisions of the Income-tax Act. A well-planned tax strategy therefore serves as an essential component of sound personal financial management.

Recap

◊ Tax Planning is the lawful arrangement of financial affairs to minimise tax liability.
◊ Old Tax Regime provides various deductions and exemptions to encourage savings and investments.
◊ New Tax Regime offers lower tax rates with limited deductions and exemptions.
◊ Section 80C allows deductions for eligible investments such as PPF, ELSS, NSC, life insurance premium, and housing loan principal repayment.
◊ Section 80D provides deductions for medical insurance premiums paid for self and family.
◊ National Pension System (NPS) helps build a retirement corpus while offering tax benefits.
◊ House Rent Allowance (HRA) and Leave Travel Allowance (LTA) exemptions are available only under the Old Tax Regime, subject to prescribed conditions.
◊ Section 24(b) allows deduction for interest paid on a housing loan for eligible house property.
◊ Personal Tax Planning includes income structuring, investment planning, tax regime selection, capital gains management, retirement planning, and estate planning.
◊ Effective Tax Planning requires early planning, regular review of tax liability, proper documentation, monitoring of TDS, and choosing investments based on financial goals rather than tax benefits alone.

Objective Questions

1. Which process legally minimises tax liability?
2. Which tax regime encourages savings through deductions and exemptions?
3. Which tax regime offers lower tax rates with fewer deductions?
4. Under which section can taxpayers claim deduction for investments like PPF and ELSS?
5. Under which section is deduction available for medical insurance premiums?
6. Which retirement savings scheme provides tax benefits under the Income-tax Act?
7. Which allowance provides tax exemption for employees living in rented accommodation?
8. Which allowance provides tax exemption for domestic travel expenses?
9. Under which section is deduction available for interest on a housing loan?
10. Which deduction is available to salaried employees under the New Tax Regime without proof of expenditure?

Answers

1. Tax Planning
2. Old Tax Regime
3. New Tax Regime
4. Section 80C
5. Section 80D
6. National Pension System (NPS)
7. House Rent Allowance (HRA)
8. Leave Travel Allowance (LTA)
9. Section 24(b)
10. Standard Deduction

Self-Assessment Questions

1. Discuss the various tax planning strategies available under the Old Tax Regime.
2. Explain the important tax planning strategies under the New Tax Regime.
3. Discuss the scope of personal tax planning and explain its major components.
4. Explain the guidelines (hints) for effective tax planning with suitable examples.
5. Explain the concept of tax planning its features and objectives.

Assignments

1. Compare the tax planning strategies under the Old Tax Regime and the New Tax Regime. Which regime would you recommend for different categories of taxpayers? Justify your answer.
2. Discuss the scope of personal tax planning. Explain how income structuring, investment planning, retirement planning, and estate planning contribute to effective tax management.
3. Evaluate the role of tax-saving investments and deductions in reducing tax liability under the Old Tax Regime. Illustrate your answer with suitable examples.
4. 'Effective tax planning is an essential part of sound financial management.' Discuss this statement by explaining the guidelines for effective tax planning and their practical significance.

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5

BLOCK

Tax Administration

Unit 1
Unique Numbers in Tax Administration

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ explain PAN and TAN and the procedure to acquire both
- ◊ describe the purpose and significance of PAN, PAN–Aadhaar Linkage, TAN, and TIN in the Indian tax system
- ◊ differentiate between PAN, TAN, and TIN based on their functions and uses

Prerequisites

Every individual and business that earns income or carries out financial transactions in India needs a unique identification system for taxation. The Income Tax Department has introduced various identification numbers to make tax administration transparent, efficient, and convenient. Among these, the Permanent Account Number (PAN) serves as the primary identity for taxpayers, while PAN–Aadhaar Linkage helps verify and authenticate taxpayer information. Tax Deduction and Collection Account Number (TAN) is mandatory for persons responsible for deducting or collecting tax at source, and the Tax Information Network (TIN) provides an electronic platform for processing tax-related information and services. Understanding these concepts is essential for taxpayers, businesses, and finance professionals to ensure compliance with tax laws and facilitate smooth financial transactions.

Keywords

PAN, TAN, TIN, PAN-Aadhar linkage

Discussion

If you want to file Income tax returns, open a bank account, run a business in India, purchase or sell real estate, you have probably heard of PAN and TAN. Maybe you have even used them without fully understanding what each one means or why they are needed. You may get confused between PAN, TAN and TIN because they all sound similar but serve different purposes.

5.1.1 Permanent Account Number (P A N)

A Permanent Account Number (PAN) is a unique 10-character alphanumeric code issued by the Income Tax Department of India. It serves as a common identification number for individuals, companies, firms, and other entities involved in financial and tax-related activities. PAN helps the Income Tax Department maintain a complete record of a person's financial transactions and ensures transparency and accountability in the tax system. PAN is issued in the form of a laminated plastic card as given below (commonly known as PAN card.) It is used to identify you as a tax payer and track your financial transactions. Whether you are an individual ,a business house or a company, having a PAN is necessary if you earn taxable income or to do financial activities.

Fig. 5.1.1 PAN Card

Out of the first five characters, the first three characters represent the alphabetic series running from AAA to ZZZ.

In PAN number AAAAA8888A, the fourth character of PAN represents the status of the PAN holder.

"P" stands for Individual

"C" stands for Company

"H" stands for Hindu Undivided Family (HUF)

"A" stands for Association of Persons (AOP)

"B" stands for Body of Individuals (BOI)

"G" stands for Government Agency

"J" stands for Artificial Juridical Person

"L" stands for Local Authority

"F" stands for Firm/ Limited Liability Partnership

"T" stands for Trust

Illustrative PAN, AAAAA8888A Fifth character of PAN represents the first character of the PAN holder's last name/surname in case of an individual. In case of non-individual PAN holders fifth character represents the first character of PAN holder's name. [As amended by Finance Act, 2025].

In Illustrative PAN AAAAA8888A Next four characters are sequential numbers running from 0001 to 9999. Illustrative PAN AAAAA8888A Last character, i.e., the tenth character is an alphabetic check digit.

5.1.2 Utility of PAN

PAN plays a vital role in identifying taxpayers and linking their tax-related and financial transactions, thereby ensuring efficient tax administration and compliance. The following are the major utilities of PAN:

1. Acts as a Unique Tax Identification Number

PAN provides every taxpayer with a unique identification number. It helps the Income Tax Department distinguish one taxpayer from another and maintain accurate tax records.

2. Links all financial and tax transactions

PAN enables the Income Tax Department to link all transactions of a PAN holder under a single record. These include:

◊ Payment of income tax and other taxes.

◊ Tax Deducted at Source (TDS) and Tax Collected at Source (TCS) credits.

◊ Filing of Income Tax Returns (ITR) & getting refunds..

◊ Specified Financial Transactions (SFTs).

◊ Correspondence and communications with the Income Tax Department.

3. Facilitates easy retrieval of information

Since all tax-related information is linked to a single PAN, the department can quickly retrieve the complete financial and tax history of the PAN holder whenever required.

4. Helps to match financial transactions

PAN enables the Income Tax Department to match the income declared by a taxpayer with information received from banks, financial institutions, employers, and other reporting entities. This includes investments, borrowings, property transactions, and other business or financial activities.

5. Supports tax compliance

By linking various financial transactions with a single identification number, PAN encourages taxpayers to report their income accurately and comply with tax laws.

6. Helps to detect tax evasion

PAN allows the Income Tax Department to monitor high-value financial transactions and identify cases where the income reported by a taxpayer does not match their financial activities. This helps in preventing tax evasion.

7. Provides a single reference for taxpayers

PAN serves as a common reference number for all dealings with the Income Tax Department, making tax administration more efficient and convenient for both taxpayers and the government.

PAN is an essential identification number that connects all tax-related and specified financial transactions of a taxpayer. It helps the Income Tax Department maintain accurate records, retrieve information easily, verify financial activities, ensure tax compliance, and detect tax evasion, thereby making the tax administration system more transparent and efficient.

5.1.3 Who Has to Obtain PAN?

The following persons are required to obtain a Permanent Account Number (PAN):

◊ Persons liable to pay income tax: Every person whose total income, or the total income of any other person for whom they are assessable, exceeds the maximum amount not chargeable to income tax during a financial year.

◊ Charitable trusts: Every charitable trust required to file a return of income under Section 139(4A) of the Income-tax Act.

◊ Persons carrying on business or profession: Every person engaged in a business or profession whose total sales, turnover, or gross receipts exceed, or are likely to exceed, ₹5 lakh in any financial year.

- ◊ Persons entering specified financial transactions: Every person who intends to undertake specified financial transactions for which quoting PAN is mandatory under the Income-tax Act.
- ◊ Certain resident non-individual entities: Every resident non-individual person, along with the persons associated with such entity, must obtain PAN if the financial transactions entered into during a financial year exceed ₹2,50,000.

5.1.4 Transactions in Which Quoting PAN is Mandatory

Quoting a Permanent Account Number (PAN) is compulsory for certain financial transactions. However, this requirement does not apply to the Central Government, State Governments, and Consular Offices.

The major transactions requiring PAN are as follows:

1. Purchase or sale of a motor vehicle (other than two-wheelers).
2. Opening a bank account with a bank or cooperative bank (except a Basic Savings Bank Deposit Account and certain time deposit accounts).
3. Applying for a credit card or debit card.
4. Opening a Demat account with a depository, participant, custodian of securities, or any SEBI-registered intermediary.
5. Cash payment exceeding ₹50,000 to a hotel or restaurant against a single bill.
6. Cash payment exceeding ₹50,000 for foreign travel or for purchasing foreign currency in a single transaction.
7. Investment exceeding ₹50,000 in units of a mutual fund.
8. Investment exceeding ₹50,000 in debentures or bonds issued by a company or institution.
9. Investment exceeding ₹50,000 in bonds issued by the Reserve Bank of India (RBI).
10. Cash deposits exceeding ₹50,000 in a single day with a bank or cooperative bank.
11. Cash payment exceeding ₹50,000 in a single day for purchasing bank drafts, pay orders, or banker's cheques.
12. Time deposits exceeding ₹50,000 in a single deposit or ₹5 lakh in aggregate during a financial year with:
    - ◊ Banks or cooperative banks,
    - ◊ Post Offices,
    - ◊ Nidhi companies, or
    - ◊ Non-Banking Financial Companies (NBFCs).
13. Purchase of prepaid payment instruments (such as prepaid cards or wallets) exceeding ₹50,000 in a financial year through cash, bank draft, pay order, or banker's cheque.

14. Life insurance premium payments exceeding ₹50,000 in a financial year.
15. Purchase or sale of securities (other than shares) exceeding ₹1 lakh per transaction.
16. Purchase or sale of unlisted company shares exceeding ₹1 lakh per transaction.
17. Purchase or sale of immovable property valued at more than ₹10 lakh or where the stamp duty value exceeds ₹10 lakh.
18. Purchase or sale of goods or services (other than those listed above) exceeding ₹2 lakh per transaction.

Important Notes

1. Minor person can quote PAN of his father or mother or guardian provided he does not have any income chargeable to income-tax.
2. Any person, who does not have PAN and enters into any of above transaction, can make a declaration in Form No.60.
3. Quoting of PAN is not required by a non-resident in a transaction referred at point No. 3 or 5 or 6 or 9 or 11 or 13 or 18.
4. Any person who has an account (other than a time deposit referred at point no. 12 and a Basic Saving Bank Deposit Account) maintained with a banking company or a co-operative bank. He will be required to furnish his PAN or Form No.60 on or before 30-06-2017 if he has not quoted his PAN or furnished Form No. 60 at the time of opening of such account or subsequently.

5.1.5 Steps to apply for PAN

An applicant go through the following steps before obtaining a PAN card.

1. Select the appropriate application form based on your residential status, i.e., Form 49A for residents and Form 49AA for non-residents.
2. Fill in the PAN application form with accurate personal, contact, and other required details.
3. Quote your Aadhaar number in the application form if you are eligible to obtain Aadhaar, unless you are exempt under the Income-tax Act.
4. Affix two recent coloured passport-size photographs on the application form if you are an individual applicant.
5. Attach the prescribed documents as proof of identity, address, and date of birth.
6. Mention the designation and code of the concerned Assessing Officer (AO) in the application form, wherever applicable.
7. Pay the prescribed application fee for processing the PAN application.
8. Submit the completed application either online through the official websites of UTIITSL or Protean eGov Technologies Ltd., or offline at their authorised PAN Service Centres.

9. The authorised agency verifies the application and supporting documents submitted by the applicant.
10. After successful verification, the Income Tax Department allots the PAN and issues the PAN card to the applicant.

