

BASIC CONCEPTS

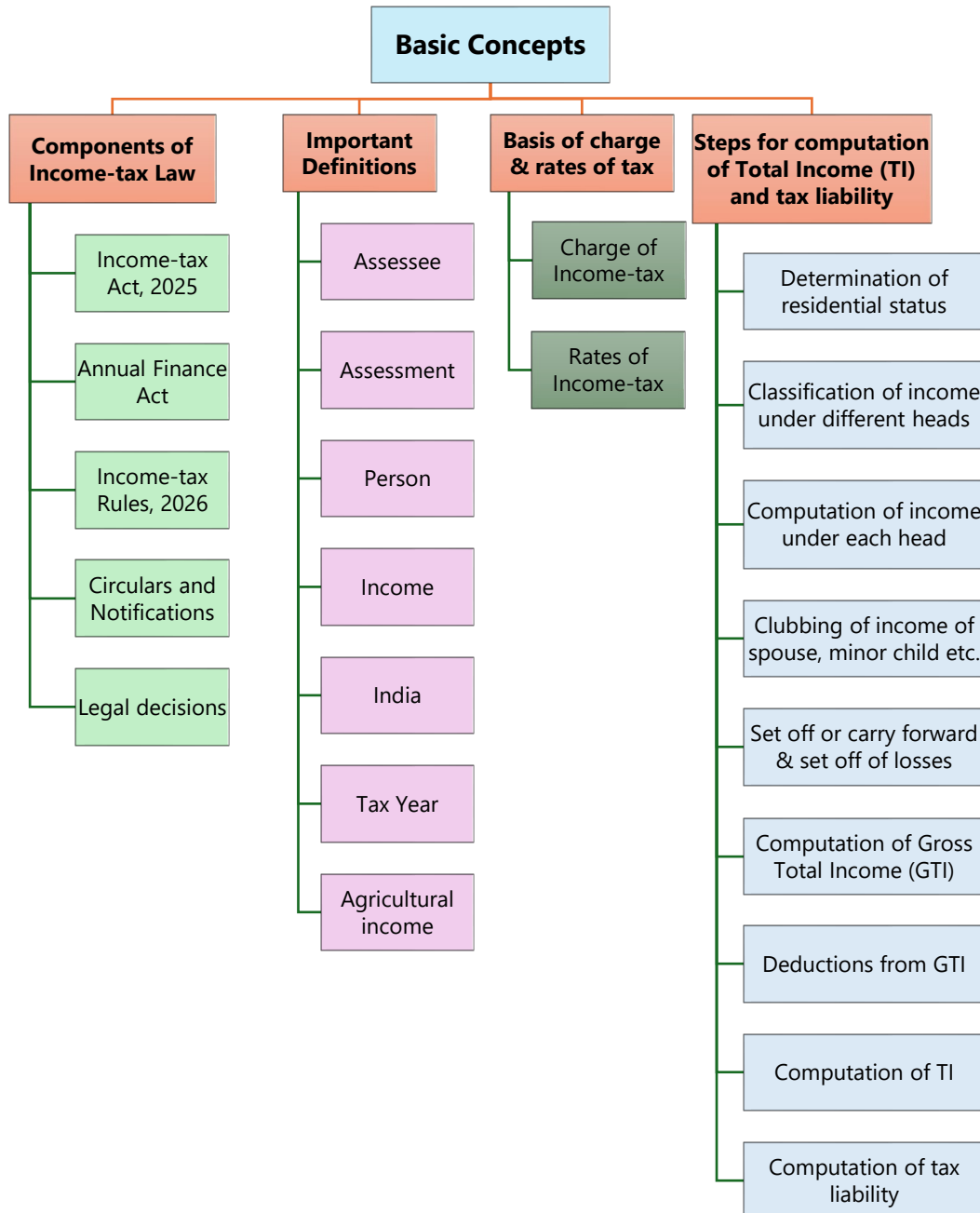


LEARNING OUTCOMES

After studying this chapter, you would be able to-

- ◆ **comprehend** the meaning of tax and types of taxes;
- ◆ **discern** the difference between direct and indirect taxes;
- ◆ **appreciate** the components of income-tax law;
- ◆ **comprehend** and appreciate the meaning of the important terms such as person, assessee, income, tax year, agriculture income used in the Income-tax Act, 2025;
- ◆ **comprehend** the meaning and scope of agricultural income and apply the same to identify whether a particular income falls within the scope of agricultural income;
- ◆ **comprehend** the procedure for computation of total income for the purpose of levy of income-tax;
- ◆ **apply** the rates of tax on total income of a person for determining the tax liability under new tax regime u/s 202 or a person who exercises the option u/s 202(4) to shift out of the new tax regime and pay tax as per the other provisions of the Act.

CHAPTER OVERVIEW



1. INTRODUCTION

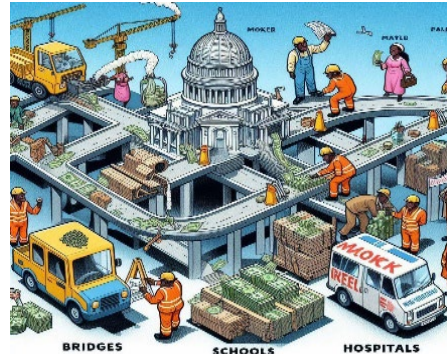
1.1 What is the meaning of tax?

Let us begin by understanding the meaning of tax.

Article 366(28) of the Constitution of India defines the term "Taxation" as follows –

"Taxation includes the imposition of any tax or impost, whether general or local or special, and tax shall be construed accordingly."

Taxes are considered to be the "cost of living in a society". Taxes are levied by the Governments to meet the common welfare expenditure of the society. There are two types of taxes - direct taxes and indirect taxes.



Direct Taxes: If tax is levied directly on the income or wealth of a person, then, it is a direct tax. The person who pays the tax to the Government cannot recover it from somebody else i.e. the burden of a direct tax cannot be shifted. E.g., Income-tax.

Indirect Taxes: If tax is levied on the price of a good or service, then it is an indirect tax e.g. Goods and Services Tax (GST) or Custom Duty. In the case of indirect taxes, the person paying the tax passes on the incidence to another person.

TYPE OF TAXES

DIRECT TAXES

INCOME TAX

TAX ON UNDISCLOSED
FOREIGN INCOME AND
ASSETS

INDIRECT TAXES

GOODS AND
SERVICES TAX (GST)

CUSTOMS DUTY

1.2 Why are taxes levied?

The reason for levy of taxes is that they constitute the basic source of revenue to the Government. Revenue so raised is utilized for meeting the expenses of Government like defence, provision of education, health-care, infrastructure facilities like roads, dams etc.

1.3 Power to levy taxes

The Constitution of India, in Article 265 lays down that *"No tax shall be levied or collected except by authority of law."* Accordingly for levy of any tax, a law needs to be framed by the government.

Constitution of India gives the power to levy and collect taxes, whether direct or indirect, to the Central and the State Government. The Parliament and State Legislatures are empowered to make laws on the matters enumerated in the Seventh Schedule by virtue of Article 246 of the Constitution of India.



Seventh Schedule to Article 246 contains three lists which enumerate the matters under which the Parliament and the State Legislatures have the authority to make laws for the purpose of levy of taxes.

The following are the lists:

- (i) **Union List:** Parliament has the exclusive power to make laws on the matters contained in Union List [List I].
- (ii) **State List:** The Legislature of any State has the exclusive power to make laws on the matters contained in the State List [List II].
- (iii) **Concurrent List:** Both Parliament and State Legislatures have the power to make laws on the matters contained in the Concurrent list [List III].



*Income-tax is the most significant direct tax. **Entry 82 of the Union List i.e., List I in the Seventh Schedule to Article 246** of the Constitution of India has given the power to the Parliament to make laws on taxes on income other than agricultural income.*

1.4 Overview of Income-tax law in India

In this material, we would be introducing to the students the Income-tax law in India. The income-tax law in India consists of the following components –

COMPONENTS OF INCOME TAX LAW

INCOME TAX ACT

ANNUAL FINANCE ACT

INCOME TAX RULES

CIRCULARS / NOTIFICATIONS

LEGAL DECISIONS OF COURTS

The various instruments of law containing the law relating to income-tax are explained below.

Income Tax Act, 2025

The levy of income-tax in India is governed by the Income-tax Act, 2025. In this book, we shall briefly refer to this as the "Act".

- ◆ It extends to the whole of India.
- ◆ It came into force on 1st April, 2026.
- ◆ It contains 23 chapters comprising of 536 sections with 16 schedules.
- ◆ Prior to the Income-tax Act 2025 coming into force, i.e. till 31.03.2026, the levy of income tax in India was governed by the Income-tax Act, 1961.

"Section" in the Act

In the Income-tax Act, 2025, the provisions of the law are arranged in a hierarchical manner for easy understanding, reference and interpretation. The basic unit of the Act is a "section". **A section is a distinct legal provision dealing with a particular subject or matter.**



Section 4 of the Income-tax Act, 2025 contains the charging provision relating to levy of income-tax. Similarly, section 19 contains provisions relating to deductions from salaries. Sections are identified by numbers such as section 4, section 19, section 56, etc.

Sub-section: A section may further be divided into smaller parts known as “sub-sections”. A sub-section can relate with each other or can stand independently. However, all sub sections taken together completes the concept propounded in that section.

A sub-section is a subdivision of a section and is generally denoted by numbers in brackets such as (1), (2), (3), etc.

In section 19(1), “19” refers to the section and “(1)” refers to the sub-section.



Clause: A clause is a further subdivision of a section or sub-section containing a specific point or category. Clauses are generally denoted by letters such as (a), (b), (c), etc. For example, in section 19(1)(a), “(a)” is the clause. In certain provisions, especially definition sections, a section may be divided directly into clauses without any sub-sections.



The clauses of section 2 define the meaning of terms used in the Income-tax Act, 2025. Clause (5) defines “agricultural income”, clause (6) defines “amalgamation” and so on.

Sub-clause: A clause may further be divided into sub-clauses denoted by Roman numerals such as (i), (ii), (iii), etc.

For example, in section 19(2)(c)(i), Section is 19, Sub-section is (2), clause is (c) and sub-clause is (i).

Amendments to the Act

The Income-tax Act, 2025 undergoes change every year with additions and substitutions brought in by the Annual Finance Act passed by Parliament.

Every year, the Finance Minister of the Government of India introduces the Finance Bill in the Parliament’s Budget Session. When the Finance Bill is passed by both the houses of the Parliament and gets the assent of the President, it becomes the Finance Act.

First Schedule to the Finance Act

The First Schedule to the Finance Act contains four parts which specify the rates of tax -

- ◆ **Part IB** of the First Schedule to the Finance Act specifies the rates of tax applicable for the current Tax Year. Accordingly, Part IB of the First Schedule to the Finance Act, 2026 specifies the rates of tax for T.Y. 2026-27.
- ◆ **Part II** specifies the rates at which tax is deductible at source for the current Tax Year. Accordingly, Part II of the First Schedule to the Finance Act, 2026 specifies the rates at which tax is deductible at source for T.Y. 2026-27.
- ◆ **Part III** gives the rates for calculating income-tax for deducting tax from income chargeable under the head "Salaries" and computation of advance tax for T.Y. 2026-27 where the assessee exercises the option to shift out of the default tax regime.
- ◆ **Part IV** gives the rules for computing net agricultural income.

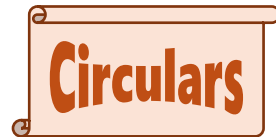
Income-tax Rules, 2026

- ◆ The Income-tax Act, 2025 contains the provisions relating to levy and administration of income-tax. However, for effective implementation of these provisions, the Act empowers the Central Board of Direct Taxes (CBDT) or the Central Government to make rules.
- ◆ In this regard, the definition of the term "prescribed" may first be understood. As per section 2(80), "prescribed" means prescribed by rules made under this Act.
- ◆ Therefore, wherever the Act uses the words "in the prescribed manner", "prescribed form" or "prescribed authority", reference has to be made to the Income-tax Rules framed under the Act.
- ◆ Thus, the rules derive their authority from the provisions of the Act itself.
- ◆ It is important to keep in mind that along with the Income-tax Act, 2025, these rules should also be studied.

Circulars and Notifications

Circulars

- ◆ Circulars are issued by the CBDT from time to time to deal with certain specific problems and to clarify doubts regarding the scope and meaning of certain provisions of the Act.
- ◆ Circulars are issued for the guidance of the officers and/or assesseees.
- ◆ The department is bound by the circulars. While such circulars are not binding on the assesseees, they can take advantage of beneficial circulars.
- ◆ Certain circulars are issued as **Guidelines**. These Guidelines may be issued with the approval of the Central Government and binding on the income-tax authorities and on the assessee and need to be laid before each House of Parliament.



Notifications

Notifications are issued by the Central Government to give effect to the provisions of the Act. The CBDT is also empowered issue of notifications which are binding on both department and assesseees.



Legal Decisions of Courts

Case Laws refer to decision given by courts. The study of case laws is an important and unavoidable part of the study of Income-tax law. It is not possible for



Parliament to conceive and provide for all possible issues that may arise in the implementation of any Act. Hence the judiciary will hear the disputes between the assesseees and the department and give decisions on various issues.

The Supreme Court is the Apex Court of the Country and the law laid down by the Supreme Court is the law of the land. The decisions given by various High Courts will apply in the respective states in which such High Courts have jurisdiction.

Note – Case laws are dealt with at the Final level.