5.1.6 Instant PAN

Income-tax Dept. has launched a new functionality on the e-filing portal which allots a PAN to the assessee on basis of his Aadhaar Number. This facility can be used by an assessee only if the following conditions are fulfilled:

a. He has never been allotted a PAN;

b. His mobile number is linked with his Aadhaar number;

c. His complete date of birth is available on the Aadhaar card; and

d. He should not be a minor on the date of application for PAN

5.1.7 Correction of Mistakes in a PAN Card or Update PAN Details

Correction or updation of PAN details enables a PAN holder to rectify errors, update personal information, or obtain a duplicate PAN card, ensuring that the records maintained by the Income Tax Department remain accurate and up to date. Correction or updation can be done by

◊ To correct any mistake, update PAN details, or obtain a duplicate PAN card in case the original is lost, an applicant must submit the "Request for New PAN Card or/and Changes or Correction in PAN Data" form.

◊ For correction or change in PAN details, fill in all the mandatory fields in the application form and tick the checkbox against each field that requires correction.

◊ For reissue of a PAN card without any change in PAN details, complete all the mandatory fields in the application form, but do not tick any checkbox for corrections.

◊ In both cases—correction of PAN details or reissue of a PAN card without changes—the communication address provided in the application will be updated in the Income Tax Department (ITD) database.

◊ For cancellation of a PAN, fill in all the mandatory fields, enter the PAN number to be cancelled in the appropriate column, and tick the checkbox provided for cancellation.

◊ The PAN to be cancelled must be different from the PAN currently being used and mentioned at the top of the application form.

5.1.8 Holding of more than one PAN

Holding of more than one PAN not allowed A person cannot hold more than one PAN. A penalty of Rs. 10,000/- is liable to be imposed under section 272B of the Income-tax Act, 1961 for having more than one PAN. If a person has been allotted more than one PAN then he should immediately surrender the additional PAN card(s).

5.1.9 PAN Aadhar Linkage

The Finance Act, 2017 introduced Section 139AA in the Income-tax Act, 1961, making it mandatory for every person who is eligible to obtain an Aadhaar number to quote the Aadhaar number while applying for a PAN or filing an Income Tax Return (ITR), with effect from 1 July 2017.

Initially, a person who had applied for Aadhaar but had not yet received the Aadhaar number was permitted to quote the Aadhaar Enrolment ID in the PAN application or Income Tax Return.

However, with effect from 1 October 2024, this facility has been withdrawn. Applicants are now required to quote their Aadhaar number while applying for a PAN. Persons who were allotted a PAN based on the Aadhaar Enrolment ID must subsequently intimate their Aadhaar number to the prescribed authority in the manner notified by the Central Government.

Section 139AA also requires every person who was allotted a PAN on or before 1 July 2017 and is eligible to obtain Aadhaar to link the Aadhaar number with PAN within the prescribed time limit. Failure to do so results in the PAN becoming inoperative.

The Central Board of Direct Taxes (CBDT) has notified that, from 1 July 2023, all the consequences under the Income-tax Act applicable for not furnishing, intimating, or quoting PAN will also apply if the PAN becomes inoperative due to non-linking with Aadhaar.

Further, taxpayers who linked their PAN with Aadhaar during the period 1 April 2022 to 30 June 2023 were required to pay the prescribed fee before completing the linkage process.

5.1.10 Consequences for not linking PAN with Aadhaar Number

The Central Board of Direct Taxes has notified Rule 114AAA prescribing the manner and consequences if PAN becomes inoperative. The Rule 114AAA(3) provides that if PAN of a person become inoperative, then he shall be liable for the following consequences:

i. Refund of any amount of tax or part thereof, due under the provisions of the Act shall not be made;

ii. Interest shall not be payable on such refund for the period, beginning with the date when PAN become inoperative and ending with the date on which it becomes operative;

iii. Where tax is deductible under Chapter XVIIB in case of such person, such tax shall be deducted at higher rate, in accordance with provisions of section 206AA;

iv. Where tax is collectible at source under Chapter XVII-BB in case of such person, such tax shall be collected at higher rate, in accordance with provisions of section 206CC. However, the person can reactivate his PAN by subsequently intimating his Aadhaar to the Department.

5.1.11 How to Link Aadhaar Number with PAN?

Aadhaar can be linked with PAN through any of the following methods:

◊ Through SMS

Send an SMS from your registered mobile number to 567678 or 56161.Use the following format:

UIDPAN <Space> 12-digit Aadhaar Number <Space> 10-digit PAN

Example: UIDPAN 123456789000 ABCDE1234F

◊ Through Online Mode

Visit the official website of Protean e Gov- Technologies Ltd. or UTIITSL and click on the 'Link Aadhaar to PAN' option, which redirects you to the Income Tax e-filing portal.

Alternatively, you can directly visit the Income Tax e-filing portal and complete the PAN–Aadhaar linking process by following the online instructions.

◊ Through Paper Mode

Submit the prescribed PAN–Aadhaar linking form at an authorized PAN Service Centre along with the prescribed fee.

Attach copies of both the PAN card and the Aadhaar card with the application.

5.1.12 Tax Deduction &Collection Account Number (TAN)

Tax Deduction and Collection Account Number (TAN) is a unique 10-character alphanumeric identification number issued by the Income-tax Department. It is mandatory for every person or organisation responsible for deducting Tax Deducted at Source (TDS) or collecting Tax Collected at Source (TCS). TAN helps the Income-tax Department monitor all TDS and TCS transactions efficiently.

5.1.12.1 Structure of TAN

A TAN consists of 10 characters arranged in the following format:

- ◊ First 4 characters: Alphabets
- ◊ Next 5 characters: Numbers
- ◊ Last character: Alphabet

The first three letters indicate the jurisdiction where the TAN is issued. The fourth letter represents the initial letter of the TAN holder's name, whether it is an individual, company, firm, trust, or any other entity.

Example:

MUM R 67890 K

- ◊ **MUM** – Jurisdiction Code (Mumbai)
- ◊ **R** – Initial of the TAN holder's name (e.g., **Ramesh**)
- ◊ **67890** – Unique numeric code
- ◊ **K** – Alphabet assigned by the Income-tax Department

5.1.12.2 Persons Required to Obtain TAN

Every person who is responsible for deducting Tax Deducted at Source (TDS) or collecting Tax Collected at Source (TCS) is generally required to obtain a Tax Deduction and Collection Account Number (TAN).

However, there are certain exceptions. A person deducting tax under Section 194-IA (purchase of immovable property) is permitted to quote PAN instead of TAN and is, therefore, not required to obtain a TAN.

Similarly, persons required to deduct tax under Sections 194-IB, 194M, or 194S are also exempt from obtaining a TAN.

- ◊ Section 194-IB: An individual or Hindu Undivided Family (HUF) whose accounts are not liable for audit under Section 44AB must deduct 2% TDS while paying monthly rent exceeding ₹50,000 for any land, building, or both to a resident.
- ◊ Section 194M: An individual or HUF not covered by tax audit under Section 44AB must deduct 2% TDS on payments made to a resident for contract work, commission (other than insurance commission), brokerage, or professional services, if the total payment or credit during a financial year exceeds ₹50 lakh.

Thus, while TAN is mandatory for most deductors and collectors of tax, the Income-tax Act provides specific exemptions for certain categories of taxpayers covered under Sections 194-IA, 194-IB, 194M, and 194S.

5.1.12.3 Relevance of TAN

According to Section 203A of the Income-tax Act, 1961, every person responsible for deducting or collecting tax at source must obtain a Tax Deduction and Collection Account Number (TAN). The law also requires TAN to be quoted in the following documents:

- ◊ TDS returns (statements)
- ◊ TCS returns (statements)
- ◊ Statement of Financial Transactions (SFT) or Reportable Accounts
- ◊ Challans for payment of TDS/TCS
- ◊ TDS/TCS certificates
- ◊ Any other documents prescribed under the Income-tax Act

5.1.12.4 Consequences of Not Quoting TAN

Failure to comply with TAN requirements may attract penalties under the Income-tax Act.

- ◊ **Section 272BB (1):** A penalty is levied if a person who is required to obtain TAN fails to do so.
- ◊ **Section 272BB (1A):** A penalty is also imposed for quoting an incorrect TAN in prescribed documents.

The penalty for either of these defaults is **₹10,000**.

Procedure to Obtain TAN

A TAN can be obtained through two modes: Offline and Online.

1. Offline Mode

- ◊ The applicant must submit **Form 49B**, in duplicate, at any **TIN Facilitation Centre (TIN-FC)**.
- ◊ Details and addresses of TIN-FCs are available on the **Protean eGov Technologies** website.
- ◊ In the case of a company being incorporated under the **Companies Act, 2013**, the application for TAN can be submitted through **Form INC-32 (SPICe)** during the incorporation process.

2. Online Mode

- ◊ Applicants can apply for TAN online by filling out the electronic application form available on the Protean eGov Technologies website.
- ◊ After submitting the online application and completing the prescribed formalities, TAN is allotted by the Income-tax Department.

5.1.13 TIN (Tax Information Network)

Tax information network (TIN) is an electronic system established by the Income Tax Department to facilitate the collection, processing, monitoring, and management of tax-related information in India. It was developed and is managed by Protean e Gov Technologies Limited on behalf of the Income Tax Department.

TIN serves as a centralized platform for handling information related to:

- ◊ Permanent Account Number (PAN) services
- ◊ Tax Deduction at Source (TDS)
- ◊ Tax Collection at Source (TCS)
- ◊ Challan payments
- ◊ Tax information reporting

5.1.13.1 Objectives of TIN

- ◊ To create a centralized database of tax-related information.
- ◊ To enable efficient collection and processing of TDS and TCS data.
- ◊ To facilitate online payment and tracking of taxes.
- ◊ To improve transparency and accuracy in tax administration.
- ◊ To reduce paperwork and speed up tax-related services.

Based on your unit, TIN (Tax Information Network) provides the following major services:

5.1.13.2 Services or Functions of TIN (Tax Information Network)

The Tax Information Network (TIN) provides a range of electronic services that simplify tax administration and improve compliance. Its functions support taxpayers and the Income Tax Department by ensuring efficient processing, management, and reporting of tax-related information. The services provided by TIN includes-

1. PAN Services

TIN facilitates services related to the **Permanent Account Number (PAN)**, including the processing of new PAN applications, correction or updating of PAN details, and reissue of PAN cards. It provides a centralized system for managing PAN records.

2. TDS and TCS Processing

TIN enables the electronic filing, collection, and processing of **Tax Deducted at Source (TDS)** and **Tax Collected at Source (TCS)** statements. It helps the Income Tax Department monitor tax deductions and collections efficiently.

3. Challan Payment Services

TIN records and manages tax payments made through **challans**. It allows taxpayers and the Income Tax Department to verify tax payments and maintain accurate payment records.

4. Tax Information Reporting

TIN collects and maintains tax-related information submitted by taxpayers and reporting entities. This information supports the Income Tax Department in monitoring financial transactions, ensuring tax compliance, and improving transparency in tax administration.

Recap

- ◊ PAN is the primary tax identification number used to track taxpayers and their financial transactions.
- ◊ PAN–Aadhaar Linkage is mandatory for eligible taxpayers and helps authenticate identity and prevent tax evasion.
- ◊ Failure to link PAN with Aadhaar may make the PAN inoperative and attract consequences under the Income-tax Act.
- ◊ TAN is mandatory for persons responsible for deducting or collecting tax at source (TDS/TCS).
- ◊ TIN is an electronic system that manages PAN services, TDS/TCS, challan payments, and tax information, making tax administration efficient and transparent.

Objective Questions

1. What is PAN?
2. Which authority issues the PAN?
3. What is the primary purpose of PAN?
4. What happens if PAN is not linked with Aadhaar?
5. TAN stands for
6. What is TIN?
7. Who manages the Tax Information Network (TIN)?
8. Differentiate between PAN and TAN.

Answers

1. Permanent Account Number.
2. Income Tax Department.
3. To uniquely identify taxpayers and link their tax and financial transactions
4. The PAN becomes inoperative and consequences under the Income-tax Act apply.
5. Tax Deduction and Collection Account Number.
6. Tax Information Network
7. Protean eGov Technologies Limited on behalf of the Income Tax Department.
8. PAN identifies taxpayers, whereas TAN identifies persons responsible for deducting or collecting TDS/TCS.

Self-Assessment Questions

1. What is the purpose of a Permanent Account Number (PAN)?
2. Explain the structure of a PAN.
3. Why is PAN–Aadhaar linkage mandatory?
4. What are the consequences of not linking PAN with Aadhaar?
5. What is TAN, and who is required to obtain it?
6. Explain the structure of TAN.
7. What is the purpose of the Tax Information Network (TIN)?
8. Describe the major functions (services) of TIN.
9. Differentiate between PAN and TAN.
10. Explain the significance of PAN, TAN, and TIN in tax administration.

Assignments

1. Explain the concept, structure, utilities, and importance of PAN in the Indian tax system.
2. Discuss the need for PAN–Aadhaar linkage and explain the consequences of non-linkage.

3. Rahul has started a new business, deducts TDS from employees' salaries, and has not yet linked his PAN with Aadhaar. Identify the tax-related requirements applicable to Rahul and explain the consequences of non-compliance.
4. Prepare a comparative chart showing the features, purpose, and uses of PAN, PAN–Aadhaar Linkage, TAN, and TIN.

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Unit 2
Authorities of Tax

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ comprehend the different Income Tax Authorities and their roles under the Income-tax Act
- ◊ explain the powers and duties of Income Tax Authorities in tax administration
- ◊ describe the procedure for grievance redressal available to taxpayers
- ◊ outline the steps involved in resolving taxpayer complaints through the prescribed mechanisms

Prerequisites

Riya had recently started a small online business. At the end of the financial year, she filed her income tax return on time. A few weeks later, she received a notice from the Income Tax Department asking for clarification about one of her business expenses. Although she was initially worried, she submitted the required documents, and the Income Tax Officer verified her records and completed the assessment fairly.

Later, Riya noticed that her eligible tax refund had not been credited even after several months. Instead of feeling helpless, she used the grievance redressal system provided by the Income Tax Department to register her complaint. Her grievance was reviewed, the issue was resolved, and the refund was credited to her bank account.

Through Riya's experience, we learn that Income Tax Authorities have specific powers to assess income, collect taxes, and ensure compliance with tax laws. At the same time, they have the duty to act fairly and assist taxpayers. When taxpayers face problems or have complaints, the grievance redressal mechanism provides an opportunity to seek timely resolution, ensuring transparency, accountability, and trust in the tax administration system.

Keywords

Income tax authorities, powers, duties, grievance redressal system

Discussion

In India, the Central Government has been empowered by Entry 82 of the Union List of Schedule VII of the Constitution of India to levy tax on all income other than agricultural income. The Income Tax Law comprises;

- ◊ The Income Tax Act 1961
- ◊ Income Tax Rules 1962
- ◊ Notifications and Circulars issued by Central Board of Direct Taxes (CBDT).
- ◊ Annual Finance Acts
- ◊ Judicial pronouncements by Supreme Court and High Courts

5.2.1 Income-tax Authorities [Section 133A]

For the purposes of Section 133A, the term "Income-tax authority" includes the Commissioner, Joint Commissioner, Director, Joint Director, Assistant Director, Deputy Director, Assessing Officer, and Tax Recovery Officer. In addition, an Inspector of Income-tax is also treated as an income-tax authority for the purposes specified in Section 133A(1)(i), Section 133A(3)(i), and Section 133A(5).

5.2.2 Income-tax Authorities under the Income-tax Act, 1961

The Income-tax Act, 1961 provides for a well-defined administrative framework for the effective implementation and administration of the Act. The Direct Tax Laws (Amendment) Act, 1987 introduced significant changes in the organisational structure of the Income-tax Department. These changes included the redesignation of certain authorities and the creation of new posts to improve tax administration.

The administration of the Income-tax Act is carried out by various income-tax authorities specified under Section 116. These authorities perform administrative, assessment, recovery, appellate, and supervisory functions.

5.2.3 Classification of Income-tax Authorities [Section 116]

The following are the classes of Income-tax Authorities under Section 116:

The authorities have been grouped into two main wings:

i. Administrative [Income Tax Authorities] [Sec. 116]

- ◊ the Central Board of Direct Taxes constituted under the Central Boards of Revenue Act, 1963 (54 of 1963),

- ◊ Directors-General of Income tax or Chief Commissioners of Income-tax,
- ◊ Directors of Income tax or Commissioners of Income tax or Commissioners of Income tax (Appeals),
- ◊ (cc) Additional Directors of Income tax or Additional Commissioners of Income tax or Additional Commissioners of Income tax (Appeals),
- ◊ (cca) Joint Directors of Income tax or Joint Commissioners of Income tax.
- ◊ Deputy Directors of Income tax or Deputy Commissioners of Income tax or Deputy Commissioners of Income tax (Appeals),
- ◊ Assistant Directors of Income tax or Assistant Commissioners of Income-tax,
- ◊ Income tax Officers,
- ◊ Tax Recovery Officers,
- ◊ Inspectors of Income tax.

ii. Assessing Officer [Sec. 2(7A)]

"Assessing Officer" means the Assistant Commissioner or Deputy Commissioner or Assistant Director or Deputy Director or the Income-tax Officer who is vested with the relevant jurisdiction by virtue of directions or orders issued under sub-section (1) or sub-section (2) of section 120 or any other provision of this Act, and the Joint Commissioner or Joint Director who is directed under clause (b) of sub-section (4) of that section to exercise or perform all or any of the powers and functions conferred on, or assigned to, an Assessing Officer under this Act;

5.2.3.1 Role or Importance of Assessing Officer

Assessing Officer plays a very vital role in the organizational setup of the income tax department. He is the primary authority who initiates the proceedings and is directly connected with the public. From the time of filing of return, till the assessment is completed, he plays a vital role. He can start proceedings for non filing of return, imposition of penalties etc. Orders passed by him can be challenged only on approval. The department can revise his orders only if it is proved that there are prejudicial to the revenue and that too only by the Commissioner of Income Tax.

5.2.3.2 Appointment of Income-Tax Authorities [Section 117]

1. Power of the Central Government [Section 117(1)]

The Central Government has the authority to appoint persons as Income-tax authorities whenever it considers necessary. It retains the exclusive power to appoint officers holding the rank of Assistant Commissioner of Income Tax and above.

2. Power of the Board and Other Senior Authorities [Section 117(2)]

Subject to the service rules and orders of the Central Government governing public servants, the Central Government may authorize the Central Board of Direct Taxes (CBDT), a Director General, Chief Commissioner, Director, or Commissioner to appoint Income-tax authorities below the rank of Assistant Commissioner or Deputy Commissioner.

3. Power to Appoint Executive and Ministerial Staff

An Income-tax authority authorized by the Board may appoint the necessary executive and ministerial staff to assist in carrying out its duties. Such appointments are also subject to the service rules and orders issued by the Central Government regarding public service employees.

5.2.4 The Central Board of Direct Taxes (CBDT) and its Powers

The Central Board of Direct Taxes is a statutory body (body set up by the parliament) constituted under the Central Board of Revenue Act, 1963. It consists of a number of members appointed by the Central Government for the performance of such duties, as may be entrusted to the Board from time to time. It is functioning under the jurisdiction of the Ministry of Finance.

- ◊ The Central Board of Direct Taxes, besides being the highest executive authority, exercises control and supervision over all officers of the Income tax Department and is authorised to exercise certain powers conferred upon it by the Income tax Act, 1961.
- ◊ In particular, it has the powers, subject to the control and approval of the Central Government to make any rules, from time to time for the proper administration of the provisions of the Income-tax Act, 1961. All the rules under the Act are framed by the Board under Section 295 of the ITA, 1961 and placed before the Parliament. In addition to the general power of making rules and of superintendence, the Board has been given specific powers on several matters.

Powers of the Board

The Board has been empowered under Section 119 to issue instructions and circulars to its subordinates for the proper administration of the Act. Under Section 118, CBDT shall control all the Income Tax Authorities subject to an overall framework of Central Government. It is, in addition, obligatory for the various authorities and all other persons employed in the execution of the Act to observe and follow such orders, instructions and directions of the Board. However, the Board is not empowered to issue orders, instructions or directions in such a way as to-

- ◊ Require any income tax authority to make the assessment of a particular case in a particular manner, or
- ◊ Interfere with the discretion of the Commissioner (Appeals) in the exercise of his appellate functions.

5.2.5 Powers of other Income Tax Authorities

The powers of Income-tax authorities differ according to the position they hold and the responsibilities assigned to them. The various Income-tax authorities and the powers vested in each of them are discussed below.

5.2.5.1 Director General/ Director

The Director General/ Director, appointed by the Central Government, are required to perform such functions as maybe assigned by the Central Government, are required to perform such functions as may be assigned by the Central Board of Direct Taxes. This position enjoys the following powers under different provisions of the Act:

a. To give instructions to the Income Tax officers

b. To enquire or investigate into concealment

c. To search and seizure

d. To requisite books of account

e. To survey

f. To make any enquiry

5.2.5.2 Commissioner of Income Tax

The Commissioner of Income Tax is appointed by the Central Government and is generally responsible for supervising the Income-tax administration of a specified region. As the head of the regional administration, the Commissioner performs both administrative and judicial functions.

The Commissioner may exercise the powers of an Assessing Officer when required. The Commissioner is also empowered to transfer cases from one Assessing Officer to another, grant approval for certain orders passed by an Assessing Officer, and provide prior approval for the reopening of completed assessments. In addition, the Commissioner has the authority to revise orders passed by Assessing Officers and exercises several other powers as provided under the Income-tax Act, 1961.

5.2.5.3 Commissioner (Appeals)

Commissioners of Income-Tax (Appeals) are appointed by the Central Government. It is an appellate authority vested with the following judicial powers:

a. Power regarding discovery, production of evidence etc.

b. Power to call information.

c. Power to inspect registers of companies.

d. Power to set off refunds against tax remaining payable.

e. Power to dispose of appeals.

f. Power to impose penalty.

5.2.5.4 Joint Commissioner of Income Tax

The Joint Commissioner of Income Tax is appointed by the Central Government. The primary responsibilities of the Joint Commissioner include detecting tax evasion and supervising the work of subordinate officers. Under the provisions of the Income-tax Act, the Joint Commissioner has the authority to issue instructions to Income-tax Officers, exercise the powers of an Income-tax Officer, call for information, inspect company records, conduct enquiries, and perform other functions assigned under the Act.

5.2.5.5 Income Tax Officer (ITO)

Income Tax Officers (ITOs) of Class I Services are appointed by the Central Government, while those belonging to Class II Services are appointed by the Commissioner of Income Tax. Their powers and duties are specified under various provisions of the Income-tax Act. These include the power to conduct searches and seizures, make assessments, call for information, carry out surveys, and perform other functions necessary for tax administration.

5.2.5.6 Inspector of Income Tax

The Inspector of Income Tax is appointed by the Commissioner of Income Tax. Inspectors perform the duties assigned to them by the Commissioner or by the authority under whose supervision they work. They assist in tax administration, investigations, inspections, and other functions entrusted to them.

5.2.6 Scope of Exercise of Powers of Income-tax Authorities

The Income-tax Act, 1961 clearly defines the extent and scope of the powers exercised by Income-tax authorities. Some of the important powers and their scope are explained below:

1. **Power to Transfer Cases [Section 127]**

The Central Board of Direct Taxes (CBDT) has the authority to transfer a case from one Assessing Officer (AO) to another Assessing Officer under its jurisdiction. Before transferring a case, the assessee must be given a reasonable opportunity to be heard. However, such an opportunity is not required when the transfer is made between Assessing Officers located within the same city, town, or locality.

2. **Opportunity of Being Reheard [Section 129]**

When an Income-tax authority ceases to have jurisdiction over a case and another Income-tax authority succeeds it, the successor authority is required to continue the pending proceedings from the stage at which they were left by the predecessor authority. This ensures continuity in the assessment process.

3. **Discovery, Production of Evidence, etc. [Section 131]**

For the purpose of conducting proceedings under the Income-tax Act, the Assessing Officer, Deputy Commissioner (Appeals), Joint Commissioner, Commissioner

(Appeals), Chief Commissioner, and the Dispute Resolution Panel referred to in Section 144C are vested with powers similar to those of a Civil Court under the Code of Civil Procedure, 1908. These powers include:

- ◊ Ordering the discovery and inspection of documents;
- ◊ Enforcing the attendance of any person, including officers of banking companies, and examining them on oath;
- ◊ Compelling the production of books of account and other relevant documents; and
- ◊ Issuing commissions for the examination of witnesses or documents.

4. Power of Search and Seizure [Section 132]

To curb tax evasion and detect undisclosed assets, Section 132 grants extensive powers of search and seizure to Income-tax authorities. The provisions relating to search and seizure under the Code of Criminal Procedure apply, as far as practicable, to searches conducted under the Income-tax Act. Any person who contravenes the orders issued under this section is liable to punishment with imprisonment and fine under Section 275A.