1.	Article 265 of the Constitution of India provides that –
(a)	Taxes can be levied by executive order
(b)	No tax shall be levied or collected except by authority of law
(c)	Only Parliament can levy taxes
(d)	Taxes can be collected without legislation in emergencies
2.	Which of the following statements are correct regarding the Income-tax Act, 2025?
(i)	The Income-tax Act, 2025 came into force on 1st April, 2026.
(ii)	The Income-tax Act, 2025 contains 16 Chapters and 536 sections.
(a)	Only (i)
(b)	Only (ii)
(c)	Both (i) and (ii)
(d)	Neither (i) nor (ii)



2. CHARGE OF INCOME TAX

Section 4 of the Income-tax Act, 2025 is the charging section which provides that:

- (i) Income-tax shall be charged at the **rates specified** for the tax year by the Annual Finance Act (such as tax rates for individual, firms, companies etc.) or the Income-tax Act, 2025 [such as tax rates specified under section 202(1)] or both.
- (ii) Income-tax shall include additional income-tax, by whatever name called levied under this Act.
- (iii) The charge is on every **person** specified under section 2(77).
- (iv) Income-tax is chargeable on the **total income** earned during the **tax year**. Additionally, tax can also be chargeable in respect of income of a period other than tax year as provided in the Act.

- (v) Income-tax shall be levied as per and subject to the various provisions contained in the Act.

This section is the backbone of the law of income-tax in so far as it serves as the most operative provision of the Act. The tax liability of a person springs from this section.



3. IMPORTANT DEFINITIONS

In order to understand the provisions of the Act, one must have a thorough knowledge of the meanings of certain key terms like 'person', 'assessee', 'income', etc. To understand the meanings of these terms we have to first check whether they are defined in the Act.

Terms defined in the Act

Section 2 contains definitions of various terms and expressions used in the Income-tax Act, 2025. Further, certain terms are also specifically defined in particular sections or under interpretation provisions at the end of a Chapter of the Act. Where a term has been specifically defined in the Act, such definition has to be followed while interpreting the relevant provision.

For example, the term "perquisite" has been defined under section 17 for the purpose of taxation of salary income.

If a particular definition is not given in the Act, reference can be made to the General Clauses Act or dictionaries.

Terms not defined under the Act

Students should note this point carefully because certain terms like "dividend", "transfer", etc. have been given a wider meaning in the Income-tax Act, 2025 than they are commonly understood.

Some of the important terms defined under section 2 are given below:

3.1 Assessee [Section 2(11)]

"Assessee" means a person by whom any tax or any other sum of money is payable under this Act. In addition, it includes –

- ◆ Every person in respect of whom any proceeding under this Act has been taken for the assessment

- of his income or of the loss sustained by him or refund due to him
 - of the income of any other person in respect of which he is assessable or loss sustained by such other person or refund due to such other person.
- ♦ Every person who is deemed to be an assessee under this Act;
 - ♦ Every person who is deemed to be an assessee-in-default under this Act.

Every assessee is a 'person', but every 'person' need not be an assessee.

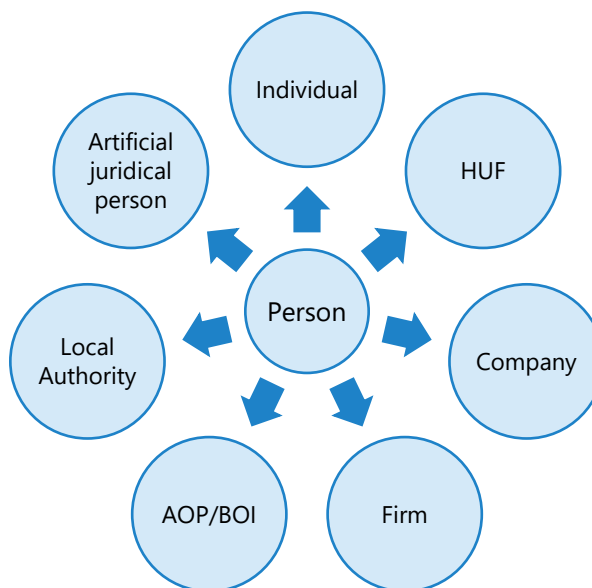
3.2 Assessment [Section 2(13)]

This is the procedure by which the income of an assessee is determined by the Assessing Officer. It includes reassessment and recomputation.

Assessment may be by way of a normal assessment or by way of reassessment of an income previously assessed¹.

3.3 Person [Section 2(77)]

The definition of 'assessee' leads us to the definition of 'person' as the former is closely connected with the latter. The term 'person' is important from another point of view also viz., the charge of income-tax is on every 'person'.



¹ Assessment Procedure will be dealt with in detail at the Final level.

We may briefly consider some of the above seven categories of person each of which constitutes a separate unit of assessment or a separate tax entity.

Individual

The term 'individual' means only a natural person, *i.e.*, a human being. It includes a minor or a person of unsound mind. But the assessment in such a case may be made on the guardian or manager of the minor or lunatic who is entitled to receive his income. In the case of deceased person, assessment would be made on the legal representative.



Hindu Undivided Family (HUF)

Under the Income-tax Act, 2025, a HUF is treated as a separate entity for the purpose of assessment. It is included in the definition of the term "person" under section 2(77). The levy of income-tax is on "every person". Therefore, income-tax is payable by a HUF.

"Hindu undivided family" has not been defined under the Income-tax Act, 2025. The expression is, however, defined under the Hindu Law as a family, which consists of all males lineally descended from a common ancestor and includes their wives and daughters.

Some members of the HUF are called co-parceners. They are related to each other and to the head of the family. HUF may contain many members, but members within four degrees including the head of the family (Karta) are called co-parceners. A Hindu Coparcenary includes those persons who acquire an interest in joint family property by birth. Earlier, only male descendants were considered as coparceners. With effect from 6th September, 2005, daughters have also been accorded coparcenary status.



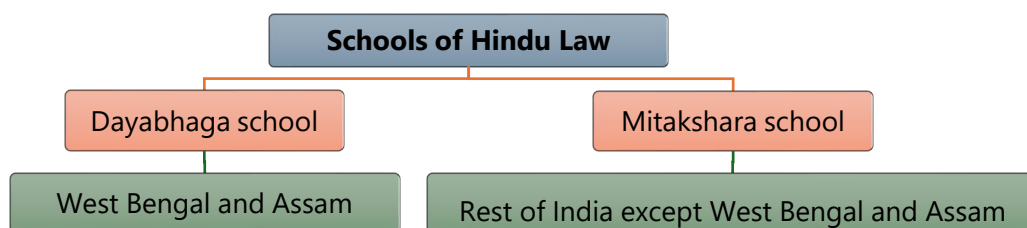
**Hindu
Undivided
Family**

It may be noted that only the coparceners have a right to partition.

A daughter by birth shall become a coparcener in her own right in the same manner as the son. Being a coparcener, she can claim partition of assets of the family. The rights of a daughter in coparcenary property are equal to that of a son. However,

other female members of the family, for example, wife of karta or daughter-in-law of karta are not eligible for such coparcenary rights. They are only members of the HUF.

There need not be more than one male member or one female coparcener w.e.f. 6th September, 2005 to form a HUF. The Income-tax Act, 2005 also does not indicate that a HUF as an assessable entity must consist of at least two male members or two coparceners.



The basic difference between the two schools of Hindu law with regard to succession is as follows:

Dayabhaga school of Hindu law	Mitakshara school of Hindu law
Prevalent in West Bengal and Assam	Prevalent in rest of India
Nobody acquires the right, share in the property by birth as long as the head of family is living. Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property. Hence, the father and his brothers would be the coparceners of the HUF.	One acquires the right to the family property by his birth and not by succession irrespective of the fact that his elders are living. Thus, every child born in the family acquires a right/share in the family property.

Company [Section 2(28)]

For all purposes of the Act, the term 'Company', has a much wider connotation than that under the Companies Act, 2013. Under the Act, the expression 'Company' means:

- (1) any Indian company as defined in section 2(53); or
- (2) any body corporate incorporated by or under the laws of a country outside India, i.e., any foreign company; or
- (3) any institution, association or body which is assessable or was assessed as a company under the repealed Income-tax Act, 1961 or
- (4) any institution, association or body, whether incorporated or not and whether Indian or non-Indian, which is declared by order of the CBDT to be a company for such period as specified in such declaration.



Classes of Companies

- (1) Domestic company and Foreign Company:** Companies can be classified into two categories, viz. (1) Domestic company and (2) Foreign company.

Domestic company [Section 2(42)] - It means an

- ◆ Indian company or
- ◆ Any other company that has made the prescribed arrangements within India for the declaration and payment of the dividends (including dividend on preference shares) payable out of its income liable to tax under this Act.

Indian company [Section 2(53)] - A company is considered an "Indian company" under section 2(53) of the Income-tax Act, 2025 if it meets two key conditions:

1. **Formation and Registration:** The company should have been formed and registered under any law relating to companies formerly² or currently in force³ in any part of India.
2. **Office Location:** The company's registered or principal office should be in India.

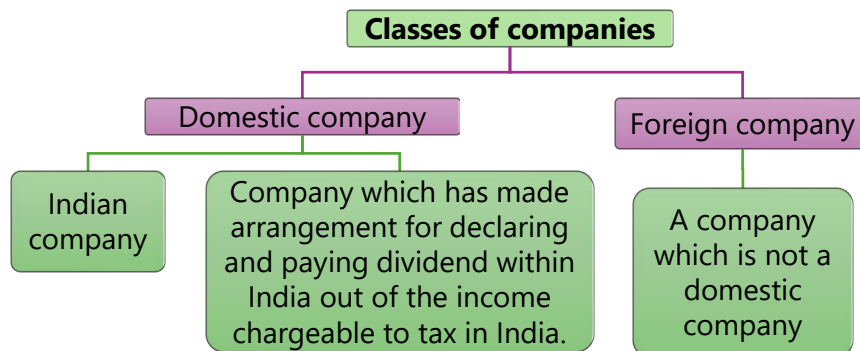
Additionally, the term "Indian company" also include the following provided their registered or principal office is in India:

² The Companies Act, 1956

³ The Companies Act, 2013

- Corporation established by or under a Central, State, or Provincial Act, such as Financial Corporation or State Road Transport Corporation.
- Institution, association, or body declared by the Board to be a company under section 2(28) of the Income-tax Act, 2025.

Foreign company [Section 2(46)] - Foreign company means a company which is not a domestic company



(2) **A company is further classified into two primary categories based on public interest:**

Widely Held Company (Company in which public are substantially interested): A company is considered to have substantial public interest if it meets any of the following criteria as outlined in section 2(29) of the Income-tax Act, 2025:

- Government or RBI Ownership or participation:** A company owned by the Government or the Reserve Bank of India (RBI), or where at least 40% of the shares are held (whether individually or collectively) by the Government or the RBI or a corporation owned by the RBI.
- Company registered under section 8 of the Companies Act, 2013:** A company registered under section 8 of the Companies Act, 2013, which is formed to promote commerce, art, science, education, research, social welfare, charity, environmental protection, etc., and does not distribute dividends to their members.
- Companies with no share capital and declared by the CBDT:** A company which does not have share capital and is declared by the CBDT to be a company in which the public are substantially interested for specified period considering the objects, the nature and composition of its membership and other relevant considerations.

(d) Mutual Benefit Finance Company (Nidhi or Mutual Benefit Society):

A company that primarily accept deposits from its members and is declared by the Central Government under Section 406 of the Companies Act, 2013, to be a *Nidhi* or Mutual Benefit Society.

(e) Cooperative Society ownership: A company whose equity shares carrying at least 50% of the voting power are unconditionally allotted or acquired by and were beneficially held throughout the relevant tax year by one or more cooperative societies.

(f) Public Limited Company: A company which is not a private company as defined in the Companies Act, 2013 and which fulfills any of the following conditions:

- its equity shares were listed in a recognized stock exchange in India as on the last day of the relevant tax year; or
- its equity shares carrying at least 50% voting power (40% in case of an Indian company whose business consists mainly in construction of ships or in the manufacture or processing of goods or in mining or in generation or distribution of electricity or any other form of power) have been unconditionally allotted to or acquired by and should have been beneficially held throughout the relevant tax year by
 - (a) the Government or
 - (b) a corporation established by a Central Act or State Act or Provincial Act or
 - (c) a company in which public are substantially interested or
 - (d) any wholly owned subsidiary of company mentioned in (c).

Closely Held Company (Company in which public are not substantially interested): Any company that does not meet the criteria for being classified as widely held company is considered closely held company. Thus, all private limited companies will be treated as companies in which public are not substantially interested.

Firm, Partner or Partnership [Section 2(45), 2(74) and 2(75)]

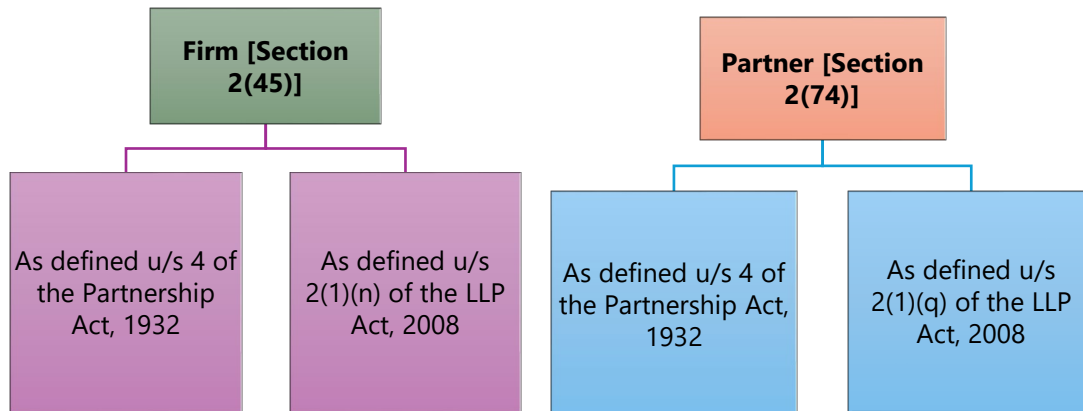
The terms 'firm', 'partner' and 'partnership' have the same meanings as assigned to them in section 4 of the Indian Partnership Act, 1932.

In addition, the definitions also include the terms limited liability partnership as defined under section 2(1)(n) of the Limited Liability Partnership (LLP) Act, 2008 and a partner of limited liability partnership as defined under section 2(1)(q) of the LLP Act, 2008.