5. Power to call for information [Sections 133]

The Commissioner, the Assessing Officer or the Joint Commissioner may for the purpose of this Act:

a. Can call any firm to provide him with a return of the addresses and names of partners of the firm and their shares;

b. Can ask any Hindu Undivided Family to provide him with return of the addresses and names of members of the family and the manager;

c. Can ask any person who is a trustee, guardian or an agent to deliver him with return of the names of persons for or of whom he is an agent, trustee or guardian and their addresses;

d. Can ask any person, dealer, agent or broker concerned in the management of stock or any commodity exchange to provide a statement of the addresses and names of all the persons to whom the Exchange or he has paid any sum related with the transfer of assets or the exchange has received any such sum with the particulars of all such payments and receipts.

6. Power of Survey [Section 133A]

The Income-tax Act does not define the term 'survey'. According to its dictionary meaning, a survey refers to the inspection or examination of something. Under Section 133A, an Income-tax authority is empowered to conduct a survey for the purposes of the Income-tax Act.

The main objectives of conducting an Income-tax survey are

a. To discover new assesses;

b. To collect useful information for the purpose of assessment;

c. To verify that the assessee who claims not to maintain any books of accounts is infact maintaining the books;

d. To check whether the books are maintained, reflect the correct state of affairs.

7. Power to Collect Certain Information [Section 133B]

For the purpose of collection of information which may be useful for any purpose, the Income tax authority can enter any building or place within the limits of the area assigned to such authority, or any place or building occupied by any person in respect of whom he exercises jurisdiction.

8. Power to Inspect Registers of Companies [Section 134]

Under Section 134, the Assessing Officer, Joint Commissioner, or Commissioner (Appeals), or any officer authorized by them in writing, may inspect the registers of members, debenture holders, or mortgagees maintained by a company. They may also take copies, or arrange for copies to be taken, of such registers or any entries contained in them whenever necessary.

9. Other Powers [Sections 135 and 136]

Under Sections 135 and 136, the Director General or Director, Chief Commissioner or Commissioner, and Joint Commissioner are empowered to conduct enquiries under the Income-tax Act. For this purpose, they possess the same powers as an Assessing Officer in relation to making enquiries.

If an investigating officer is refused entry to any premises, the Assessing Officer may exercise the powers available under Sections 131(1) and 131(2).

Further, all proceedings before the Income-tax authorities are treated as judicial proceedings for the purposes of Section 196 of the Indian Penal Code, 1860, and are deemed to fall within the scope of Sections 193 and 228 of the Code. In addition, an Income-tax authority is regarded as a Civil Court for the purposes of Section 195 of the Criminal Procedure Code, 1973.

5.2.7 Duties of Income Tax Authorities

The duties of Income Tax Authorities refer to the responsibilities entrusted to various tax officials for the effective administration of the Income-tax Act, 1961. These duties include assessing taxable income, collecting and recovering taxes, preventing tax evasion, assisting taxpayers, and ensuring compliance with tax laws. In general duties of income tax authorities comprises the following;

1. Assessment of Income

Income Tax Authorities examine the income tax returns filed by taxpayers and verify the accuracy of the information provided. They determine the correct taxable income and calculate the tax liability in accordance with the provisions of the Income-tax Act.

2. Collection and Recovery of Taxes

They are responsible for collecting income tax, advance tax, tax deducted at source (TDS), and other tax dues. They also recover outstanding taxes, interest, penalties, and other amounts payable to the Government.

3. Processing of Returns

Income Tax Authorities process the returns filed by taxpayers to ensure they are complete and accurate. They verify the claims made in the returns and issue refunds if excess tax has been paid.

4. Investigation and Enforcement

They investigate cases of tax evasion, concealment of income, and other violations of tax laws. They are empowered to conduct inquiries, surveys, searches, and seizures to detect and prevent tax fraud.

5. Taxpayer Assistance

Income Tax Authorities provide guidance and support to taxpayers regarding tax laws, filing procedures, and compliance requirements. They also address taxpayer grievances and help resolve tax-related issues.

6. Implementation of Tax Laws

They ensure the effective implementation of the provisions of the Income-tax Act, 1961. They monitor compliance with tax laws, enforce legal provisions, and maintain an efficient and transparent tax administration system.

5.2.8 Grievances Redressal Mechanism

An income tax grievance refers to a complaint or issue raised by a taxpayer against the income tax department. This can be related to a variety of concerns, such as incorrect tax assessments, delayed refunds, or other issues. Income tax grievances can be raised through an online portal or by visiting the local income tax office.

5.2.8.1 Reasons for Taxpayer Grievances

Taxpayers may face grievances for various reasons during the administration of income tax. Some of the common reasons are:

◊ Incorrect Tax Assessments: Grievances may arise when the Income-tax Department incorrectly calculates a taxpayer's income or tax liability, resulting in an incorrect tax demand.

◊ Delay in Refunds: A taxpayer may not receive the eligible income tax refund within the prescribed time, even after filing the income tax return correctly.

◊ Rectification of Tax Returns: If errors are found in a filed income tax return, the taxpayer may seek rectification under Section 154 of the Income-tax Act. Delays or issues in processing such rectification requests can lead to grievances.

- ◊ Mismatch in Tax Credit: Problems may occur when the tax deducted at source (TDS) or tax collected at source (TCS) is not properly reflected in the taxpayer's account, resulting in incorrect tax credit.
- ◊ Denial of Tax Exemptions or Deductions: Taxpayers may face grievances if eligible tax exemptions, deductions, or reliefs are not allowed by the Income-tax Department.
- ◊ High-Pitched Assessments: In some cases, particularly involving small taxpayers, assessments may be made at income levels significantly higher than the income declared in the return due to incorrect interpretation of facts or improper exercise of discretionary powers.
- ◊ Harassment During Search and Survey: Taxpayers may experience grievances if they are subjected to unfair treatment or undue hardship during search, seizure, or survey operations conducted by the Income-tax authorities.

5.2.8.2 Organisational Set-up of the Grievance Redressal Mechanism

The Income-tax Department has established a hierarchical grievance redressal system to ensure the timely and effective resolution of taxpayer complaints. The organisational structure includes:

- ◊ Central Grievance Cell: Functions under the Central Board of Direct Taxes (CBDT) and is headed by the Director of Grievances. It supervises grievance redressal at the national level and monitors the overall functioning of the grievance mechanism.
- ◊ Regional Grievance Cells: Established under the Principal Chief Commissioners/Chief Commissioners of Income Tax (Pr. CCsIT/CCsIT) or Director Generals of Income Tax (DGsIT) to oversee grievance handling at the regional level.
- ◊ Local Grievance Cells: Function under the Principal Commissioners/ Commissioners of Income Tax (Pr. CITs/CITs) or Directors of Income Tax (DsIT) to receive and resolve grievances within their respective jurisdictions.
- ◊ CPGRAMS (Centralised Public Grievance Redress and Monitoring System): This is an online grievance portal of the Government of India through which taxpayers can submit complaints electronically. The CBDT monitors these grievances, enabling taxpayers to track the status of their complaints and send reminders if necessary.
- ◊ e-Nivaran: The Income-tax Department's online grievance redressal system integrated with the Income Tax e-filing portal. It allows taxpayers to register, monitor, and receive resolutions for their grievances in a transparent and paperless manner.

5.2.8.3 Procedure on Receiving a Grievance

1. Receipt and Registration of the Grievance

A taxpayer may submit a grievance through CPGRAMS, e-Nivaran, the Income Tax e-filing portal, by post, email, or by visiting the concerned Income-tax office. After receiving the grievance, it is registered and assigned a unique reference number for identification and future tracking.

2. Forwarding to the Concerned Authority

The registered grievance is forwarded to the appropriate Grievance Cell or the concerned Income-tax authority for necessary action. The officer receiving the grievance maintains a record of the complaint and initiates the required proceedings.

3. Examination of the Grievance

The concerned authority examines the grievance by verifying the relevant records and facts. Appropriate action is taken to resolve the issue in accordance with the provisions of the Income-tax Act. If the grievance cannot be resolved as requested, the taxpayer is informed of the reasons without undue delay.

4. Submission of Compliance Report

After taking the necessary action, the concerned officer submits a compliance report to the Grievance Cell as per the prescribed procedure. This ensures that the action taken on the grievance is properly documented.

5. Monitoring and Closure

Every grievance is monitored until it is completely resolved and formally closed. The redressal officer keeps track of the progress and ensures that the grievance is disposed of within the prescribed time.

6. Review and Corrective Action

The Commissioner or Chief Commissioner of Income Tax periodically reviews the grievances received to identify recurring issues. Necessary corrective measures are taken to prevent similar grievances in the future, and disciplinary action may be initiated against officials in cases of negligence.

7. Maintenance of Grievance Records

All grievances are maintained through an electronic record management system. In offices where Aaykar Seva Kendra (ASK) is functioning, software automatically registers grievances, allots unique reference numbers, forwards them to the concerned sections, tracks their status, and maintains complete records, eliminating the need for manual grievance registers.

Generally, income tax grievances are rectified within 8 weeks after the petition is received. However, most grievances are addressed within one month from their date of receipt. Furthermore, if a grievance comes from the Prime Minister's or Finance Minister's Office or the Central Board of Direct Taxes, the income tax grievance resolution time is of 21 days.

Recap

- ◊ Income Tax Authorities are appointed under the Income-tax Act to administer and enforce tax laws in India.
- ◊ The Central Board of Direct Taxes (CBDT) is the highest authority responsible for framing tax policies and supervising the Income Tax Department.
- ◊ The hierarchy of authorities includes Principal Chief Commissioners, Chief Commissioners, Principal Commissioners, Commissioners, Additional/Joint Commissioners, Deputy/Assistant Commissioners, Assessing Officers, Tax Recovery Officers, and Inspectors.
- ◊ The authorities are responsible for assessment, collection, recovery, investigation, and administration of income tax.
- ◊ The Grievance Redressal System enables taxpayers to report complaints regarding delays, harassment, incorrect assessments, refunds, or other service-related issues.
- ◊ Every grievance received is registered, assigned a reference number, and forwarded to the concerned Grievance Cell or officer.
- ◊ The concerned officer examines the complaint, takes necessary action, and submits a compliance report to the Grievance Cell.
- ◊ Taxpayer grievances should be resolved within a reasonable time, and if immediate resolution is not possible, the taxpayer should be informed about the status.
- ◊ The grievance mechanism promotes accountability, transparency, efficient service delivery, and taxpayer satisfaction.

Objective Questions

1. Under which section of the Income-tax Act are the classes of Income Tax Authorities provided?
2. Which is the apex body of the Income Tax Department?
3. Who is primarily responsible for assessing the income of taxpayers?
4. Which authority is responsible for recovering tax arrears?
5. Which section of the Income-tax Act deals with the power of survey?
6. What is the main duty of Income Tax Authorities?
7. What is the purpose of the Grievance Redressal System?

8. What is assigned to every grievance when it is received?
9. Who takes action on a taxpayer's grievance?

Answers

1. Section 116
2. Central Board of Direct Taxes (CBDT).
3. Assessing Officer (AO)
4. Tax Recovery Officer (TRO).
5. Section 133A.
6. To administer and enforce the Income-tax Act.
7. To resolve taxpayers' complaints efficiently and fairly.
8. A running/reference number.
9. The concerned officer/Grievance Cell.

Self-Assessment Questions

1. Who are the different Income Tax Authorities under the Income-tax Act?
2. Explain the powers and duties of Income Tax Authorities.
3. What are the functions of the Central Board of Direct Taxes (CBDT)?
4. Describe the role of the Assessing Officer in tax administration.
5. Explain the procedure followed for grievance redressal in the Income Tax Department.

Assignments

1. Discuss the hierarchy of Income Tax Authorities and explain the powers and duties of each authority.
2. Explain the procedure for grievance redressal in the Income Tax Department and discuss its importance in ensuring taxpayer satisfaction.

3. A taxpayer filed his income tax return within the prescribed time and was entitled to a refund. However, even after several months, the refund was not received. The taxpayer contacted the Income Tax Department but did not receive a satisfactory response.

   a. What steps can the taxpayer take to resolve the grievance?

   b. Which authority or mechanism can be approached for grievance redressal?

   c. Explain the procedure for filing and following up the grievance.