In an LLP, since liability of the partners is limited to their agreed contribution therein, it contains elements of both a corporate structure as well as a partnership firm structure.



Further, for income-tax purposes a minor admitted to the benefits of an existing partnership would also be treated as partner.



A partnership is the relation between persons who have agreed to share the profits of business carried on by all or any of them acting for all. The persons who have entered into partnership with one another are called individually 'partners' and collectively a 'firm'.

Association of Persons (AOP)

When persons combine together for promotion of joint enterprise, they are assessable as an AOP, if they do not in law constitute a partnership. In order to constitute an association, persons must join for a **common purpose or action** and their object must be to produce income; it is not enough that the persons receive the income jointly. Co-heirs, co-legatees or co-donees joining together for a common purpose or action would be chargeable as an AOP.



For e.g., Mr. Yash, AB & Co. (Firm) and X (P) Ltd. join together to carry on construction activity otherwise than as a partnership firm, such an association will be recognized as an association of persons.

Body of Individuals (BOI)

A BOI is a taxable unit consisting of two or more individuals who join together for a common purpose and earn income collectively.



A BOI generally consists only of individuals, unlike an AOP which may include non-individual members as well.

Income-tax shall not be payable by an assessee in respect of the receipt of share of income by him from BOI and on which the tax has already been paid by such BOI. For e.g., mutual trade associations, members club, etc.

Section 2(77) further explains that an association of persons or a body of individuals shall be treated as a person, whether or not it was formed with the object of deriving income, profits or gains. Accordingly, even if such entities have been formed not for earning any income/ profit still they are "person" for the purpose of the Act and are covered by the provisions of the Act.

Difference between AOP and BOI

In case of a BOI, only individuals can be the members, whereas in case of AOP, any person can be its member i.e. entities like company, firm etc. can be the member of AOP but not of BOI.

In case of an AOP, members voluntarily come together with a common will for a common intention or purpose, whereas in case of BOI, such common will may or may not be present.

Local Authority

The term "Local Authority" means a municipal committee, district board, body of port commissioners or other authority legally entitled to or entrusted by the Government with the control or management of a municipal or local fund.

Note: A local authority is taxable in respect of that part of its income which arises from any business carried on by it in so far as that income does not arise from the supply of a commodity or service within its own jurisdictional area. However, income arising from the supply of water and electricity even outside the local authority's own jurisdictional area is exempt from tax.

Artificial Juridical Persons

Artificial Juridical Persons are the entities which are not natural persons but are separate entities in the eyes of law. This being a residual category could cover all artificial persons with a juristic personality not falling under any other category of persons. Deities/Idols, Bar Council, Universities are some important examples of Artificial Juridical Persons.



3.	<i>Which of the following statements regarding HUF is correct?</i>	
	(a)	<i>HUF has been specifically defined under the Income-tax Act, 2025</i>
	(b)	<i>Only male members can be coparceners in an HUF</i>
	(c)	<i>Daughters are also coparceners with effect from 6th September, 2005</i>
	(d)	<i>Wife of Karta is a coparcener in all cases</i>
4.	<i>A company incorporated outside India would be regarded as –</i>	
	(a)	<i>Indian company</i>
	(b)	<i>Domestic company</i>
	(c)	<i>Foreign company</i>
	(d)	<i>HUF</i>

3.4 Tax Year [Section 3]

The term has been defined under section 3. It means the twelve months period of the financial year commencing on the 1st April. The income earned during the tax year is taxable after the end of that tax year.

Business or profession newly set up during the financial year - In the case of a business or profession newly set up, or a source of income newly coming into existence in any financial year, the tax year shall be the period beginning with

- (a) the date of setting up of such business or profession; or
 - (b) the date on which such source of income newly comes into existence
- and ending with the said financial year i.e., 31st March.

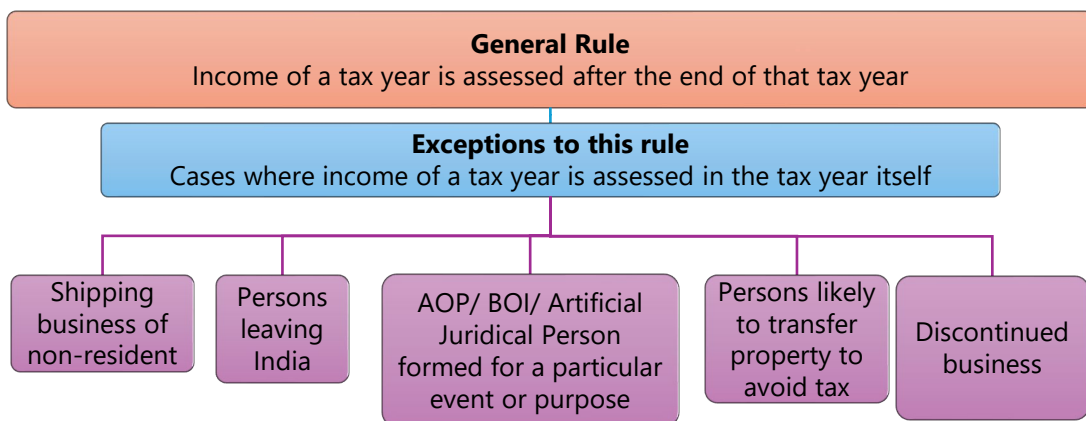
EXAMPLE *A is running a business from 2003 onwards. Determine the period of tax year for the assessee.*

Ans. The tax year will be 1.4.2026 to 31.3.2027.

A chartered accountant sets up his profession on 1st July, 2026. Determine the period of relevant tax year for him.

Ans. The tax year will be from 1.7.2026 to 31.3.2027.

Certain cases when income of a tax year assessed in the tax year itself



The income of an assessee for a tax year is assessed after the end of that tax year⁴. For instance, income of tax year 2026-27 is assessed after the end of the tax year 2026-27.

However, in a few cases, this rule does not apply, and the income is assessed in the tax year in which it is earned. These exceptions have been made to protect the interests of revenue.

The exceptions are as follows:

(i) Shipping business of non-resident [Section 316]

Where a ship, belonging to or chartered by a non-resident, carries passengers, livestock, mail or goods shipped at a port in India, the ship is allowed to leave the port

- ◆ only when the tax has been paid or satisfactory arrangement has been made for payment thereof.
- ◆ 7.5% of the amount paid or payable (including demurrage charge, handling charge or any other charge of similar nature) to the owner or the charterer or to any person on his behalf,
- ◆ whether in India or outside India on account of such carriage is deemed to be his income which is charged to tax in the same year in which it is earned.

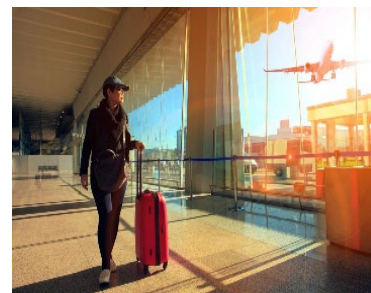


(ii) Persons leaving India [Section 317]

Where it appears to the Assessing Officer that

- ◆ any individual may leave India during the current tax year or shortly after its expiry and
- ◆ he has no present intention of returning to India,

the total income of such individual for the period beginning from the first day of that current tax year up to the probable date of his departure from India is chargeable to tax in that current tax year.



⁴ Based on Q No. 1.9 of the FAQs on Interplay and Transition from the Income Tax Act, 1961 to the Income Tax Act, 2025 issued by CBDT

(iii) AOP/BOI/Artificial Juridical Person formed for a particular event or purpose [Section 318]

Where it appears to the Assessing Officer that

- ♦ an AOP/BOI etc. is formed or established for a particular event or purpose
- ♦ is likely to be dissolved in the same year or immediately after such year,



the total income of such AOP/BOI for the period beginning from first day of that tax year upto the date of dissolution shall be chargeable to tax in that tax year.

(iv) Persons likely to transfer property to avoid tax [Section 319]

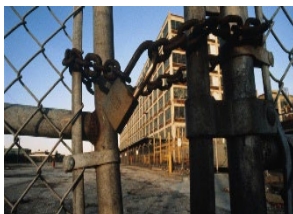
During the current tax year, if it appears to the Assessing Officer that

- ♦ a person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets
- ♦ to avoid payment of any liability under this Act,



the total income of such person for the period beginning from first day of that current tax year upto the date, when the Assessing Officer commences proceedings under this section is chargeable to tax in the current tax year.

(v) Discontinued business [Section 320]



Where any business or profession is discontinued in any tax year, the income of the period beginning from first day of that current tax year up to the date of such discontinuance may, at the discretion of the Assessing Officer, be charged to tax in that tax year.

3.5 Income [Section 2(49)]

(1) Definition of Income

The definition of income as per the Income-tax Act, 2025 begins with the words "Income includes". Therefore, it is an inclusive definition and not an exhaustive one. Such a definition does not confine the scope of income but leaves room for more inclusions within the ambit of the term.

Section 2(49) of the Act gives a statutory definition of income. The following items of receipts are specifically included in the said definition:-

- (1) Profits and gains;
- (2) Dividends;
- (3) The value of any perquisite or profit in lieu of salary taxable under section 17 and 18;
- (4) Any special allowance or benefit, other than the perquisite included above, specifically granted to the assessee to meet expenses wholly, necessarily and exclusively for the performance of the duties of an office or employment of profit;
- (5) Any allowance granted to the assessee 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 a place where he ordinarily resides or to compensate him for the increased cost of living;
- (6) The value of any benefit or perquisite whether convertible into money or not, obtained from a company either by a director or by a person who has a substantial interest in the company or by a relative of the director or such person and any sum paid by any such company in respect of any obligation which, but for such payment, would have been payable by the director or that person;
- (7) any sum chargeable to income-tax under the head "Profits and gains of business or profession" u/s 26(2)(b)/(c)/(d)/(e)/(g)
- (8) Deemed profits chargeable to tax under section 38 or section 95;
- (9) The value of any benefit or perquisite taxable under section 28(2)(f);
- (10) Any capital gains chargeable under section 67;
- (11) Any winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling, or betting of any form or nature whatsoever. For this purpose,
 - (i) "Lottery" includes winnings from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever, under any scheme or arrangement called by any name;



- (ii) "Card game and other game of any sort" includes any game show, an entertainment programme on television or electronic mode, in which people compete to win prizes or any other similar game;
- (12) Any sum received by the assessee from his employees as contributions to any provident fund (PF) or superannuation fund or Employees State Insurance Fund (ESI) or any other fund for the welfare of such employees;
- (13) Any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy;
- ⁵"**Keyman insurance policy**" means a life insurance policy -
- taken by a person on the life of another person
 - where such person is or was an employee of first mentioned person or is or was connected in any manner whatsoever with the first mentioned person's business and
 - includes such policy which has been assigned to a person with or without any consideration, at any time during the term of the policy.
- (14) Any **sum received** or receivable under an agreement **for not carrying out any activity or not sharing any know how, patent, copyright etc.** as referred to in section 26(2)(h).
- (15) Fair market value of **inventory as on the date of its conversion** into or treatment as a capital asset under section 26(2)(j);
- (16) Any sum of money received as **advance**, if such sum is **forfeited** consequent to failure of negotiation for transfer of a capital asset [Section 92(2)(h)];
- (17) Any **sum of money or value of property** received without consideration or for inadequate consideration by any person [Section 92(2)(m)];
- (18) Any **compensation** or other payment, due to or received by any person, in connection with termination of his employment or the modification of the term and conditions relating thereto [Section 92(2)(j)];
- (19) Sum received, including the amount allocated by way of bonus, under a LIP other than under a **ULIP and keyman insurance policy**, which is not exempt under schedule II (Table Sl. No. 2), to the extent the same exceeds the

⁵ Schedule II (Note 1)

aggregate of the premium paid during the term of the policy, and not claimed as deduction under any other provision of the Act [Section 92(2)(l)];

[For details, refer to Unit 5 of Chapter 3: Income from Other Sources]

- (20) Assistance in the form of a **subsidy or grant or cash incentive** or duty drawback or waiver or concession or reimbursement, by whatever name called, by the Central Government or a State Government or any authority or body or agency in cash or kind to the assessee is included in the definition of income.

However, subsidy or grant or reimbursement which has been taken into account for determination of the actual cost of the depreciable asset in as per section 39(1)(d) and (3) shall not be included in the definition of income.

(2) Concept of Income

- ♦ **Regular receipt vis-a-vis casual receipt:** Income, in general, means a periodic monetary return which accrues or is expected to accrue regularly from definite sources. However, under the Income-tax Act, 2025, even certain casual receipts which do not arise regularly are treated as income for tax purposes e.g. Winnings from lotteries, crossword puzzles.
- ♦ **Revenue receipt vis-a-vis Capital receipt:** Income normally refers to revenue receipts. Capital receipts are generally not included within the scope of income in general parlance. However, the Income-tax Act, 2025 has specifically included certain capital receipts within the definition of income e.g., Capital gains i.e., gains on sale of capital assets like land, jewellery.
- ♦ **Net receipt vis-a-vis Gross receipt:** Income means net receipts and not gross receipts. Net receipts are arrived at after deducting the expenditure incurred in connection with earning such receipts. The expenditure which can be deducted while computing income under each head is provided under the Income-tax Act, 2025. Income from certain eligible businesses/ professions is also determined on presumptive basis i.e., as a certain percentage of gross receipts. *[We will discuss in detail in Unit 3 of Chapter 3: Profits and gains of business or profession].*
- ♦ **Due basis vis-a-vis receipt basis:** Income is taxable either on due basis or receipt basis. For computing income under the heads "Profits and gains of business or profession" and "Income from other sources", the method of

accounting regularly employed by the assessee should be considered, which can be either cash system or mercantile system. Some receipts are taxable only on receipt basis, like, income by way of interest received on compensation or enhanced compensation.

- ♦ **Application of Income vis-a-vis Diversion of Income:** Application of income means to discharge an obligation (which is gratuitous or self-imposed) after such income reaches the assessee. Whereby virtue of an obligation by overriding title, income is diverted before it reaches the assessee, it is known as diversion of income. In case of the former, the income would be taxable in the hands of the person who applies it, whereas in the case of the latter, it is not taxable (i.e., even if the assessee were to collect the income he does so on behalf of the person to whom it is payable).

(3) Concept of revenue and capital receipts

Students should carefully study the various items of receipts included in the definition of income. Some of them like capital gains are not revenue receipts. However, since they have been included in the definition, they are chargeable as income under the Act. The Act contemplates a levy of tax on income and not on capital and hence it is very essential to distinguish between capital and revenue receipts.

Capital receipts cannot be taxed, unless they fall within the scope of the definition of "income" and so the distinction between capital and revenue receipts is material for tax purposes. Certain capital receipts which have been specifically included in the definition of income are compensation for modification or termination of services, income by way of capital gains etc.

It is not possible to lay down any single test as infallible or any single criterion as decisive, final and universal in application to determine whether a particular receipt is capital or revenue in nature. Hence, the capital or revenue nature of the receipt must be determined with reference to the facts and circumstances of each case.

Criteria for determining whether a receipt is capital or revenue in nature

The following are some of the important criteria which may be applied to distinguish between capital and revenue receipts.

Fixed capital or Circulating capital: A receipt referable to fixed capital would be a capital receipt whereas a receipt referable to circulating capital would be a

revenue receipt. Tangible and intangible assets which the owner keeps in his possession for making profits are in the nature of fixed capital. The circulating capital is one which is turned over and yields income or loss in the process.

Income from transfer of capital asset or trading asset: Profits arising from the sale of a capital asset are chargeable to tax as capital gains under section 67 whereas profits arising from the sale of a trading asset being of revenue nature are taxable as income from business under section 26 provided that the sale is in the regular course of assessee's business or the transaction constitutes an adventure in the nature of trade.

Capital Receipts vis-a-vis Revenue Receipts: Tests to be applied

(1) Transaction entered into the course of business: Profits arising from transactions which are entered during the course of the business regularly carried on by the assessee, or are incidental to, or associated with the business of the assessee would be revenue receipts chargeable to tax.



EXAMPLE A banker's or financier's dealings in foreign exchange or sale of shares and securities, a shipbreaker's purchase of ship in his own name, a share broker's purchase of shares on his own account would constitute transactions entered and yielding income in the ordinary course of their business. Whereas building and land would constitute capital assets in the hands of a trader in shares, the same would constitute stock-in-trade in the hands of a property dealer.

(2) Profit arising from sale of shares and securities: In the case of profit arising from the sale of shares and securities, the nature of the profit has to be ascertained from the motive, intention or purpose with which they were bought. If the shares were acquired as an investor or with a view to acquiring a controlling interest or for obtaining a managing or selling agency or a directorship, the profit or loss on their sale would be of a capital nature; but if the shares were acquired in the ordinary course of business as a dealer in shares, it would constitute his stock-in-trade. If the shares were acquired with speculative motive, the profit or loss (although of a revenue nature) would have to be dealt with separately from the profit or loss of other businesses.



Securities held by Foreign Institutional Investor or Investment Fund which has invested in such securities in accordance with the regulations made under the SEBI Act, 1992 would be **treated as a capital asset. Even if** the nature of such security in the hands of the Foreign Portfolio Investor **or Investment Fund is stock-in-trade**, the same would be treated as a capital asset and the profit on transfer would be taxable as capital gains.

(3) A single transaction - Can it constitute business? Even a single transaction may constitute a business or an adventure in the nature of trade even if it is outside the normal course of the assessee's business. Repetition of such transactions is not necessary. Thus, a bulk purchase followed by a bulk sale or a series of retail sales or bulk sale followed by a series of retail purchases would constitute an adventure in the nature of trade and consequently, the income arising therefrom would be taxable. Purchase of any article with no intention to resell it, but resold under changed circumstances would be a transaction of a capital nature and capital gains would arise. However, where an asset is purchased with the intention to resell it, the question whether the profit on sale is capital or revenue in nature depends upon

- (i) the conduct of the assessee,
- (ii) the nature and quantity of the article purchased,
- (iii) the nature of the operations involved,
- (iv) whether the venture is on capital or revenue account, and
- (v) other related circumstances of the case.

(4) Liquidated damages: Receipt of liquidated damages directly and intimately linked with the procurement of a capital asset, which lead to delay in coming into existence of the profit-making apparatus, is a capital receipt. The amount received by the assessee towards compensation for sterilization of the profit earning source is not in the ordinary course of business. Hence, it is a capital receipt in the hands of the assessee.

(5) Compensation on termination of agency/service contract: Where an assessee receives compensation on termination of the agency business being the only source of income, the receipt is of capital nature, but taxable under section 26(2)(b).

However, where the assessee has a number of agencies and one of them is terminated and compensation is received therefor, the receipt would be of a revenue nature since taking up an agency and exploiting the same for earning income is in the ordinary course of business. The loss of one agency would be made good by profit from another agency.

Compensation received from the employer or from any person for premature termination of the service contract is a capital receipt, but is taxable as profit in lieu of salary under section 18 or as income from other sources under section 92(2)(j), respectively.

Compensation received or receivable in connection with the termination or the modification of the terms and conditions of any contract relating to its business shall be taxable as business income.

(6) Gifts: Normally, gifts constitute a capital receipt in the hands of the recipient. However, certain gifts are brought within the purview of income-tax, for example, receipt of property without consideration is brought to tax under section 92(2)(m).

For example, any sum of money or value of property received without consideration or for inadequate consideration by any person, from any other person, other than a relative, is chargeable under the head "Income from Other Sources" [For details, refer to Unit - 5 of Chapter 3: Income from Other Sources].

(4) Unexplained source of income

Unexplained sources of income				
Unexplained Credits [Section 102]	Unexplained Investments [Section 103]	Unexplained asset [Section 104]	Unexplained expenditure [Section 105]	Amount borrowed or repaid on hundi [Section 106]

(i) Unexplained Credits [Section 102]

Where any sum is found credited in the books of an assessee maintained for any tax year and

- ◆ the assessee offers no explanation about the nature and source of such credit or

- ♦ the explanation offered about the nature and source of such credit by the assessee is not satisfactory in the opinion of the Assessing Officer,

the sum so credited shall be charged as income of the assessee of that tax year.

Unexplained loan or borrowing - Where the sum so credited consists of loan or borrowing or any such amount, by whatever name called, any explanation offered by the assessee in whose books such sum is credited shall not be deemed to be satisfactory, unless -

- ♦ the person in whose name such credit is recorded in the books of such assessee also offers an explanation about the nature and source of such sum so credited; and
- ♦ such explanation in the opinion of the Assessing Officer has been found to be satisfactory.

Unexplained Share Capital/ Premium- Any explanation offered by a closely held company in respect of any sum credited as share application money, share capital, share premium or any such amount, by whatever name called, in the accounts of such company shall be deemed to be not satisfactory, unless

- ♦ the person, being a resident, in whose name such credit is recorded in the books of such company also explains about the nature and the source of such sum so credited and
- ♦ such explanation in the opinion of the Assessing Officer has been found to be satisfactory.

(ii) **Unexplained Investments [Section 103]**

Where in any tax year, the assessee has made investments which are not recorded in the books of account or the Assessing Officer finds that the amount of investment exceeds the amount recorded in the books of account and

- ♦ the assessee offers no explanation about the nature and the source of investments or such excess amount or
- ♦ the explanation offered about the nature and the source of investments or such excess amount by the assessee is not satisfactory in the opinion of the Assessing Officer,

then, the value of such investment or the excess amount shall be deemed to be the income of the assessee of that tax year.

(iii) Unexplained asset [Section 104]

Where in any tax year, any asset has been found to be owned by or belonging to the assessee which is not recorded in the books of account if any, maintained by such assessee for any source of income, or the Assessing Officer finds that the amount expended in acquiring the asset exceeds the amount recorded in books of account and

- ♦ the assessee offers no explanation about the nature and source of acquisition of such asset or such excess amount
- ♦ the explanation offered about the nature and source of acquisition of such asset is not satisfactory in the opinion of the Assessing Officer,

then, the value of such asset or such excess amount shall be deemed to be the income of the assessee for such tax year.

Asset includes money, bullion, jewellery, virtual digital asset or other valuable article.

Example: If the assessee is found to be the owner of say 300 gms of gold (market value of which is ₹ 42,50,000) during the tax year ending 31.3.2027 but he has recorded to have spent ₹ 21,50,000 in acquiring it, the Assessing Officer can add ₹ 21,00,000 (i.e., the difference of the market value of such gold and ₹ 21,50,000) as the income of the assessee, if the assessee offers no satisfactory explanation thereof.

**(iv) Unexplained expenditure [Section 105]**

Where in any tax year, an assessee has incurred any expenditure and

- ♦ the assessee offers no explanation about the source of such expenditure or
- ♦ the explanation offered by the assessee is not satisfactory in the opinion of the Assessing Officer,

then, the amount of unexplained expenditure shall be deemed to be the income of the assessee for that tax year.

Such unexplained expenditure which is deemed to be the income of the assessee shall not be allowed as deduction under this Act.

(v) Amount borrowed or repaid through negotiable instrument, hundi etc. [Section 106]

Where any amount (including interest) is borrowed or repaid through a negotiable instrument or on a *hundi*, other than through an account-payee cheque or through

any mode specified by the Board, the amount (including interest) so borrowed or repaid shall be deemed to be the income of the person borrowing or repaying for the tax year in which the amount was borrowed or repaid, as the case may be.

However, where any amount borrowed through a negotiable instrument or on a *hundi* has been deemed to be the income of any person, he will not be again liable to be assessed in respect of such amount on repayment of such amount. The amount repaid shall include interest paid on the amount borrowed.

The above income referred to in section 102, 103, 104, 105 and 106 shall be charged **@30% as per section 195.**

	
5.	<i>Ms. R, a Chartered Accountant, commenced her profession on 1st September, 2026. Her tax year for the first year would be –</i>
(a)	<i>1.4.2026 to 31.3.2027</i>
(b)	<i>1.9.2026 to 31.3.2027</i>
(c)	<i>1.9.2026 to 31.8.2027</i>
(d)	<i>Calendar year 2026</i>

3.6 India [Section 2(52)]

The term 'India' means –

- (i) the territory of India as per Article 1 of the Constitution,
- (ii) its territorial waters, seabed and subsoil underlying such waters,
- (iii) continental shelf,
- (iv) exclusive economic zone or
- (v) any other specified maritime zone and the air space above its territory and territorial waters.

Specified maritime zone means the maritime zone as referred to in the Territorial Waters, Continental Shelf, Exclusive Economic Zone and other Maritime Zones Act, 1976.

3.7 Agricultural income [Section 2(5)]

Agricultural income definition is very wide and covers the income of not only the cultivators but also the land holders who might have rented out the lands. Agricultural income may be received in cash or in kind.

The term “**agricultural income**” means the following:-

(1) **Rent or Revenue from Agricultural Land**

Any **rent or revenue derived from land** which -

- is **situated in India**, and
- is **used for agricultural purposes**.

(2) **Income derived from Agricultural Land by**

- (a) **Agricultural Operations** – Income derived from agricultural operation carried out on such land.
- (b) **Agricultural Processing** – Income derived from the performance of any **process ordinarily employed** by a cultivator or receiver of rent in kind **to render the produce raised or received by him fit to be taken to the market** or
- (c) **Sale of Agricultural Produce** – Income from **sale of agricultural produce raised or received by** a cultivator or receiver of rent in kind, in respect of which no process has been performed other than a process of the nature mentioned in point (b) above.

(3) **Income from Farm Buildings**

Income derived from a **building owned and occupied by the receiver of rent or revenue of such land**, or by the **cultivator or receiver of rent-in-kind**, provided the following conditions are satisfied:

Conditions:

- The building is on or in the immediate vicinity of such agricultural land, and
- The land is either:
 - assessed to land revenue in India, or
 - subject to a local rate collected by Government authorities, or
 - where not so assessed, not situated in urban areas specified under section 2(22)(iii)(A) or (B)); **and**

- The building is **required as a dwelling house, storehouse, or other out-building** by the receiver of rent or revenue of such land, or by the cultivator or receiver of rent-in-kind because of his connection with the land.

(4) **Income from Nursery**

Any income derived from **saplings or seedlings grown in a nursery.**

Incomes Not Treated as Agricultural Income

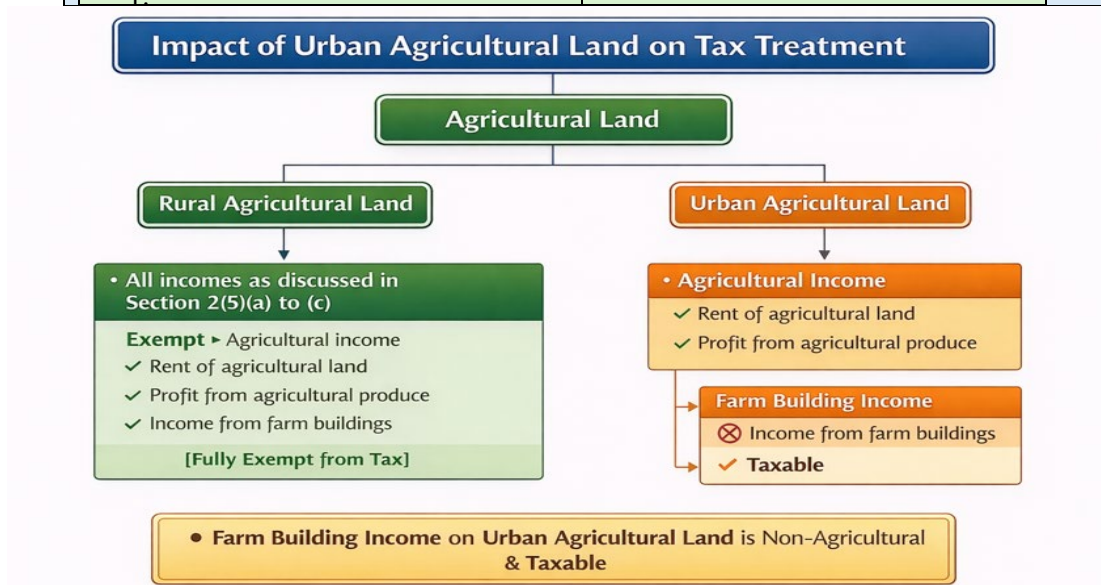
The term “**agricultural income**” **does not include:**

- Income from buildings or land used for non-agricultural purposes, such as letting for residential use or for business or profession.
- Income arising from transfer of urban agricultural land referred to in section 2(22)(iii)(A) or (B).