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6

BLOCK

Income Tax Returns

Unit 1
Types of Return

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ understand the concept of ITR
- ◊ gain insight into the different types of Income Tax Return (ITR 1-7)
- ◊ understand the different returns such as Original Return, Revised Return, Belated Return, Defective Return, Updated Return and Loss Return

Prerequisites

Mr. Aditya is a tax consultant. On the last date for filing income tax returns, he was approached by seven different taxpayers seeking advice on the appropriate Income Tax Return (ITR) form for filing their returns. An Income Tax Return (ITR) is the prescribed form used by a taxpayer for furnishing the Return of Income to the Income Tax Department. The first taxpayer is a salaried employee, Mr.Arun. Arun's is annual income is less than ₹50 lakh. He owns two house property, earns interest from bank deposits, and has agricultural income of ₹3,000. Since he satisfies all the prescribed conditions, the consultant advises him to file ITR-1 (Sahaj). The second taxpayer is Ms. Meera. She is also a salaried employee. However, she owns more than two residential houses and has earned capital gains from the sale of shares. As she is not eligible to file ITR-1, the consultant recommends her to file ITR-2. The third taxpayer is Mr. Kishan. He runs a proprietary business. He also earns rental income from a house property. Since he has income from business, he is advised to file ITR-3. The fourth taxpayer is Mr. Tony, a small retail trader. He has opted for the presumptive taxation scheme under the Income-tax Act. He is eligible to file ITR-4 (Sugam) as his income falls under the presumptive taxation provisions and he satisfies the prescribed conditions. The fifth client is ABC Ltd., a partnership firm. Mr Aditya advises the firm to file ITR-5. The sixth taxpayer is XYZ Manufacturing Ltd., an Indian company carrying on business activities and it is not claiming exemption under Section 11 of the Income-tax Act. So, ITR-6 was recommended for the company. Finally, the seventh client is Param Educational Trust, a registered charitable institution running school for economically weaker students. As it is a charitable institution, it was required to file ITR-7.

From the above cases, it can be understood that all taxpayers do not use the same income tax form to file their return. The appropriate Income Tax Return (ITR) form depends on various factors such as the category of the taxpayer, the nature of income, the amount of income and the provisions of the Income-tax Act. Therefore, the Income Tax Department has prescribed seven different return forms (ITR-1 to ITR-7) to ensure that each category of taxpayer reports income in a prescribed manner. This unit discusses more about each Income tax return in detail. It also discusses about the different returns based on the circumstance of filing such as Original Return, Revised Return, Belated Return, Defective Return, Updated Return and Loss Return.

Keywords

Income Tax Return, Tax Payer, Original Return, Revised Return, Belated Return

Discussion

6.1.1 Meaning of ITR

Under Income –Tax law, different forms of returns are prescribed for different classes of tax payers. The return forms are known as I T R forms (Income Tax Return forms). Income Tax Return or ITR refers to the specific form which the tax payers use for reporting their income and their corresponding tax liability of the previous year to the Income Tax Department. Each year, an assessee must mandatorily file the income tax return before the specified due date in the format as prescribed by the Central Board of Direct Taxes. Failure to file the ITR by the specified due date may lead to adverse consequences such as late-filing interest, penalties, prosecution and the inability to carry forward losses. The forms of return prescribed under the Income tax law for filing of return of Income for the assessment year 2026-2027 (ie.financial year 2025 -2026 are as follows.

6.1.2 Different Types of ITR

There are seven different types of ITR forms. They are ITR -1, ITR -2 ITR -3, ITR -4, ITR -5, ITR -6 and ITR -7. The type of ITR to be used by an assesee is dependent on various factors such as the category of the tax payer (ie, whether the assessee is an individual, Hindu Undivided Family (HUF), company etc), residential status, levels of income, source of income. Therefore, choosing of the right ITR form is crucial. The different types of ITR are discussed below:

6.1.2.1 ITR -1 (SAHAJ)

◊ ITR-1 (SAHAJ) is applicable to resident other than not ordinarily resident having total income upto Rs 50 lakhs, having,

   i. Income from salary or pension,
   ii. Income from two house property
   iii. Family pension income
   iv. Agricultural income (up to ₹5000)
   v. Long-term capital gain u/s 112A up to ₹1.25 lakhs
   vi. Other sources, which includes Interest from Savings Accounts, Interest from Deposits (Bank / Post Office / Cooperative Society), Interest from Refund of Income tax, Interest received on Enhanced Compensation, Any other Interest Income and Family Pension

◊ ITR-1 can also be filed by a Resident Individual whose Income of Spouse (except those covered under Portuguese Civil Code) or Minor is clubbed.

◊ However, ITR-1 (Sahaj) is not applicable to every individual taxpayer. The following are the categories who cannot file ITR -1

   i. ITR-1 cannot be filed by an individual who is a Resident Not Ordinarily Resident (RNOR), or Non-Resident Indian (NRI).
   ii. if the total income of the individual exceeds ₹ 50 lakh.
   iii. if the individual owns and has income from more than two house property.
   iv. if the individual has agricultural income exceeding ₹ 5000.
   v. if the individual has income from business or profession
   vi. if the individual has income from other sources such as lottery, racehorses, legal gambling etc.
   vii. if the individual has income has taxable capital gains (short term and long term).
   viii. if the individual has income has Long-term capital gain u/s 112A exceeding ₹ 1.25 lakhs.
   ix. if the individual has invested in unlisted equity shares.
   x. if the individual is a Director in a company.
   xi. if the individual has any asset (including financial interest in any entity) located outside India
   xii. if the individual has signing authority in any account located outside India

xiii. if the individual has income from any source outside India

xiv. if the individual had tax deduction under section 194N of Income Tax Act.

xv. if payment or deduction of tax has been deferred on ESOP for the individual

xvi. has any brought forward loss or loss to be carried forward under any head of income

◊ The principal sections of ITR-1 are Personal Information, Gross Total Income, Total Deductions, Tax Paid, and Total Tax Liability.

6.1.2.2 ITR-2

◊ ITR -2 applies to Individuals and Hindu Undivided Families (HUFs) who do not have income from business or profession. It is applicable to taxpayers who are not eligible for ITR 1.

◊ ITR 2 is applicable

i. to individuals (Resident and Non -resident) and HUF receiving income other than income from 'Profits and Gains from Business or Profession'.

ii. if the individual or HUF has Income from salary or pension

iii. if the individual or HUF has Income from house property (i.e, more than two house property)

iv. if the individual or HUF has Income from capital gains (both short-term and long-term)

v. if the individual or HUF has Income from other sources (including winning from lottery, bettings and gambling)

vi. if the individual or HUF has Agricultural income more than Rs 5,000

vii. if the individual or HUF is a Director of any company

viii. if the individual or HUF has invested in unlisted equity shares of a company.

◊ ITR 2 form can be filed irrespective of the quantum of total income, including cases where total income exceeds ₹50 lakhs.

◊ ITR-2 is not applicable to individuals or HUFs whose total income includes income under the head 'Profits and Gains of Business or Profession.' Taxpayers carrying on proprietary business or professional practice are required to file the appropriate return form, such as ITR-3, depending on the nature of their income

6.1.2.3 ITR 3

◊ It is the Income Tax Return form to be used by Individuals and Hindu Undivided Families (HUFs) who earn income from a proprietary business or profession.

- It also applies to Individuals and HUFs who also have other income such as salary or pension, income from house property, capital gains, and other sources.
- However, this form can be used by those who are not eligible to file ITR-1, ITR-2, or ITR-4.
- It cannot be filed by Companies, LLPs, partnership firms, trusts, or AOPs. Thus, ITR-3 is exclusively for individuals and HUFs who earn income from a proprietary business or profession.

6.1.2.4 ITR-4 (SUGAM)

- ITR-4 (SUGAM) is the Income Tax Return form that is applicable for Individuals, Hindu Undivided Families (HUFs) and Firms (other than LLPs).
- ITR-4 can be filed by Individuals, HUFs, and Firms (excluding LLPs) if the following conditions are satisfied

  i. Individual / HUF / Firm must be resident.

  ii. Individual/ HUF/ Firm have income from business or profession and such income must be computed according to presumptive taxation Sections 44AD, Section 44ADA and 44AE.

  iii. The total income of Individual / HUF/ Firm must not exceed ₹50 Lakh

  iv. Individual/ HUF/ Firm have long-term capital gains under section 112A not exceeding Rs. 1.25 lakh

  v. Individual / HUF/ Firm may also have Income from Salary/Pension, Income from House Property (not more than two), Agricultural Income (up to ₹ 5000) and Other Sources (excluding winning from Lottery and Income from Racehorses). Other source incomes include Interest from Savings Account, Interest from Deposit (Bank / Post Office / Cooperative Society), Interest from Income Tax Refund, Family Pension and Any other Interest Income (e.g., Interest Income from Unsecured Loan).

- ITR-4 cannot be used if

  i. the Individual/ HUF/ Firm is a Resident but Not Ordinarily Resident (RNOR) or Non-Resident

  ii. the total income of the Individual / HUF / Firm exceeds Rs. 50 Lakh

  iii. the Individual/ HUF/ Firm is a Director in a Company

  iv. the total income of the Individual / HUF / Firm exceeds Rs. 50 Lakh

  v. the Individual / HUF/ Firm has short term Capital gains

  vi. the Individua l/ HUF/ Firm has Long-term capital gain u/s 112A and it exceeds Rs.1.25 lakhs

  vii. the Individual / HUF/ Firm has agricultural income in excess of ₹5,000/-

  viii. the Individual / HUF/ Firm is a Director in a Company

ix. the Individual / HUF/ Firm has income from more than Two House Property

x. the Individual / HUF/ Firm has income from sources like winnings from lottery, activity of owning and maintaining racehorses, income taxable at special rates u/s115BBDA or Section 115BBE

xi. the Individual /HUF/ Firm has held any unlisted equity shares at any time during the previous year

xii. the Individual /HUF/ Firm has deferred income tax on ESOP received from employer being an eligible start-up

xiii. the Individual / HUF/ Firm is not covered under the eligibility conditions for ITR-4

6.1.2.5 ITR-5

◊ It is the Income Tax Return form applicable for entities other than individuals, HUFs, companies, and persons required to file ITR -7.

◊ It is applicable for Firm, Limited Liability Partnership (LLP), Association of Persons (AOP), Body of Individuals (BOI), Artificial Juridical Person (AJP) (referred to in clause (vii) of Section 2(31) of the Income Tax Act, 1961), Representative Assessee referred to in Section 160(1)(iii) or (iv) of the Income Tax Act, 1961, Cooperative Society, Society Registered under Societies Registration Act, 1860 or under any other law of any State, Local Authority referred to in clause (vi) of Section 2(31) of the Income Tax Act, 1961, Trust other than Trusts eligible to file Form ITR-7, Estate of Deceased Person, Estate of an Insolvent Business Trust referred to in Section 139(4E) of the Income Tax Act, 1961 and Investment Fund referred to in Section 139(4F) of the Income Tax Act, 1961.

6.1.2.6 ITR-6

◊ This ITR is applicable for companies except those companies which claim exemption u/s 11 of the Income Tax Act 1961.

◊ Company refers to

i. an Indian Company

ii. Company may also be a body corporate which is incorporated by or under the laws of another country

iii. Any institution, association or body, whether incorporated or not and whether Indian or Non-Indian which is declared by general or special order of the Board, to be Company, etc.

◊ ITR-6 cannot be filed by

i. Companies claiming exemption under Section 11 because their income is derived from property held for charitable or religious purposes.

ii. Individuals, HUFs, firms, LLPs, trusts, and other non-company entities.

6.1.2.7 ITR-7

- ◊ This ITR is prescribed for persons, including certain companies, who are required to furnish their return under Sections 139(4A), 139(4B), 139(4C), or 139(4D) of the Income-tax Act. It is applicable for charitable or religious trusts, political parties, research institutions, educational institutions, universities, hospitals, and other specified organisations entitled to special tax treatment.
- ◊ ITR-7 can be filed by:

  i. Charitable and religious trusts required to file returns under Section 139(4A).

  ii. Political parties required to furnish returns under Section 139(4B).

  iii. Scientific research associations, news agencies, educational institutions, medical institutions, universities, colleges, and other specified organisations covered under Section 139(4C).

  iv. Universities, colleges, and institutions required to file returns under Section 139(4D).

  v. Other eligible persons specified under the relevant provisions of the Income-tax Act.

- ◊ ITR-7 is not applicable to:

  i. Individuals, HUFs, firms, LLPs, or companies that are not required to file returns under Sections 139(4A), 139(4B), 139(4C), or 139(4D).

  ii. Taxpayers whose income is required to be reported using ITR-1, ITR-2, ITR-3, ITR-4, ITR-5, or ITR-6.

Types of Return Based on Circumstances of Filing

Return of Income refers is the statement or declaration of income furnished by the assessee containing details of the income earned during the previous year, deductions claimed, taxes paid, and the tax payable or refundable, as prescribed under the Income-tax Act, 1961.

Based on the circumstances or purpose of filing, returns may be classified into the following types :

i. Original Return (Section 139(1))

It refers to the return of income filed by furnished by an assessee within the due date prescribed by the Income tax Department. Every person whose total income exceeds the maximum amount not chargeable to tax is required to furnish the Original Return within the specified due date. If the assessee discovers any omission or wrong statement in the return, it may subsequently be revised under Section 139(5).

ii. Belated Return (Section 139(4))

If the assessee fails to file the return of income within the time prescribed under the Income-tax Act, then the assessee must file the Belated Return. Such a return can be filed for the relevant previous year before three months before the end of the relevant assessment year or before the completion of the assessment, whichever is earlier.

iii. Revised Return (Section 139(5))

Revised Return is filed when an assessee who has furnished a return of income under Section 139(1) or a belated return under Section 139(4) subsequently discovers any omission or any wrong statement in the return. The revised return may be filed before three months before the end of the relevant assessment year or before the completion of the assessment, whichever is earlier. But if an assessee has deliberately furnished a false return, then in such a circumstance, the assessee will be imprisoned under Section 277. In addition to this, he/she will not be condoned by filing the revised return.

iv. Defective Return (Section 139(9))

A defective return is an income tax return containing errors or deficiencies. If an Assessing Officer finds the return furnished by an assessee to be defective, then he may intimate the defect to the assessee and provide an opportunity to rectify the defect within 15 days from the date of such intimation. Assessing Officer may also extend the period allowed for rectification beyond the initial 15 days upon the application of the assessee. If the assessee has not rectified the defect within 15 days or within the extended period allowed by the Assessing Officer, then the return shall be treated as invalid. It shall be deemed that the assessee has failed to furnish the return. However, where the assessee rectifies the defect after the expiry of the prescribed period but before the Assessing Officer commences the assessment, then the assessing officer may condone the delay and treat the return as a valid return.

v. Updated Return

An Updated Return is a return of income that can be filed by any taxpayer, irrespective of whether an original, belated, or revised return has already been filed for the relevant assessment year. A person may file an updated return for their own income or for the income of another person for whom they are assessable under the Income-tax Act, such as when acting in a representative capacity or where income is clubbed with their own.

vi. Loss Return

A Loss Return is filed by a taxpayer who has incurred a loss during the previous year. The primary objective of filing a loss return is to preserve the right to carry forward eligible losses to future assessment years and set them off against taxable income, in accordance with the provisions of the Income-tax Act, 1961. Since losses are a common occurrence in business activities, the Act permits eligible assessees to carry forward such losses to reduce their future tax liability.

To claim the benefit of carrying forward such losses to future years, the return of loss must be furnished within the prescribed due date, in the prescribed form, and verified in the prescribed manner.

However, if an updated return is filed for a previous year, the amount eligible to be carried forward to subsequent years may be reduced in respect of the following:

- ◊ Losses under Chapter VI of the Income-tax Act.
- ◊ Unabsorbed depreciation allowable under Section 32(2).
- ◊ Tax credit available under Sections 115JAA and 115JD.

Recap

- ◊ ITR-1 (Sahaj) may be furnished by a resident individual whose total income does not exceed ₹50 lakh during the relevant financial year. Such income consists of salary or pension, income from not more than two house properties, income from other sources (such as interest), long-term capital gains under Section 112A not exceeding ₹1.25 lakh, and agricultural income up to ₹5,000.
- ◊ ITR-2 is applicable to Individuals and Hindu Undivided Families (HUFs) who do not having income from Profits and Gains of Business or Profession.
- ◊ ITR-3 is applicable to Individuals and Hindu Undivided Families (HUFs) having income from Profits and Gains of Business or Profession.
- ◊ ITR-4 (Sugam) is to filed by resident Individuals, Hindu Undivided Families (HUFs), and Firms (other than Limited Liability Partnerships) whose total income does not exceed ₹50 lakh and whose business or professional income is computed under the presumptive taxation scheme specified under Sections 44AD, 44ADA, or 44AE of the Income-tax Act.
- ◊ ITR-5 is applicable to persons other than Individuals, Hindu Undivided Families (HUFs), Companies, and persons required to furnish returns in Form ITR-7.
- ◊ ITR-6 may be furnished by Companies, except those claiming exemption under Section 11 of the Income-tax Act.
- ◊ ITR-7 is applicable to persons, including Companies, who are required to furnish returns under Sections 139(4A), 139(4B), 139(4C), or 139(4D) of the Income-tax Act. It is applicable for charitable or religious trusts, political parties, research institutions, educational institutions, universities, hospitals, and other specified organisations entitled to special tax treatment.
- ◊ Original Return refers to the return of income filed by furnished by an assessee within the prescribed due date.
- ◊ If the assessee fails to file the return of income within the time prescribed under the Income-tax Act, then the assessee must file the Belated Return.

- ◊ Revised Return is filed when an assessee who has furnished a return of income under Section 139(1) or a belated return under Section 139(4) subsequently discovers any omission or any wrong statement in the return.
- ◊ A defective return is an income tax return containing errors or deficiencies. If an Assessing Officer finds the return furnished by an assessee to be defective, then he may intimate the defect to the assessee and provide an opportunity to rectify the defect within 15 days from the date of such intimation.
- ◊ An Updated Return is a return of income that can be filed by any taxpayer, irrespective of whether an original, belated, or revised return has already been filed for the relevant assessment year.
- ◊ A Loss Return is filed by a taxpayer who has incurred a loss during the previous year.

Objective Questions

1. Under which section of the Income-tax Act is the Original Return filed?
2. Which return is filed after the prescribed due date?
3. Under which section can a Revised Return be filed?
4. Which ITR form is also known as Sahaj?
5. Which ITR form is also known as Sugam?
6. Which ITR form is applicable to individuals and HUFs without business or professional income?
7. Which ITR form is applicable to individuals and HUFs having business or professional income?
8. Which ITR form is applicable under the presumptive taxation scheme?
9. Which ITR form is applicable to companies not claiming exemption under Section 11?
10. Which ITR form is applicable to charitable or religious trusts?

Answers

1. Section 139(1)
2. Belated Return
3. Section 139(5)
4. ITR-1
5. ITR-4
6. ITR-2
7. ITR-3
8. ITR-4
9. ITR-6
10. ITR -7

Self-Assessment Questions

1. What is a Revised Return? Under what circumstances can it be filed?
2. Explain the concept of a Defective Return and describe the procedure for rectifying defects.
3. Differentiate between Belated Return and Updated Return.
4. Explain the eligibility conditions for filing ITR-1 (Sahaj).
5. Describe the circumstances in which ITR-2 is applicable.
6. Explain the applicability of ITR-7 and the categories of persons required to file it.

Assignments

1. Mr. A failed to file his return within the prescribed due date. What type of return can he file? Explain the conditions applicable to such a return.
2. After filing the original return, Ms. B discovered that she had omitted certain income from the return. Which type of return should she file? Explain the legal provisions governing such a return.

3. The Assessing Officer informed an assessee that the return filed was defective. Explain the procedure to be followed by the assessee and the consequences of failing to rectify the defect within the prescribed period.
4. A resident individual has salary income, income from two house properties, and long-term capital gains under Section 112A amounting to ₹90,000. Determine the applicable ITR form and explain.
5. A taxpayer has income from three house properties but no business income. Analyse the appropriate ITR form.
6. ABC Pvt. Ltd. is not claiming exemption under Section 11. Which ITR form should it file? Explain your answer.
7. XYZ Charitable Trust is registered under the Income-tax Act. Identify the appropriate ITR form and justify your choice.

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Unit 2
Filing of Return

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ gain insight into the concept of e-filing Return
- ◊ understand the procedure of e-filing
- ◊ explain the duties and responsibilities of a tax return preparer (T R P)

Prerequisites

Two taxpayers Mr. Arun and Mr. Karan visited a tax consultant to understand how they should file their returns as the due date for filing income tax returns was approaching. However, Mr.Arun preferred completing the entire return filing process himself. For this, he logged in to the Income Tax e-Filing portal, selected the appropriate return form, entered his income details, verified the information, and submitted the return successfully. This is an example of e-filing of an income tax return, where taxpayers file their returns online. However, Mr. Karan however, had little knowledge of income tax laws or online filing. He sought the assistance of a Tax Return Preparer (TRP) instead of preparing the return himself. The authorised TRP collected the required documents, prepared the return, ensured that all information was correctly furnished, signed the return as required under the scheme, and assisted Mr. Karan in filing it. This facility is particularly useful for eligible taxpayers who require professional assistance in preparing and filing their income tax returns. This scenario demonstrates that taxpayers may adopt different methods for filing their income tax returns depending upon on their knowledge, convenience, and eligibility. Some taxpayers prefer to file returns electronically on their own while some others may obtain assistance from an authorised Tax Return Preparer (TRP). Understanding these methods enables taxpayers to comply with the provisions of the Income-tax Act in an efficient and accurate manner. This unit discusses more about the concept, advantages and procedure of e-filing. It also discusses about the meaning, duties and responsibilities of a tax return preparer.

Keywords

E-filing, Income Tax Return, Tax Return Preparer

Discussion

6.2.1 E-Filing of Return

6.2.1.1 Meaning

Under Section 139(1) of the Income Tax Act, 1961, if the total income of a person exceeds the prescribed exemption limit during the previous financial year, then such person is required to file an Income Tax Return (ITR). Filing of return refers to the process of submitting the Income Tax Return (ITR) to the Income Tax Department either electronically or in the prescribed manner. ITR contains declarations of the income of the tax payer, deductions claimed or applied and tax liability for a particular financial year.

E-filing of return refers to the process of submitting return online through the Income Tax Department's e-filing portal. Taxpayers can file themselves by registering on the e-filing portal or seek assistance from authorized tax professionals.

The E -filing portal of the Income Tax Department offers several facilities to simplify the e-filing process for taxpayers. Through the Return Preparation Software, taxpayers can automatically calculate their tax liability and applicable interest. They can also access their Tax Credit Statement (Form 26AS) to view details of taxes paid and deducted without having the need to have separate registration. The e-filing system also enables users to track the processing status of their income tax returns submitted online. In addition to this, eligible taxpayers can receive their income tax refunds electronically through the Refund Banker Scheme, making the refund process faster and more convenient.

6.2.1.2 Advantages of E-filing of returns

i. E -filing provides a secure and convenient method of filing income tax returns.

ii. It allows taxpayers to file returns anytime and from anywhere with internet access.

iii. E-filing helps to minimise errors through automated calculations and validation checks, thereby improving accuracy.

iv. E- filing helps to ensure quicker processing of returns and faster issuance of refunds.

v. It helps to promote a paperless filing system, reducing paperwork and supporting environmental sustainability.

6.2.1.3 Types of E-Filing

Income tax returns can be filed electronically in different ways. The common methods include the following:

i. E-Filing using Digital Signature Certificate (DSC)

An assessee may submit the income tax return online by using a Digital Signature Certificate (DSC). However, the use of a DSC is mandatory while filing the return electronically for certain categories of taxpayers such as those whose accounts are required to be audited.

ii. E-Filing Without a Digital Signature Certificate

E-filing can also be done without using a Digital Signature Certificate. If the return is filed by the assessee without using a DSC, then a Income Tax Return Verification Form will be generated after submission. The assessee must print this form, sign it, and send it to the Centralized Processing Centre (CPC) Bengaluru, through ordinary post or speed post within the 120 days from the date of filing to complete the verification process.

iii. E-Filing Through an E-Return Intermediary (ERI)

Taxpayers may also file their income tax returns through an E-Return Intermediary (ERI). Returns can be filed with or without the use of a Digital Signature Certificate, depending on the applicable requirements.

6.2.1.4 Persons required to file income tax returns electronically

E-filing can be done most assesses. They include the following:

i. Individuals whose total income exceeds ₹5 lakh during the relevant financial year.

ii. A resident Individual or HUF having assets located outside India.

iii. An assessee who is required to furnish returns under Section 139(4B) usingITR-7.

iv. An assessee who is required to submit notices under Section 11(2)(a) to the Assessing Officer.

v. An assessee who is required to furnish audit reports under specified provisions of the Income-tax Act, including sections such as Section 10(23C), Section 10A, Section 12A, Section 44AB, Section 80IA, Section 80IB, Section 80IC, Section 80ID, Section 80JJAA, Section 80LA, Section 92E, and Section 115JB.

vi. A firm that is not covered under Section 44AB, Associations of Persons (AOPs), Bodies of Individuals (BOIs), Local Authorities filing ITR-5, Artificial Juridical Persons or Co-operative Societies

vii. Taxpayers claiming relief under Section 90 and Section 90A or claiming deductions under Section 91.

viii. Resident individuals having signing authority in any bank account located outside India.

ix. All companies registered under the Companies Act.