Limits defined under section 2(22)(iii)(A)/B are discussed in detail later on in the chapter – Income from a **building used in agricultural operations** will qualify as agricultural income only if the land is not situated in urban areas referred to in section 2(22)(iii)(A)/(B).

Therefore:

Situation	Treatment
Building on rural agricultural land	Agricultural income
Building on urban agricultural land	Not agricultural income



Now let us take a critical look at the following aspects:

(1) Rent or revenue derived from land situated in India and used for agricultural purposes: The following three conditions have to be satisfied for income to be treated as agricultural income:

- (a) Rent or revenue should be derived from land;
- (b) land has to be situated in India (If agricultural land is situated in a foreign country, the entire income would be taxable); and
- (c) land should be used for agricultural purposes.

The amount received in money or in kind, by one person from another for right to use land is termed as **Rent**. The rent can either be received by the owner of the land or by the original tenant from the sub-tenant.

Thus, the rent received by the original tenant from sub-tenant would also be agricultural income subject to the other conditions mentioned above.

It implies that ownership of land is not necessary

The scope of the term "**Revenue**" is much broader than rent. It includes income other than rent. For example, fees received for renewal for grant of land on lease would be revenue derived from land.

(2) Income derived from such land by

(a) Agriculture

The term "Agriculture" has not been defined in the Act. However, cultivation of a field involving human skill and labour on the land can be broadly termed as **agriculture**.

"Agriculture" means tilling of the land, sowing of the seeds and similar operations. It involves basic operations and subsequent operations.

Basic Operations

- Those operations by agriculturists which are absolutely necessary for the purpose of effectively raising produce from the land are the basic operations.

Subsequent Operations

- Operations to be performed after the produce sprouts from the land (e.g., weeding, digging etc.) are subsequent operations. These subsequent operations would be agricultural operations only when taken in conjunction with and as a continuation of the basic operations.

Note: The term 'agriculture' cannot be extended to all activities which have some distant relation to land like dairy farming, breeding and rearing of live stock, butter and cheese making and poultry farming. This aspect is discussed in detail later on in this chapter.

- (b) **Process ordinarily employed to render the produce fit to be taken to the market:** Sometimes, to make the agricultural produce a saleable commodity, it becomes necessary to perform some kind of process on the produce. The income from the process employed to render the produce fit to be taken to the market would be agricultural income. However, it must be a process ordinarily employed by the cultivator or receiver of rent in kind and the process must be applied to make the produce fit to be taken to the market.

The ordinary process employed to render the produce fit to be taken to market includes thrashing, winnowing, cleaning, drying, crushing etc.

The process ordinarily employed by the cultivator to obtain the rice from paddy is to first remove the hay from the basic grain, and thereafter to remove the chaff from the grain. The grain has to be properly filtered to remove stones etc. and finally the rice has to be packed in bags for sale in the market.



After such process, the rice can be taken to the market for sale. This process of making the rice ready for the market may involve manual operations or mechanical operations. All these operations constitute

the process ordinarily employed to make the product fit for the market. The produce must retain its original character in spite of the processing unless there is no market for selling it in that condition.

However, if marketing process is performed on a produce which can be sold in its raw form, income derived therefrom is partly agricultural income and partly business income.

- (c) **Sale of such agricultural produce in the market:** Any income from the sale of any produce by the cultivator or receiver of rent-in kind is agricultural income provided it is from the land situated in India and used for agricultural purposes. However, if the produce is subjected to any process other than process ordinarily employed to make the produce fit for market, the income arising on sale of such produce would be partly agricultural income and partly non-agricultural income.

Similarly, if other agricultural produce like tea, cotton, tobacco, sugarcane etc. are subjected to manufacturing process and the manufactured product is sold, the profit on such sale will consist of agricultural income as well as business income. That portion of the profit representing agricultural income will be exempted.

Apportionment of Income between business income and agricultural income

Rules 270 & 271 of Income-tax Rules, 2026 provide the basis of apportionment of income between agricultural income and business income.

(i) Rule 270: Determination of income, being partly from agricultural and partly from business

Where income is partially agricultural income and partially business income, the market value of any agricultural produce which has been raised by the assessee or received by him as rent in kind would be allowed as deduction, if

- such agricultural produce has been utilized as raw material in such business or

- sale receipts of such agricultural produce are included in the accounts of the business.

No further deduction shall be made in respect of any expenditure incurred by the assessee as a cultivator or receiver of rent in kind.

Determination of market value - There are two possibilities here:

- (I) **Where agricultural produce is ordinarily sold in the market in its raw stage** - Where agricultural produce is ordinarily sold in the market either in its raw stage or after application of any ordinary process to make it fit to be taken to the market.

In such a case, the value calculated at the average price at which it has been so sold during the relevant tax year will be the market value.

- (II) **Where produce is not ordinarily sold in the market** – Where the agricultural produce is not capable of being ordinarily sold in the market in its raw form or after application of any ordinary process. In such case the market value will be the total of the following -

- The expenses of cultivation;
- The land revenue or rent paid for the area in which it was grown; and
- Such amount as the Assessing Officer finds having regard to the circumstances in each case to represent a reasonable profit.

ILLUSTRATION 1

Mr. B grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for ₹ 10 lakhs, and the cost of cultivation of such sugarcane is ₹ 5 lakhs. The cost of cultivation of the balance sugarcane (70%) is ₹ 14 lakhs and the market value of the same is ₹ 22 lakhs. After incurring ₹ 1.5 lakhs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25 lakhs. Compute B's business income and agricultural income.

SOLUTION

**Computation of Business Income and Agriculture
Income of Mr. B**

Particulars	Business Income	Agricultural Income	
	(₹)	(₹)	(₹)
<u>Sale of Sugar</u>			
<u>Business income</u>			
Sale Proceeds of sugar	25,00,000		
Less: Market value of sugarcane (70%)	22,00,000		
Less: Manufacturing exp.	1,50,000		
	1,50,000		
<u>Agricultural income</u>			
Market value of sugarcane (70%)		22,00,000	
Less: Cost of cultivation		14,00,000	
			8,00,000
<u>Sale of sugarcane</u>			
<u>Agricultural Income</u>			
Sale proceeds of sugarcane (30%)		10,00,000	
Less: Cost of cultivation		5,00,000	
			5,00,000
			13,00,000

(ii) Rule 271: Income from manufacture of rubber, coffee and tea

Certain activities involving the cultivation and production of agricultural produce of rubber, coffee and tea mostly result in composite income (i.e., partly agricultural and partly business).

In such cases, the entire income is first computed as business income, and thereafter only a prescribed percentage is treated as taxable business income, while the remaining portion is treated as agricultural income. Accordingly, income from manufacturing of rubber, coffee and tea shall be apportioned as agricultural income and business income in the following manner:

Sl. No.	Nature of Income	Agricultural Income	Business Income
1	Income from sale of rubber products derived from rubber plant grown by the seller in India [Refer Note Below] .	65%	35%
2	Income from sale of coffee - grown and cured by the seller in India	75%	25%
	- grown, cured, roasted and grounded by the seller in India with or without mixing chicory or other flavoring ingredients	60%	40%
3	Income from sale of tea grown and manufactured by the seller in India	60%	40%

Note - Income from sale of centrifuged latex or cenex or latex-based crepes (such as pale latex crepe) or brown crepes (such as estate brown crepe, remilled crepe, smoked blanket crepe or flat bark crepe) or technically specified block rubbers manufactured or processed from field latex or coagulum obtained from rubber plants grown by the seller in India.

ILLUSTRATION 2

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

SOLUTION

The total income of Mr. C comprises of agricultural income and business income.

Total profits from the sale of latex = ₹ 30 lakhs – ₹ 10 lakhs – ₹ 8 lakhs
= ₹ 12 lakhs.

Agricultural income = 65% of ₹ 12 lakhs = ₹ 7.8 lakhs

Business income = 35% of ₹ 12 lakhs = ₹ 4.2 lakhs

- (3) **Income from farm building:** As we now know that the income from a building used in agricultural operations subject to other conditions discussed above will qualify as agricultural income if the building:



- is on or near (immediate vicinity of) the agricultural land, and
- the land must:
 - either be assessed to land revenue in India, or be subject to local tax collected by Government officers, or
 - if not so assessed, it should be in a rural area (i.e., not in areas specified in section 2(22)(iii)(A) or (B) or can be referred as urban area).

When is Agricultural Land treated as Situated in Urban Areas?

Agricultural land is considered as **urban** if it satisfies **any one** of the following conditions:

1. Land situated within Municipality / Cantonment [Section 2(22)(iii)(A)]

- The land is located **within the limits** of:
 - a municipality (municipal corporation, town committee, etc.), or
 - a cantonment board,
- AND the population of that area is **10,000 or more**.

2. Land near Municipality (Aerial Distance Rule) [Section 2(22)(iii)(B)]

Even if the land is outside municipal limits, it is still **urban** if it lies within the following distance:

Population of Municipality or cantonment board	Within distance, measured aerially, from local limits of any municipality or cantonment board not being more than
> 10,000 and upto 1,00,000	2 km
> 1,00,000 and upto 10,00,000	6 km
> 10,00,000	8 km

Example:

	Area	Aerial Distance, from local limits of any municipality or cantonment board referred to in item a.	Population of Municipality or cantonment board	Whether Urban land or not?	Would income derived from farm building situated in this area be treated as agricultural income?
(i)	A	1 km	9,000	No	Yes
(ii)	B	1.5 kms	12,000	Yes	No
(iii)	C	2 kms	11,00,000	Yes	No
(iv)	D	3 kms	80,000	No	Yes
(v)	E	4 kms	3,00,000	Yes	No
(v)	F	5 kms	12,00,000	Yes	No
(vi)	G	6 kms	8,000	No	Yes
(vii)	H	7 kms	4,00,000	No	Yes
(viii)	I	8 kms	10,50,000	Yes	No
(ix)	J	9 kms	15,00,000	No	Yes

Would income arising from transfer of agricultural land situated in urban area be agricultural income?

No, as per section 2(5), the capital gains arising from the transfer of urban agricultural land would not be treated as agricultural income but will be taxable under section 67.

Example: Suppose A sells agricultural land situated in New Delhi for ₹ 10 lakhs and makes a surplus of ₹ 8 lakhs over its cost of acquisition. This surplus will not constitute agricultural income and will be taxable under section 67.

Indirect connection with land

We have seen above that agricultural income is exempt, whether it is received by the tiller or the landlord. However, non-agricultural income does not become

agricultural merely on account of its indirect connection with the land. The following examples will illustrate the above point.

Example: A rural society carries on, as its principal business, the sale of butter on behalf of its member societies. The butter is manufactured by such member societies from cream purchased from farmers. The process of manufacturing butter is undertaken in a factory and is distinct from the agricultural operations carried on at the farms.



The butter produced through factory operations, which were distinct and separate from the agricultural activities carried on at the farm, could not be regarded as an agricultural product. Accordingly, the society was not entitled to exemption under Schedule II [Table Sl. No. 1] in respect of the income derived therefrom.

Example: X was the managing agent of a company. He was entitled for a commission at the rate of 10% p.a. on the annual net profits of the company. A part of the company's income was agricultural income. X claimed that since his remuneration was calculated with reference to income of the company, part of which was agricultural income, such part of the commission as was proportionate to the agricultural income was exempt from income tax.



Since X received remuneration under a contract for agency service calculated on the amount of profits earned by the company; such remuneration does not constitute agricultural income.

Example: Y owned 100 acres of agricultural land, a portion of which was used as pasture for cows. The cows were maintained primarily for obtaining manure and for other purposes connected with agricultural operations. Only the surplus milk remaining after meeting the personal requirements of the assessee was sold. The question arose whether the income derived from sale of such milk could be regarded as agricultural income.



Since the assessee was engaged in the business of producing and selling milk as a commercial activity, the income from sale of milk would not to be agricultural income.

Example: In regard to forest trees of spontaneous growth which grow on the soil unaided by any human skill and labour there is no cultivation of the soil at all. Even though operations in the nature of forestry operations performed by the assessee may have the effect of nursing and



fostering the growth of such forest trees, it cannot constitute agricultural operations.

Income from the sale of such forest trees of spontaneous growth does not, therefore, constitute agricultural income.

Examples of Agricultural income and Non-agricultural income

For better understanding of the concept, certain examples of agricultural income and non-agricultural income are given below:

Agricultural income

- EXAMPLE**
- ♦ Income derived from saplings or seedlings grown in a nursery.
 - ♦ Income from growing of flowers and creepers.
 - ♦ Rent received from land used for grazing of cattle required for agricultural activities.
 - ♦ Income from growing of bamboo.

Non-agricultural income

- EXAMPLE**
- ♦ Income from breeding of livestock.
 - ♦ Income from poultry farming.
 - ♦ Income from fisheries.
 - ♦ Income from dairy farming.