6.2.1.5 Documents Required for Filing an Income Tax Return

Proper documentation helps ensure accurate and hassle-free filing of income tax returns.

i. General Information

It includes basic documents such as Permanent Account Number (PAN) and Bank account details.

ii. Documents required for Reporting Salary Income

Documents such as Form 16 issued by the employer, Salary slips and Rent receipts for claiming House Rent Allowance (HRA), wherever applicable should be kept ready by a salaried taxpayer.

iii. Documents and details required for reporting Income from House Property

The following information and documents are required for reporting income from house property:

◊ Address of the property.

◊ Details of co-owners, their ownership share, and PAN, if applicable.

◊ Home loan interest certificate.

◊ Date of completion of construction in case of newly constructed property.

◊ Name of the tenant and rental income details if the property is let out.

iv. Documents required for reporting Capital Gains

The following documents are necessary for reporting capital gains during the financial year:

◊ Stock trading statements indicating the purchase and sale transactions.

◊ Details relating to the sale of immovable property such as cost of purchase, sale consideration, registration details, and computation of capital gains.

◊ Statements of investments and transactions relating to mutual funds, equity funds, debt funds, SIPs, and ELSS schemes.

v. **Documents for Reporting Income from Other Sources**

Income earned from sources other than salary or business should also be reported. Relevant documents at the time of filing the income tax return include:

- ◊ Bank statements showing interest credited to savings accounts.
- ◊ Interest certificates for tax-saving bonds and corporate bonds.
- ◊ Details of interest earned from post office deposits and other eligible investments.

6.2.2 Procedure for E-Filing of return

The e-filing of income tax returns is a convenient and efficient method of submitting returns electronically through the Income Tax Department's e-Filing portal. Following is the procedure to be followed by the taxpayers for the e-filing of returns.

i. **Logging into the e-Filing Portal**

The tax payers must visit the official Income Tax e-Filing portal (https://eportal.incometax.gov.in) and log in using the registered Permanent Account Number (PAN) or Aadhaar as the user ID along with the password. New users must first complete the registration process.

ii. **Selecting 'File Income Tax Return'**

After logging in, tax payers or users must navigate to the e-File menu and select 'File Income Tax Return' to initiate the return filing process.

iii. **Choosing the Relevant Assessment Year**

The next step is to select the appropriate Assessment Year (AY) for which the return is to be filed. Tax payers must ensure that the correct assessment year corresponding to the relevant previous year is selected.

iv. **Selecting the Filing Status**

The next step is to choose the applicable filing status of the tax payer i.e, whether the tax payer is an Individual, Hindu Undivided Family (HUF), Firm, Company, or any other eligible category, as applicable.

v. **Selecting the Appropriate ITR Form**

The tax payer must choose the applicable Income Tax Return (ITR) Form based on the person's category, residential status, nature of income, and other eligibility conditions.

vi. **Specifying the Reason for Filing the Return**

Tax payer has to select the appropriate reason for filing the return. There may be various reasons for filing the return. Some of the reasons include the following:

- ◊ Total income exceeds the basic exemption limit.
- ◊ For claiming a refund.

◊ For carrying forward losses.

◊ To Fulfil any other statutory requirement under the Income-tax Act.

vii. Verifying the Pre-filled Information

The portal displays pre-filled information obtained from various sources. The tax payer must verify the details by comparing them with supporting documents like Annual Information Statement (AIS) , Form 26AS (Tax Credit Statement) , Form 16, Bank statements, Capital gains statements, proofs of Investment and deductions. If there are any discrepancies, it should be corrected before proceeding further.

viii. Entering Income, Deductions and Tax Details

Tax payer has to provide or update the details regarding income under various heads, deductions claimed under the Income-tax Act, taxes paid, and any other required information.

ix. Reviewing and Validating the Return

As a next step, the tax payer should carefully review all the information entered in the return and validate the details to ensure that the return is complete, accurate, and free from errors.

x. Submitting the Return

After successful validation, the tax payer has to select the submit option in the-Filing portal.

xi. E-Verifying the Return

After submission of the return, the return must be e-verified by the tax payer within the prescribed time limit using Aadhaar OTP or Net Banking or Electronic Verification Code (EVC) or Digital Signature Certificate (DSC) or any other mode prescribed by the Income Tax Department. If electronic verification is not completed by the tax payer, the signed ITR-V (Income Tax Return Verification) should be sent to the Centralized Processing Centre (CPC), Bengaluru, within the prescribed period.

xii. Downloading the Acknowledgement

After successful submission and verification, the tax payer has to download and save the ITR Acknowledgement (ITR-V) for future reference. After verification, the Income Tax Department will process the return and issue the refund, if any.

6.2.3 Return Through TRP

6.2.3.1 Meaning of Tax Return Preparer

A Tax Return Preparer (TRP) refers to an individual who is trained and authorized by the Income Tax Department to assist taxpayers in preparing and filing their income tax returns. Tax Return Preparers (TRPs) provide tax filing assistance to the tax payers in the comfort of their residence. However, in cases where tax audit is mandatory, TRPs are not permitted to prepare or file returns for the tax payers.

6.2.3.2 Tax Return Preparer Scheme (TRPS)

Under the Tax Return Preparer Scheme, trained and certified Tax Return Preparers offer assistance to small and marginal taxpayers in preparing and filing their income tax return. Tax Return Preparer Scheme (TRPS) was introduced by the Government with the objective of making tax compliance simpler and more accessible to taxpayers by providing professional assistance at the taxpayer's doorstep. It also seeks to reduce the cost of tax compliance for small taxpayers, broaden the taxpayer base by encouraging more people to file income tax returns, create public awareness about income tax laws and return filing procedures, and promote greater community participation in the administration of the tax system. The scheme also helps in generating employment opportunities for unemployed and underemployed graduates by training them as Tax Return Preparers.

6.2.3.3 Duties and Responsibilities of a Tax Return Preparer

Following are the responsibilities of a Tax Return Preparer:

- ◊ The income tax return should be prepared by the TRP with due care and diligence.
- ◊ The TRP should sign the return after preparing the return.
- ◊ A TRP is responsible for submitting the return to the appropriate Assessing Officer or the relevant agency that has been designated by the Resource Centre.
- ◊ TRP should hand over a copy of the return to the person whose return is prepared and furnished by him.
- ◊ TRP should retain a copy of the acknowledgment of having furnished the return
- ◊ In addition to this, it is the duty of a TRP to maintain proper records of every return prepared such as name of the taxpayer (assessee), Permanent Account Number (PAN) of the assessee, date of filing the return, the relevant assessment year, acknowledgement number of the filed return, jurisdiction of the Assessing Officer, Total income declared in the return, total tax liability, amount of tax payable, fees or remuneration receivable by the TRP under the provisions of the scheme.
- ◊ The TRP is also required to submit a monthly statement of particulars to the Resource Centre on or before the 7th day of every month.

Recap

- ◊ Filing of return refers to the process of submitting the Income Tax Return (ITR) to the Income Tax Department either electronically or in the prescribed manner.
- ◊ ITR contains declarations of the income of the tax payer, deductions claimed or applied and tax liability for a particular financial year.
- ◊ E-filing of return refers to the process of submitting return online through the Income Tax Department's e-filing portal. Taxpayers can file themselves by registering on the e-filing portal or seek assistance from authorized tax professionals.
- ◊ The e-Filing portal offers a range of services, such as tax calculation, online access to Form 26AS, tracking of return status, and electronic processing of income tax refunds, thereby making the return filing process simpler and more efficient.
- ◊ A Tax Return Preparer (TRP) refers to an individual who is trained and authorized by the Income Tax Department to assist taxpayers in preparing and filing their income tax returns.
- ◊ Tax Return Preparer Scheme (TRPS) was introduced to make tax compliance simpler and more accessible to taxpayers. It also seeks to reduce the cost of tax compliance for small taxpayers, broaden the taxpayer base by encouraging more people to file income tax returns, create public awareness about income tax laws and return filing procedures, and promote greater community participation in the administration of the tax system

Objective Questions

1. Who is authorized by the Income Tax Department to assist taxpayers in filing income tax returns?
2. Expand TRP.
3. Expand TRPS.
4. Which department authorizes Tax Return Preparers?
5. Which scheme was introduced to simplify tax compliance for taxpayers?
6. Who appoints or authorizes a Tax Return Preparer?
7. Name one category of taxpayers who particularly benefit from the Tax Return Preparer Scheme.

8. Which scheme aims to generate employment opportunities for unemployed graduates?
9. Who prepares the income tax return with due diligence under the TRPS?
10. Which authority pays the remuneration of a Tax Return Preparer?

Answers

1. TRP
2. Tax Return Preparer
3. Tax Return Preparer Scheme
4. Income Tax Department
5. TRPS
6. Income Tax Department
7. Small Taxpayers
8. TRPS
9. TRP
10. Income Tax Department

Self-Assessment Questions

1. What do you mean by E-filing?
2. Discuss the advantages of E-filing of returns.
3. Explain the procedure for E-filing of return.
4. Who is a Tax Return Preparer?
5. Discuss the duties and responsibilities of a Tax Return Preparer.

Assignments

1. Evaluate the role of the e-Filing portal in improving the efficiency and transparency of the income tax administration.

2. Evaluate the significance of the Tax Return Preparer Scheme (TRPS) in improving tax compliance among small and marginal taxpayers.
3. Mr. Arun owns a small grocery shop and is unfamiliar with the e-filing process. He approaches a Tax Return Preparer (TRP) for assistance in filing his income tax return. Based on the above case, answer the following questions:
   i. Explain how the Tax Return Preparer (TRP) can assist Mr. Arun in filing his income tax return.
   ii. Discuss the responsibilities of the TRP while preparing the income tax return.
   iii. State any two objectives of the Tax Return Preparer Scheme (TRPS) that are reflected in this case.

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3. Mittal, P. R., & Bansal, A. (2027). *Income tax: Law and practice (Assessment Year 2026–27)*. Sultan Chand & Sons.

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Model Question Paper Sets

SREENARAYANAGURU OPEN UNIVERSITY

MODEL QUESTION PAPER

SET - 01

QP CODE: ………

Reg. No: ……….............

Name: …………………......

SIXTH SEMESTER BACHELOR OF COMMERCE (B.COM) EXAMINATION

DISCIPLINE SPECIFIC ELECTIVE COURSES

B21CM05DE - INCOME TAX -II: LAW AND PRACTICE

(CBCS - UG)

2023-24 - Admission Onwards

Time: 3 Hours | Max Marks: 70

Section A

(Answer any 10, each carry 1 mark)

(10×1= 10)

1. Explain casual income
2. Short note on tax planning.
3. Short note on e-filing
4. Definition of salary under sec 17(1)
5. Calculate the taxable value of the motor car perquisite in the hands of an employee for the Assessment Year 2026–27, if the employer provides a motor car of engine capacity below 1.6 litres for both official and personal use. The expenses on running and maintenance are borne by the employer. Assume the prescribed value of the perquisite is ₹1,800 per month.
6. Short note on 80D.
7. What is TAN, and who is required to obtain it?
8. What do you mean by clubbing of income
9. Compute the Gross Total Income of Mr. Amal for the Assessment Year 2026–27 from the following particulars:
    - ◊ Business Profit – ₹80,000
    - ◊ Loss from House Property – ₹25,000
    - ◊ Short Term Capital Gain – ₹30,000
    - ◊ Brought Forward Business Loss – ₹15,000

   Find the Gross Total Income.

10. State any 4 fully taxable allowance
11. Short note on PAN
12. Short note on unabsorbed depreciation.
13. Explain the Carry Forward of Non-Speculation Business Loss
14. Manorama's books show a cash credit of ₹5,00,000 during the previous year. She could not explain the source of the amount satisfactorily. Explain the treatment
15. Compute the tax liability of Mr. Nisar, aged 45 years, for the Assessment Year 2026–27, if his taxable income is ₹8,00,000. Calculate the tax payable as per the applicable tax slabs.

Section B

(Answer any 5, each carry 2 marks)

(5×2=10)

16. Short note on interest and winnings Grossing-up of Interest and Winnings
17. Short note on Assessing officer.
18. Discuss the taxation of dividend
19. Explain the computation of HRA.
20. Short note on marginal relief.
21. Short note on intra head set off
22. State Procedure for E-Filing of return
23. State any 4 various deductions available under chapter VI A of income tax Act.
24. Short note on 80JJA
25. Compute the tax liability of Mr. Chandran, aged 68 years, for the Assessment Year 2026–27, if his taxable income is ₹8,00,000. Calculate the tax payable as per the applicable tax slabs.