7.	Mr. X owns agricultural land situated 5 km aerially from the limits of a municipality having population of 3,50,000. A farm building situated on such land is used as a storehouse for agricultural produce. The income from such building would be –
(a)	Agricultural income, since the building is used for agricultural purposes
(b)	Agricultural income, since the land is situated beyond 2 km from municipality

	(c)	Non-agricultural income, since the land is treated as urban agricultural land
	(d)	Exempt only if the building is used as dwelling house
8.	Mr. B lets out agricultural land situated in India to a cultivator and receives rent in kind. The cultivator further sub-lets a portion of the land to another cultivator and receives rent. The rental income received by cultivator would be –	
	(a)	Non-agricultural income since he is not the owner
	(b)	Agricultural income, since ownership of land is not necessary
	(c)	Capital receipt
	(d)	Income from other sources

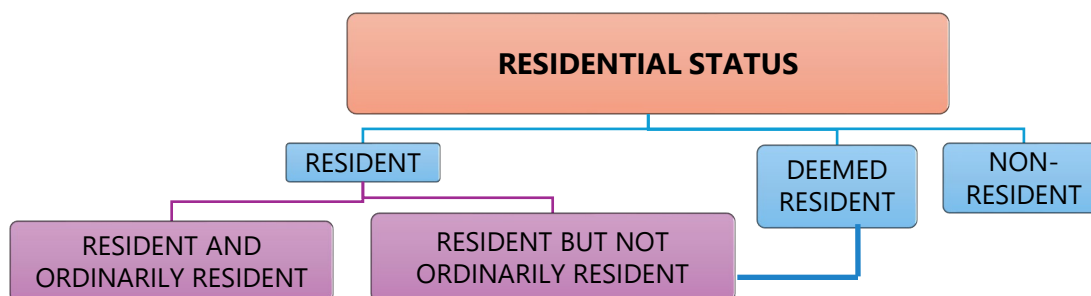
4. STEPS FOR COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Income-tax is levied on an assessee's total income. Such total income has to be computed as per the provisions contained in the Income-tax Act, 2025.

Let us go step by step to understand the procedure for computation of total income of an individual for the purpose of levy of income-tax –

Step 1 – Determination of residential status

The residential status of a person has to be determined to ascertain which income is to be included in computing the total income. The residential status as per the Income-tax Act, 2025 can be classified as under –



In the case of an individual, the duration for which he is present in India in the relevant tax year or relevant tax year and the earlier tax years determines his

residential status. Based on the days spent by him in India, he may be (a) resident and ordinarily resident, (b) resident but not ordinarily resident, or (c) non-resident.

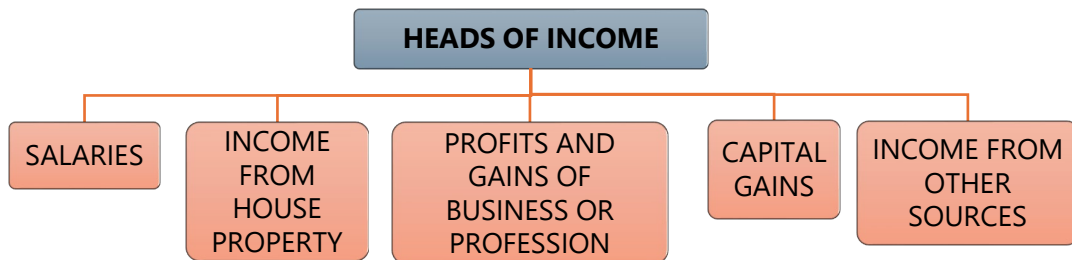
The residential status of a person determines the taxability of the income. For e.g., income earned and received outside India will not be taxable in the hands of a non-resident but will be taxable in case of a resident and ordinarily resident.

There is also a concept of deemed resident for which presence of individual in India is not required. A deemed resident is always a resident but not ordinarily resident in India. *Determination of residential status has been discussed in Chapter 2.*

Step 2 – Classification of income under different heads

A person may earn income from different sources. For example, a salaried person earns income by way of salary. He also gets interest from bank savings account/ fixed deposit. Apart from this, if he has invested in shares, he would be getting dividend and when he sells these shares, he may earn profit on such sale. If he owns a residential property which he has let out, he will earn rental income.

Under the Income-tax Act, 2025, for computation of total income, all income of a taxpayer are classified into five different heads of income. These are shown below –



There is a charging section under each head of income which defines the scope of income chargeable under that head. These heads of income exhaust all possible types of income that can accrue to or be received by the tax payer. Accordingly, as per section 13, income earned is classified as follows:

- (i) Salary, pension etc. earned is taxable under the head **“Salaries”**.
- (ii) Rental income is taxable under the head **“Income from house property”**.
- (iii) Income derived from carrying on any business or profession is taxable under the head **“Profits and gains of business or profession”**.
- (iv) Profit from sale of a capital asset (like land, building and shares) is taxable under the head **“Capital Gains”**.

- (v) The fifth head of income is the residuary head. Income which is chargeable to tax under the Income-tax Act, 2025 but not taxable under the first four heads will be taxed under the head **“Income from other sources”**.

The taxpayer has to classify the income earned under the relevant head of income.

Step 3 – Computation of income under each head of income

Income is to be computed as per the provisions governing a particular head of income.

Exemptions

There are certain incomes which are wholly exempt from income-tax e.g., agricultural income. These incomes have to be excluded and will not form part of total income.

Also, some incomes are partially exempt from income-tax e.g., House rent allowance. These incomes are excluded only to the extent of the limits specified in the Act. The balance income over and above the specified exemption limits would enter computation of total income and have to be classified under the relevant head of income.

Deductions

There are deductions and allowances provided under each head of income. For example, while calculating income from house property for let out property, municipal taxes and interest on loan are allowed as deduction. Similarly, deductions and allowances are provided under each head of income. These deductions etc. have to be considered before arriving at the net income chargeable under each head.

These exemptions and deductions would be available to the individual depending upon the regime in which he pays tax.

Tax regime under section 202 is the default tax regime which provides for concessional rates of tax to individuals/HUFs/ AoPs/Bols/Artificial juridical persons.

However, certain exemptions and deductions are not allowed under the default tax regime. Such assessee has an option to opt out of the said regime and pay tax under normal provisions of the Act. These tax regimes i.e., the default tax regime under section 202 and optional tax regime under the normal provisions of the Act are discussed in detail later on in this Chapter. *For detailed discussion on exemptions and deductions under each head, refer to Chapter 3: Heads of Income.*

Disallowance of expenditure in relation to exempt income [Section 14]

- ◆ As per section 14, irrespective of anything to the contrary contained in the Act, expenditure incurred in relation to any exempt income is not allowed as a deduction while computing income under any of the five heads of income.
- ◆ The Assessing Officer is empowered to determine the amount of expenditure incurred in relation to such income which does not form part of total income in accordance with such method as may be prescribed.
- ◆ The method for determining expenditure in relation to exempt income for the purpose of disallowance of such expenditure under section 14 is prescribed by the CBDT in Rule 14.
- ◆ The provisions of section 14 regarding disallowance of expenses would apply even in a case where exempt income has not accrued or arisen or has not been received during the tax year and the expenditure has been incurred during the said tax year in relation to such exempt income.

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

In case of individuals, 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 rate of tax increases. Some taxpayers in the higher income bracket have a tendency to divert some portion of their income to their spouse, minor child etc. to minimize their tax burden.

In order to prevent such tax avoidance, clubbing provisions have been incorporated in the Act, under which income arising to certain persons (like spouse, minor child etc.) have to be included in the income of the person who has diverted his income for the purpose of computing tax liability. *For detailed discussion, refer to Chapter 4: Income of other persons included in total income of assessee.*

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

An assessee may have different sources of income under the same head of income. He may have profit from one source and loss from the other.



An assessee may have profit from his textile business and loss from his printing business. This loss can be set-off against the profits of textile business to arrive at the net income chargeable under the head “Profits and gains of business or profession”.

Similarly, an assessee can have loss under one head of income, say, profits and gains of business or profession and profits under another heads of income, say, income from house property. There are provisions in the Income-tax Act, 2025 for allowing inter-head adjustment in certain cases.

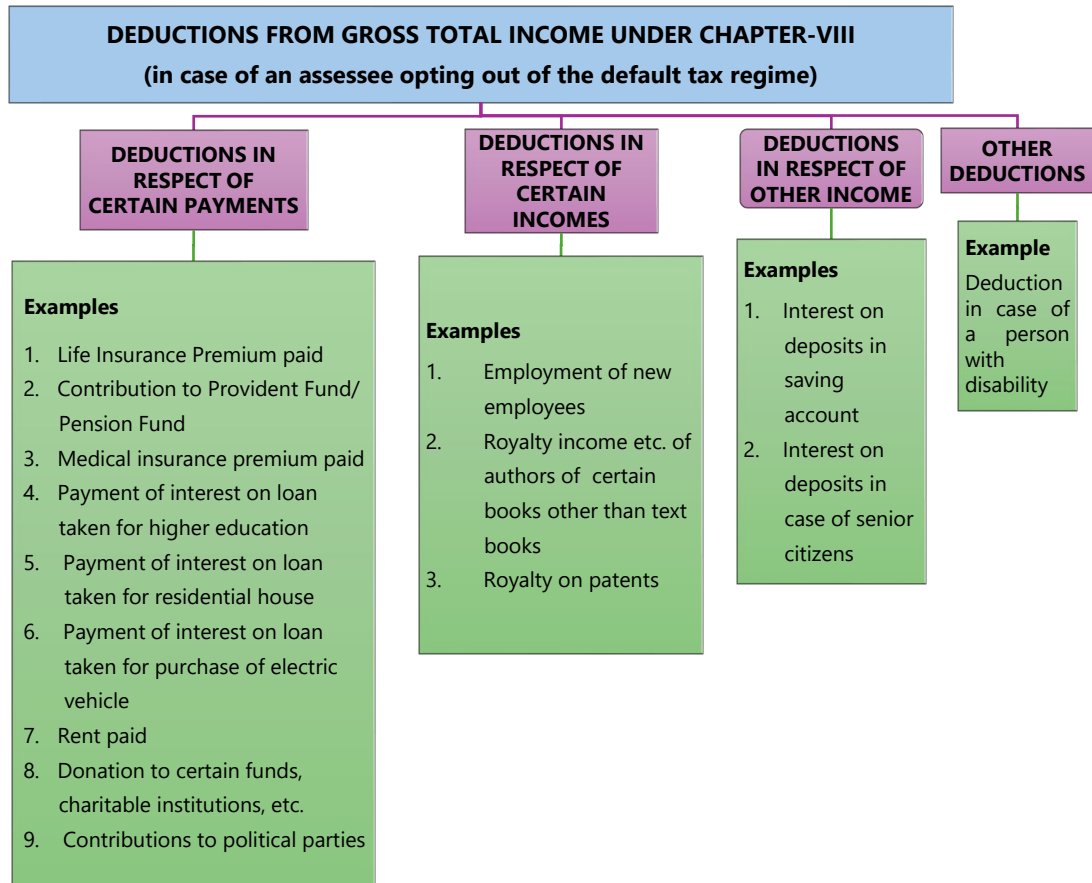
However, there are also restrictions in certain cases, like business loss is not allowed to be set-off against salary income. Default tax regime under section 202 puts furthermore restrictions like loss from house property cannot be set off from income under any other head. Further, losses which cannot be set-off in the current year due to inadequacy of eligible profits can be carried forward for set-off in the subsequent years as per the provisions contained in the Act. Generally, brought forward losses under a particular head cannot be set-off against income under another head i.e., brought forward business loss cannot be set-off against income from house property of the current year. *For detailed discussion, refer to Chapter 5: Set-off or carry forward and set-off of losses.*

Step 6 – Computation of Gross Total Income

The final figures of income or loss under each head of income, after allowing the eligible deductions, allowances and other adjustments, are then aggregated, after giving effect to the provisions for clubbing of income and set-off and carry forward of losses, to arrive at the **gross total income**.

Step 7 – Deductions from Gross Total Income

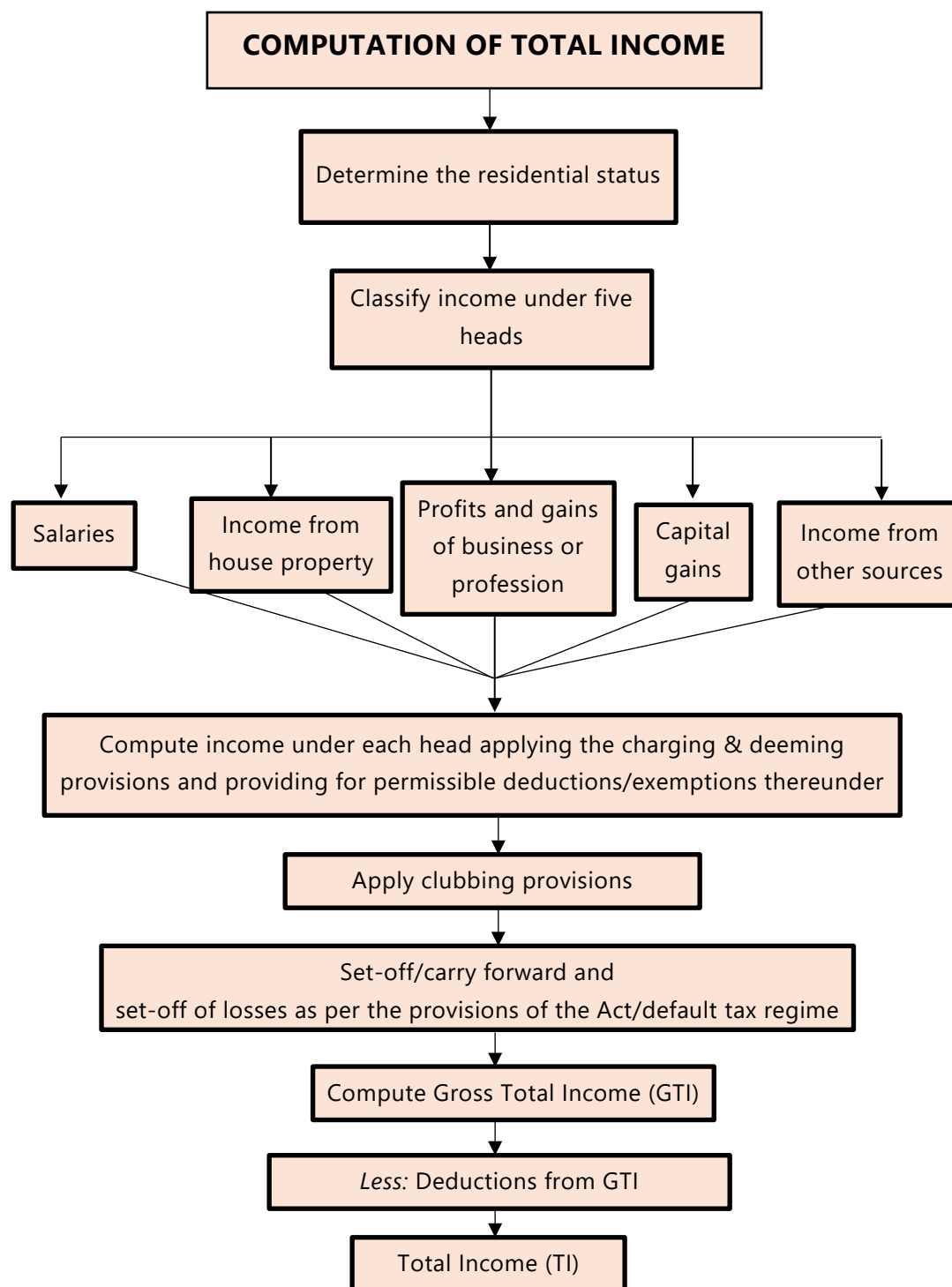
Chapter VIII provides for certain deductions from Gross Total Income. These deductions would, generally, be allowable to the assessee who opts out of the default tax regime and pays tax under the optional tax regime as per normal provisions of the Act, subject to fulfillment of requisite conditions stipulated thereunder.