Section C

(Answer any 4, each carry 5 marks)

(4×5=20)

26. Describe the major functions (services) of TIN.
27. Explain the Duties of Income tax authorities
28. Discuss the difference between RPF, UPF, SPF and PPF
29. Explain the concept of rebate under income tax Act.
30. Scope of Exercise of Powers of Income-tax Authorities
31. Calculate the Gross Total Income of an individual for the Assessment Year 2026–27 from the following particulars:

The Business Income determined by the Assessing Officer is ₹4,20,000. It is subsequently found that the following items were not considered:

- ◊ Current year depreciation – ₹15,000
- ◊ Unabsorbed depreciation brought forward – ₹20,000
- ◊ Brought forward business loss from A.Y. 2024–25 – ₹10,000

Determine the Gross Total Income for the Assessment Year 2026–27. Show the necessary workings.

32. Discuss the tax planning under new regime
33. Discuss the consequences of not using PAN.

Section D

(Answer any 2, each carry 15 marks)

(2X15=30)

34. Powers of various income tax authorities
35. Deductions allowed under income from other sources.
36. Discuss the Clubbing of Incomes (Sections 60 to 65).
37. Compute the taxable income and tax liability of Mr. Karthik for the Assessment Year 2026–27 under both the Old Tax Regime and the New Tax Regime, based on the following particulars:

Particulars	Amount (₹)
Basic Salary	12,00,000
Dearness Allowance	1,80,000
House Rent Allowance received	1,50,000
Rent paid at Kochi	2,10,000
Interest on Savings Bank Deposit	15,000
Interest on Fixed Deposit	35,000
Contribution to Public Provident Fund (PPF)	1,20,000
Life Insurance Premium	40,000
Medical Insurance Premium for Self and Family	30,000

Assume that:

- ◊ Mr. Karthik is entitled to HRA exemption of ₹90,000 under Section 10(13A).

Required:

1. Compute the Total Income under the Old Tax Regime.
2. Compute the Total Income under the New Tax Regime.
3. Calculate the Tax Liability under both regimes.
4. Identify the more beneficial tax regime for Mr. Karthik.

SREENARAYANAGURU OPEN UNIVERSITY

MODEL QUESTION PAPER

SET - 02

QP CODE: ………

Reg. No: ………..............

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SIXTH SEMESTER BACHELOR OF COMMERCE (B.COM) EXAMINATION

DISCIPLINE SPECIFIC ELECTIVE COURSES

B21CM05DE - INCOME TAX -II: LAW AND PRACTICE

(CBCS - UG)

2023-24 - Admission Onwards

Time: 3 Hours | Max Marks: 70

Section A

(Answer any 10, each carry 1 mark)

(10×1= 10)

1. Explain Bondwashing Transaction.
2. Explain ITR -1 (SAHAJ)
3. State any two examples for income from other sources.
4. Mr. Karthik is provided with rent-free unfurnished accommodation by his employer in a city having a population of 15 lakh. The salary of Mr. Karthik for the purpose of valuation of the perquisite is ₹6,00,000. Calculate the taxable value of the rent-free accommodation
5. Short note on Unrealised rent
6. Short note on short term capital gain
7. Mr. Aswin purchased a piece of land for ₹2,00,000 in 2018 and sold it for ₹5,00,000 in 2025. Calculate the Long-Term Capital Gain for the Assessment Year 2026–27, assuming the indexed cost of acquisition is ₹3,20,000.
8. List the 5 heads of income
9. State the deductions allowed under section 80C
10. Explain section 115BAC.
11. Compute the amount of rebate available under Section 87A for Ms. Thahani, a resident individual aged 35 years, having a taxable income of ₹5,00,000 for the Assessment Year 2026–27.
12. Ms. Kalhara receives a salary income of ₹12,75,000. Calculate her taxable income.

13. Short note on surcharge
14. List any 4 deductions that are not allowable under Section 58 while computing income from other sources.
15. Compute the Gross Total Income of Mr. Rahul for the Assessment Year 2026–27 from the following particulars:
    - ◊ Business Profit – ₹1,00,000
    - ◊ Loss from House Property – ₹20,000
    - ◊ Short Term Capital Gain – ₹25,000
    - ◊ Brought Forward Business Loss – ₹10,000

    Find the Gross Total Income.

Section B

(Answer any 5, each carry 2 marks)

(5×2=10)

16. Who are the different Income Tax Authorities under the Income-tax Act?
17. Short note on encashment of Earned leave .
18. Discuss the slab rate for the assessment year 2026-27.
19. Differentiate between PAN and TAN.
20. Organisational Set-up of the Grievance Redressal Mechanism
21. Mr. Vineeth, an employee of a private company, receives gratuity of ₹8,00,000 on retirement after completing 24 years and 8 months of service. His last drawn salary is ₹60,000 per month, including dearness allowance. Calculate the amount of gratuity exempt from tax and the taxable gratuity under Section 10(10), assuming that he is covered by the Payment of Gratuity Act, 1972
22. Mr. Kalakeyan receives a pension of ₹18,000 per month after retirement. He commutes 40% of his pension and receives a commuted pension of ₹5,00,000. Calculate the amount of commuted pension exempt from tax, assuming he is not entitled to gratuity
23. Mr. Aslam owns a residential house property in Kochi. The following particulars are available for the Previous Year 2025–26:

Particulars	Amount (₹)
Municipal Value	3,60,000
Fair Rent	4,00,000
Actual Rent Received	4,20,000
Municipal Taxes paid by the owner	40,000
Interest on housing loan	1,20,000

Calculate the taxable income from house property of Mr. Aslam for the Assessment Year 2026–27

24. State any 4 items exempted under capital gain.
25. Short note on deemed rental income.

Section C

(Answer any 4, each carry 5 marks)

(4×5=20)

26. Discuss the steps for computation of taxable income from other sources.
27. Explain the steps to apply for PAN
28. Explain the procedure followed for grievance redressal in the Income Tax Department
29. Discuss the deductions which are not permitted under Income from Other Sources
30. Discuss the intra head set off.
31. Discuss the objectives of tax planning
32. Explain the significance of PAN, TAN, and TIN in tax administration.
33. Scope of Exercise of Powers of Income-tax Authorities

Section D

(Answer any 2, each carry 15 marks)

(2X15=30)

34. Mr. Ramesh Kumar furnishes the following particulars of his income for the Previous Year ending 31st March, 2026:
    - ◊ Dividend from a tea company ₹3,200 (Gross). 55% of the income of the tea company is agricultural income.
    - ◊ Amount won from a horse race ₹3,800.
    - ◊ Winnings from a lottery ₹75,000.
    - ◊ Interest received on deposit with a partnership firm ₹6,800.
    - ◊ Dividend received from a co-operative society ₹900.
    - ◊ Income from non-agricultural land ₹2,100.

Mr. Ramesh Kumar claims the following expenses:

- ◊ Bank commission of ₹150 for collecting dividends from the tea company.
- ◊ Interest on loan taken to purchase shares in the tea company ₹1,000.
- ◊ Expenses incurred for purchasing lottery tickets ₹2,500.

Compute the taxable income of Mr. Ramesh Kumar under the head "Income from Other Sources" for the Assessment Year 2026–27.

35. Compute the taxable income and tax liability of Mr. Alwin for the Assessment Year 2026–27 under both the Old Tax Regime and the New Tax Regime, based on the following particulars:

Particulars	Amount (₹)
Basic Salary	10,50,000
Dearness Allowance	1,50,000
House Rent Allowance received	1,20,000
Rent paid at Kochi	1,80,000
Interest on Savings Bank Deposit	12,000
Interest on Fixed Deposit	28,000
Contribution to Public Provident Fund (PPF)	1,50,000
Life Insurance Premium	30,000
Medical Insurance Premium for Self and Family	25,000

Assume that:

- ◊ Mr. Alwin is entitled to HRA exemption of ₹80,000 under Section 10(13A).

Required:

- ◊ Compute the Total Income under the Old Tax Regime.
- ◊ Compute the Total Income under the New Tax Regime.
- ◊ Calculate the Tax Liability under both regimes.
- ◊ Identify the more beneficial tax regime for Mr. Alwin.

36. Short note on different types of ITR

37. Mr. Alwin, an employee of a private company, provides the following particulars of his salary income for the Previous Year 2025–26:
    - ◊ Basic salary: ₹60,000 per month
    - ◊ Dearness allowance: ₹12,000 per month, 60% of which forms part of salary for retirement benefits
    - ◊ House Rent Allowance: ₹20,000 per month
    - ◊ Rent paid by Mr. Alwin for a house in Kollam: ₹18,000 per month
    - ◊ Employer's contribution to Recognised Provident Fund: ₹72,000
    - ◊ Interest credited to RPF at 10% per annum: ₹24,000
    - ◊ Bonus received: ₹50,000
    - ◊ Medical reimbursement by employer: ₹15,000
    - ◊ Professional tax paid by Mr. Alwin: ₹2,400
    - ◊ He received a taxable transport allowance of ₹2,000 per month.

- ◊ He contributed ₹80,000 towards his own Recognised Provident Fund.
- ◊ He paid ₹30,000 towards life insurance premium eligible for deduction under Section 80C.

Compute the taxable income from salary of Mr. Alwin for the Assessment Year 2026–27. Give suitable working notes wherever necessary.

സർവ്വകലാശാലാഗീതം

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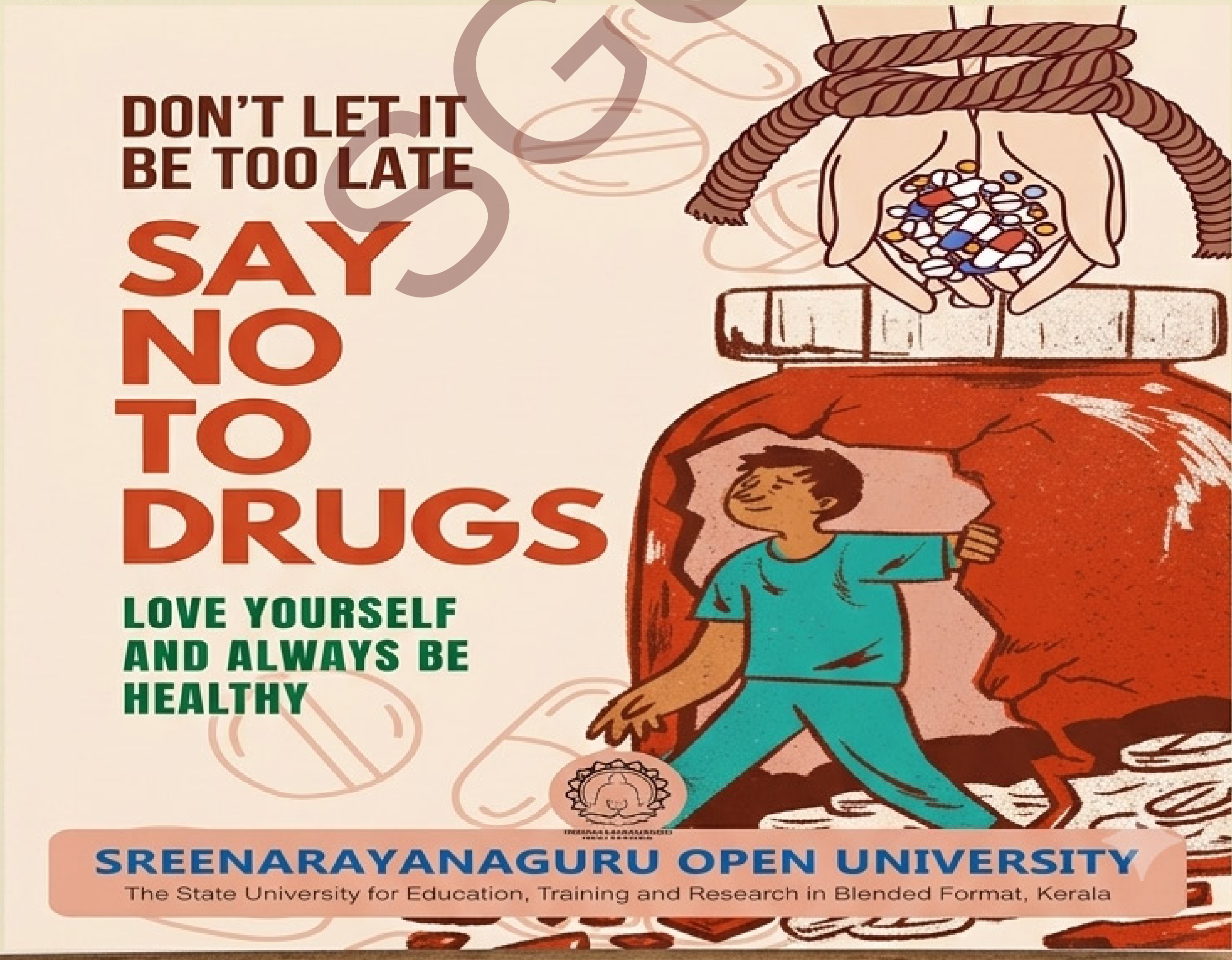
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