However, under the default tax regime under section 202, only select deductions are permissible. *For detailed discussion, refer to Chapter 6: Deductions from Gross Total Income.*

Step 8 – Computation of Total income

The income arrived at, after claiming the above deductions from the Gross Total Income is known as the Total Income. It should be rounded off to the nearest multiple of ₹ 10 as per section 516. The process of computation of total income is shown hereunder –



Step 9 – Application of the rates of tax on the total income

Rates specified under the New Tax Regime under section 202(1)

New Tax Regime contained under section 202 provides for concessional rates of tax for individuals/HUF/AoPs/Bols and artificial juridical persons. Under this regime certain exemptions/deductions are, however, not available like Leave Travel Concession, interest on housing loan on self-occupied property, deductions under Chapter VIII [other than section 124(1) and (2), 125(2) or section 146] etc.

Note - Where the assessee does not wish to pay tax under the New Tax Regime because it is not beneficial for him/it, due to the surrender of certain exemptions or deductions, he/it can opt out of this regime and pay tax under the other provisions of the Act.

Thus, New Tax Regime operates as the default tax regime. It implies that unless the assessee opts out of this regime, tax is payable in accordance with the provisions of the New Tax Regime.

Therefore, for the sake of simplicity and ease of reference, in the study material, **"New Tax Regime" is referred as "Default tax regime" and the other provisions of the Act are referred as "Optional tax regime" or "Old Tax Regime".**

The basic exemption limit under section 202(1) is **₹ 4,00,000**. This means that no tax is payable by an assessee with total income of upto ₹ 4,00,000. The tax rates under section 202(1) is as follows -

S. No.	Total Income	Rate of tax
1.	Upto ₹ 4,00,000	Nil
2.	From ₹ 4,00,001 to ₹ 8,00,000	5%
3.	From ₹ 8,00,001 to ₹ 12,00,000	10%
4.	From ₹ 12,00,001 to ₹ 16,00,000	15%
5.	From ₹ 16,00,001 to ₹ 20,00,000	20%
6.	From ₹ 20,00,001 to ₹ 24,00,000	25%
7.	Above ₹ 24,00,000	30%

Rates provided by the Annual Finance Act under the optional tax regime

Individuals/HUF/AoPs/Bols and artificial juridical persons, who exercise the option to opt out of the default tax regime, have to pay tax as per normal provisions of the Act. Under the normal provisions of the Act, the rates of tax are provided by the Annual Finance Act of the year.

For individuals, HUF etc., the basic exemption limit is ₹ 2,50,000. This means that, as per the normal provisions of the Act, no tax is payable by individuals with total income of upto ₹ 2,50,000. Those individuals whose total income is more than ₹ 2,50,000 but less than or equal to ₹ 5,00,000 have to pay tax on their total income in excess of ₹ 2,50,000 @ 5%. Total income between ₹ 5,00,000 and ₹ 10,00,000 attracts tax @ 20%. The highest rate is 30%, which is attracted in respect of income in excess of ₹ 10,00,000. The tax rates have to be applied on the total income to arrive at the income-tax liability.

However, resident individuals enjoy rebate under section 156 in both the tax regimes which are discussed later on, in this chapter.

For certain income (like Long Term Capital Gains, Lottery Income, Specified Short Term Capital Gains etc.), slab rates are not applicable under both the tax regimes. These incomes are taxable at special rates of taxation under both the tax regimes. These special rates are contained in the Income-tax Act, 2025 itself.

Step 10 – Rebate under section 156 / Surcharge

In order to provide tax relief to the individual taxpayers, section 156 provides a rebate from the tax payable by an assessee, being an individual resident in India, whose total income does not exceed ₹ 12,00,000 under the default tax regime under section 202(1) or ₹ 5,00,000 under the normal provisions of the Act if he opts out of the default tax regime.

Rebate u/s 156

Under the default tax regime, an individual whose total income exceeds ₹ 12 lakhs marginally is also entitled to a rebate of the difference between tax on total income and the amount by which the total income exceeds ₹ 12 lakhs, when the former is greater than the latter. However, such a marginal relief is not available for an Individual taxpayer opting out of default tax regime and paying tax under normal provisions of the Income Tax Act.

Surcharge

Surcharge is an additional tax payable over and above the income-tax. Surcharge is levied as a percentage of income-tax, where total income exceeds ₹ 50 lakhs. The rates of

surcharge applicable for different slabs of total income are discussed later on in this chapter.

Step 11 – Health and education cess on income-tax

The income-tax, as reduced by the rebate under section 156, if total income does not exceed ₹ 5 lakhs under normal provisions or ₹ 12 lakhs under default tax regime **or** as increased by the surcharge if total income exceed the specified limit, is to be further increased by an additional surcharge called **health and education cess on income-tax @4%** of income-tax *less* rebate u/s 156 or *plus* surcharge, if applicable.

Step 12 – Alternate Minimum Tax (AMT)

The Income-tax Act, 2025 contains certain profit-linked and investment linked deductions under normal provisions of the Act to promote investment in various sectors. These tax benefits help to reduce the tax liability of the taxpayers who exercise the option to opt out of the default tax regime under section 202 and become eligible to claim such deductions. In order to preserve the tax base *vis-a-vis* profit linked and investment linked deductions, the Income-tax Act, 2025 provides for levy of alternate minimum tax.

Section 206(2) provides for minimum tax to be paid by the taxpayers on their total income without providing profit linked and investment linked deductions. However, the taxpayer can claim the tax credit of the excess tax paid over the regular income-tax payable.

Individuals/HUF/AoPs/Bols and artificial juridical persons paying tax under default tax regime under section 202(1), are not liable to alternate minimum tax under section 206(2).

For detailed discussion, refer to Chapter 9: Income-tax liability – Computation and Optimisation.

Step 13 – Examine under which tax regime to pay tax

Total income and tax liability of individuals/HUF/AoPs/Bols and artificial juridical persons may be computed in accordance with both the default tax regime under section 202(1) and as per the regular provisions of the Act including provisions relating to AMT, if applicable. Then, such persons can determine which is more beneficial and accordingly decide whether or not to opt out of the default tax regime.

Individuals/HUF/AoPs/Bols not having income from business or profession can choose whether or not to exercise the option of shifting out of the default tax

regime in each tax year. They may choose to pay tax under default tax regime in one year and exercise the option to shift out of default tax regime in another year.

Step 14 – Advance tax and tax deducted/collected at source

- ◆ Although the tax liability of an assessee is determined only at the end of the year, tax is required to be paid in advance **in four installments on the basis of estimated income i.e., on or before 15th June, 15th September, 15th December and 15th March.**
- ◆ However, residents declaring **profits under presumptive taxation scheme** (where business or professional income is computed as a percentage of gross receipts/ turnover) can pay advance tax **in one installment on or before 15th March instead of four installments.**
- ◆ In certain cases, tax is required to be deducted or collected at source from the income by the payer at the rates specified in the Income-tax Act, 2025 or the Annual Finance Act. Such deduction or collection should be made either at the time of accrual or at the time of payment, as provided by the Act.



In case of salary income, the obligation of the employer to deduct tax at source arises only at the time of payment of salary to the employees.

However, in respect of other payments like, fees for professional services, fees for technical services, interest payable to residents, the person responsible for paying is liable to deduct tax at source at the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier. Such tax deducted at source has to be remitted to the credit of the Central Government through any branch of the RBI, SBI or any authorized bank within the statutory due dates.

For detailed discussion, refer to Chapter 7: Tax Deduction or Collection at Source and Advance Tax.

Step 15 – Tax Payable/Tax Refundable

After adjusting the advance tax and tax deducted/ collected at source, the assessee would arrive at the amount of net tax payable or refundable. Such amount should be rounded off to the nearest multiple of ₹ 10 as per section 516.

The assessee has to pay the amount of tax payable (called self-assessment tax) on or before the due date of filing of the return. Similarly, if any refund is due, assessee will get the same after filing the return of income.

The Income-tax Act, 2025 contains provisions for filing of return of income. Return of income is the format in which the assessee furnishes information as to his total income and tax payable. The format for filing of returns by different assesseees is notified by the CBDT. The particulars of income earned under different heads, gross total income, deductions from gross total income, total income and tax payable by the assessee are required to be furnished in the return of income.

In short, a return of income is the declaration of income by the assessee in the prescribed format.

The Act has provided for due dates for filing return of income in case of different assesseees.

- ◆ Companies and firms have to mandatorily file their return of income before the due date even if they do not have any taxable income.
- ◆ Other assesseees are required to file a return of income subject to fulfilling of certain conditions.



9.	<i>Which of the following determines the scope of income taxable in India in the case of an individual?</i>	
	(a)	<i>Age of the individual</i>
	(b)	<i>Residential status</i>
	(c)	<i>Nature of employment</i>
	(d)	<i>Citizenship</i>
10.	<i>Expenditure incurred in relation to exempt income is –</i>	
	(a)	<i>Fully allowable as deduction</i>
	(b)	<i>Partially allowable at the option of the assessee</i>
	(c)	<i>Not allowable as deduction under section 14</i>
	(d)	<i>Allowed only under the default tax regime</i>



5. RATES OF TAX, SURCHARGE & CESS

Income-tax is to be charged on every person at the rates specified for the year by the

Income-tax

Annual Finance Act or the Income-tax Act, 2025 or both.

Surcharge is an additional tax payable over and above the income-tax. Surcharge is levied as a percentage of income-tax. Surcharge is presently being levied beyond a particular threshold of income for different persons. Also, higher rates of surcharge are provided for higher thresholds of income.

Surcharge

The amount of income-tax as increased by the union surcharge, if applicable,

Health and Education cess

should be further increased by an additional surcharge called the "Health and Education cess (HEC) on income-tax", calculated at the rate of

4% of such income-tax and surcharge, if applicable. Health and education cess is leviable in the case of all assessee i.e. individuals, HUF, AOPs/BOIs, Artificial Juridical Persons, firms, local authorities, co-operative societies and companies.

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

5.1 Individual/Hindu Undivided Family (HUF)/Association of Persons (AOP)/Body of Individuals (BOI)/Artificial Juridical Person

Income-tax

Individual/HUF/AOPs/BOIs and Artificial Juridical Persons can pay tax at concessional rates under the default tax regime under section 202(1). However, he/it has to forego certain exemptions and deductions under this regime. Alternatively, he/it can exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the regular provisions of the Act at the tax rates specified by the Annual Finance Act of that year.

Default tax regime under section 202

I. Concessional tax rates [Section 202(1)]

A person, being an Individual/ HUF/ AoPs (other than a co-operative society)/ Bole or artificial judicial persons, other than those who exercise the option to opt out this regime under section 202(4), have to pay tax in respect of his/its total income computed in the manner specified under section 202(2) [other than income chargeable **to tax at special rates under Chapter XIII-A under sections 194 (Table SI No. 1, 4 and 5), 195, 196, 197, 198 etc.**] at the following concessional rates –

Total Income	Rate of Tax
Upto ₹ 4,00,000	NIL
From ₹ 4,00,001 to ₹ 8,00,000	5%
From ₹ 8,00,001 to ₹ 12,00,000	10%
From ₹ 12,00,001 to ₹ 16,00,000	15%
From ₹ 16,00,001 to ₹ 20,00,000	20%
From ₹ 20,00,001 to ₹ 24,00,000	25%
Above ₹ 24,00,000	30%

II. Computation of total income without deduction/exemptions or set-off of losses [Section 202(2)]:

- (i) **Certain deductions/exemptions not allowable:** Section 202(2) provides that while computing total income, the following deductions and exemptions would not be allowed:

Section	Exemption/Deduction	
Sch III [Table SI No. 5, 6, 7]	S. No.	Income
	5	Daily Allowance to MPs/ MLAs/ Committee Members
	6	Any allowance received by MPs under Members of Parliament (Constituency Allowance) Rules, 1986

	7	Any constituency allowance received by MLAs under any State Act.
Sch III [Table SI No. 8]	Leave travel concession	
Sch III [Table SI No. 11]	House rent allowance	
Sch III [Table SI No. 12 & 13]	Exemption in respect of special allowances or benefit to meet expenses relating to duties or personal expenses (other than those as may be prescribed for this purpose) Accordingly, travelling allowance, transfer allowance, daily allowance, conveyance allowance and transport allowance to an employee, who is blind or deaf and dumb or orthopaedically handicapped would be exempted even under default tax regime, to the extent and conditions specified, thereof.	
Section 19(1) [Table SI No. 1]	Professional tax	
Sch III [Table SI No. 17]	Exemption in respect of income of minor child included in the income of parent	
Section 22(1)(b)	Interest on loan in respect of self-occupied property	
Section 33(8)	Additional depreciation	
Section 45(3)(a) or (b) or (c)	Deduction in respect of contribution to - notified approved research association/ university/ college/ other institutions for scientific research or for research in social science or statistical research [Section 45(3)(a)] - approved Indian company for scientific research [Section 45(3)(b)] - An approved National laboratory/university/IIT/ specified person for scientific research undertaken under an approved programme [Section 45(3)(c)]	
Section 46	Investment linked tax incentives for specified businesses	
Deductions under Chapter VIII	Deductions under Chapter VIII [other than employer's contribution towards NPS under section 124(1) and 124(2), Central Government contribution towards Agnipath Scheme under section 125(2) and deduction in respect of employment of new employees under section 146].	

(ii) **Certain losses not allowed to be set-off:** While computing total income, set-off of -

- (a) any loss carried forward or depreciation from any earlier tax year, if such loss or depreciation is attributable to any of the deductions referred to in (i) above; or
- (b) loss under the head house property with any other head of income would **not** be allowed.

Such loss or depreciation would be deemed to have been already given full effect to and no further deduction for such loss or depreciation shall be allowed for any subsequent year.

(iii) **Exemption or deduction for allowances or perquisite:** While computing total income, any exemption or deduction for allowances or perquisite, by whatever name called, provided under any other law in force would **not** be allowed.

III. **Time limit for exercising the option to shift out of the default tax regime [Section 202(4)]**

(a) **Person having income from business or profession:** Person having income from business or profession has an option to shift out/ opt out of the default tax regime under this section and

- the option has to be exercised on or before the due date specified under section 263(1) for furnishing the return of income for such tax year and
- once such option is exercised, it would apply to subsequent tax years.
- such option once exercised may be withdrawn only once for a tax year other than the tax year for which it was exercised and
- after such withdrawal, the person shall never be eligible to exercise the option to shift out of the default tax regime. He may opt out only in case he ceases to have income from business or profession and then the option of shift out would be available.

(b) **Person not having income from business or profession:** Where person is **not** having income from business or profession, an option to

shift out/opt out of the default tax regime has to be exercised along with the return of income to be furnished under section 263(1) for the tax year.

In effect, such person can choose whether or not to exercise the option of shifting out of the default tax regime in each tax year.

IV. AMT liability not attracted

Individual/HUF/AoP/BoI or Artificial Juridical person paying tax under default tax regime under section 202(1) is **not** liable to alternate minimum tax u/s 206(2). Such person would not be eligible to claim AMT credit also.

Note: It may be noted that in case of Individual/HUF/AoP/BoI or Artificial Juridical person not having income from business or profession, the total income and tax liability (including provisions relating to AMT, if applicable under normal provisions) may be computed every year both as per the regular provisions of the Income-tax Act, 2025 and in accordance with the provisions of section 202(1), in order to determine which is more beneficial and accordingly such person may decide whether to pay tax under default tax regime under section 202(1) or exercise the option to shift out and pay tax under other provisions of the Act for that tax year.

ILLUSTRATION 3

Mr. X has a total income of ₹ 25,00,000 for tax year 2026-27, comprising of income from house property and interest on fixed deposits. Compute his tax liability for tax year 2026-27 under the default tax regime under section 202(1).

SOLUTION

Computation of tax liability of Mr. X for tax year 2026-27

Tax liability:

First ₹ 4,00,000	- Nil	
Next ₹ 4,00,001 – ₹ 8,00,000	- @5% of ₹ 4,00,000	= ₹ 20,000
Next ₹ 8,00,001 – ₹ 12,00,000	- @10% of ₹ 4,00,000	= ₹ 40,000
Next ₹ 12,00,001 – ₹ 16,00,000	- @15% of ₹ 4,00,000	= ₹ 60,000
Next ₹ 16,00,001 – ₹ 20,00,000	- @20% of ₹ 4,00,000	= ₹ 80,000
Next ₹ 20,00,001 – ₹ 24,00,000	- @25% of ₹ 4,00,000	= ₹ 1,00,000
Balance i.e., ₹ 25,00,000 minus ₹ 24,00,000	- @30% of ₹ 1,00,000	= ₹ 30,000
		= ₹ 3,30,000
Add: Health and Education cess@4%		= ₹ 13,200
		= ₹ 3,43,200

**Tax rates specified by the Annual Finance Act
for optional tax regime**

The slab rates for tax year 2026-27 applicable to an Individual/HUF/AOP/BOI/ Artificial Juridical Person, which has exercised the option of shifting out of the default tax regime, are as follows:

(i)	where the total income does not exceed ₹ 2,50,000	NIL
(ii)	where the total income exceeds ₹ 2,50,000 but does not exceed ₹ 5,00,000	5% of the amount by which the total income exceeds ₹ 2,50,000
(iii)	where the total income exceeds ₹ 5,00,000 but does not exceed ₹ 10,00,000	₹ 12,500 plus 20% of the amount by which the total income exceeds ₹ 5,00,000
(iv)	where the total income exceeds ₹ 10,00,000	₹ 1,12,500 plus 30% of the amount by which the total income exceeds ₹ 10,00,000

For a senior citizen (being a resident individual who is of the age of 60 years or more but less than 80 years at any time during the tax year), the basic exemption limit is ₹ 3,00,000 and for a very senior citizen (being a resident individual who is of the age of 80 years or more at any time during the tax year), the basic exemption limit is ₹ 5,00,000. Therefore, the tax slabs for these assesseees would be as follows –

For senior citizens (being resident individuals of the age of 60 years or more but less than 80 years at any time during the tax year)

(i)	where the total income does not exceed ₹ 3,00,000	NIL
(ii)	where the total income exceeds ₹ 3,00,000 but does not exceed ₹ 5,00,000	5% of the amount by which the total income exceeds ₹ 3,00,000
(iii)	where the total income exceeds ₹ 5,00,000 but does not exceed ₹ 10,00,000	₹ 10,000 plus 20% of the amount by which the total income exceeds ₹ 5,00,000
(iv)	where the total income exceeds ₹ 10,00,000	₹ 1,10,000 plus 30% of the amount by which the total income exceeds ₹ 10,00,000

For very senior citizen (being a resident individual of the age of 80 years or more at any time during the tax year)

(i)	where the total income does not exceed ₹ 5,00,000	NIL
(ii)	where the total income exceeds ₹ 5,00,000 but does not exceed ₹ 10,00,000	20% of the amount by which the total income exceeds ₹ 5,00,000
(iii)	where the total income exceeds ₹ 10,00,000	₹ 1,00,000 plus 30% of the amount by which the total income exceeds ₹ 10,00,000

Clarification regarding attaining specified age of 60 years/ 80 years on 31st March itself, in case of senior/very senior citizens whose date of birth falls on 1st April [Circular No. 28/2016, dated 27-07-2016]

The CBDT has clarified that a person born on 1st April would be considered to have attained a particular age on 31st March, the day preceding date of his birthday. In particular, the question of attainment of age of eligibility for being considered a senior/very senior citizen would be decided on the basis of above criteria.

Therefore, a resident individual whose 60th birthday falls on 1st April, 2027, would be treated as having attained the age of 60 years in the tax year 2026-27 and would be eligible for higher basic exemption limit of ₹ 3 lakh while computing his tax liability for tax year 2026-27 under the optional tax regime as per the normal provisions of the Act. Likewise, a resident individual whose 80th birthday falls on 1st April, 2027, would be treated as having attained the age of 80 years in the tax year 2026-27, and would be eligible for higher basic exemption limit of ₹ 5 lakh in computing his tax liability for tax year 2026-27 under the optional tax regime as per the normal provisions of the Act.

Special Rates of Tax

In respect of certain types of income, as mentioned below, the Income-tax Act, 2025 has provided for specific rates. The special rates of tax have to be applied on the respective component of total income irrespective of the tax regime and the slab rates have to be applied on the balance of total income after adjusting the basic exemption limit.

S. No.	Section	Income	Rate of Tax						
(a)	197	Long term capital gains arising from transfer of capital asset	12.5%						
Note – In case of an individual or HUF, being a resident in India, the LTCG from transfer of any land or building or both acquired before 23.7.2024, the excess tax computed shall be ignored. Excess tax = A (-) B (A) Tax @12.5% on LTCG computed without indexation (B) Tax @ 20% on LTCG computed with indexation									
(b)	198	Long term capital gains on transfer of – - Equity share in a company - Unit of an equity-oriented fund - Unit of business trust Condition for availing the benefit of this concessional rate is that securities transaction tax (STT) should have been paid –<table><tr><th>In case of</th><th>Time of payment of STT</th></tr><tr><td>Equity shares</td><td>both at the time of acquisition and transfer</td></tr><tr><td>Unit of equity oriented fund or unit of business trust</td><td>at the time of transfer</td></tr></table>	In case of	Time of payment of STT	Equity shares	both at the time of acquisition and transfer	Unit of equity oriented fund or unit of business trust	at the time of transfer	12.5% on LTCG > ₹ 1.25 lakhs
In case of	Time of payment of STT								
Equity shares	both at the time of acquisition and transfer								
Unit of equity oriented fund or unit of business trust	at the time of transfer								
(c)	196	Short-term capital gains on transfer of – - Equity shares in a company - Unit of an equity oriented fund - Unit of business trust The condition for availing the benefit of this concessional rate is that the	20%						

		transaction of sale of such equity share or unit should be chargeable to STT.	
(d)	194 [Table SI No. 1]	Winnings (other than winning from any online game) from • Lotteries; • Crossword puzzles; • Races including horse races; • Card games and other games of any sort; • Gambling or betting of any form or nature	30%
(e)	194 [Table SI No. 5]	Net winnings from online games	30%
(f)	194 [Table SI No. 4]	Income from transfer of any virtual digital asset	30%
(g)	195	Unexplained credits, investment, asset, expenditure, etc. deemed as income under sections 102 to 106 [See discussion below]	30%
Note – For detailed discussion on taxability of capital gains, please refer Unit 4: Capital Gains of Chapter 3: Heads of Income.			

Unexplained credits, investments, expenditure, asset etc. to attract tax@30% [Section 195]

- (i) In order to control laundering of unaccounted money by availing the benefit of basic exemption limit, the unexplained money, investment, expenditure, etc. deemed as income under sections 102 to 106 would be taxed at the rate of 30% *plus* surcharge @25% of tax. Thus, the effective rate of tax (including surcharge@25% of tax and cess@4% of tax and surcharge) is 39%.
- (ii) No deduction in respect of any allowance or expenditure or set-off of any loss shall be allowed to the assessee under any provision of the Income-tax Act, 2025 in computing such deemed income.

ILLUSTRATION 4

Mr. X has a total income of ₹ 16,00,000 for tax year 2026-27, comprising of income from house property and interest on fixed deposits. Compute his tax liability for tax year 2026-27 assuming his age is –

- (a) 45 years
- (b) 63 years
- (c) 82 years

Assume that Mr. X has exercised the option to shift out/ opt out of the default tax regime.

SOLUTION**(a) Computation of tax liability of Mr. X (aged 45 years)**

Particulars	Amount in (₹)
First ₹ 2,50,000	Nil
Next ₹ 2,50,001 – ₹ 5,00,000 - @5% of ₹ 2,50,000	12,500
Next ₹ 5,00,001 – ₹ 10,00,000 - @20% of ₹ 5,00,000	1,00,000
Balance i.e., ₹ 16,00,000 minus ₹ 10,00,000 -@30% of ₹ 6,00,000	<u>1,80,000</u>
	2,92,500
Add: Health and Education cess@4%	<u>11,700</u>
	<u>3,04,200</u>

(b) Computation of tax liability of Mr. X (aged 63 years)

Particulars	Amount in (₹)
First ₹ 3,00,000	Nil
Next ₹ 3,00,001 – ₹ 5,00,000 @5% of ₹ 2,00,000	10,000
Next ₹ 5,00,001 – ₹ 10,00,000 @20% of ₹ 5,00,000	1,00,000
Balance i.e., ₹ 16,00,000 minus ₹ 10,00,000 @30% of ₹ 6,00,000	<u>1,80,000</u>
	2,90,000
Add: Health and Education cess@4%	<u>11,600</u>
	<u>3,01,600</u>

(c) Computation of tax liability of Mr. X (aged 82 years)

Particulars	Amount in (₹)
First ₹ 5,00,000	Nil
Next ₹ 5,00,001 – ₹ 10,00,000 @ 20% of ₹ 5,00,000	1,00,000
Balance i.e., ₹ 16,00,000 minus ₹ 10,00,000 @ 30% of ₹ 6,00,000	<u>1,80,000</u>
	2,80,000
Add: Health and Education cess@4%	<u>11,200</u>
	<u>2,91,200</u>

Surcharge:**(A) In case the Individual/HUF/AoP⁶/BoI and Artificial Juridical Person pays tax under default tax regime under section 202(1)**

Income-tax computed as per the provisions of section 202(1) and/ or section 196 or section 197 or section 198 would be increased by surcharge given under the following table:

	Particulars	Rate of surcharge on income-tax	Example	
			Components of total income	Applicable rate of surcharge
(i)	Where the total income (including dividend or capital gains chargeable to tax u/s 196, 197 and 198) > ₹ 50 lakhs but ≤ ₹ 1 crore	10%	Example - Dividend ₹ 15 lakhs; - STCG u/s 196 ₹ 15 lakhs; - LTCG u/s 197 ₹ 25 lakhs; - LTCG u/s 198 ₹ 20 lakhs; and - Other income ₹ 25 lakhs	
				Surcharge would be levied@10% on income-tax computed on total income of ₹ 1 crore.

⁶ (other than an AOP consisting of only companies as members)

(ii)	Where total income (including dividend or capital gains chargeable to tax u/s 196, 197 and 198) > ₹ 1 crore but ≤ ₹ 2 crore	15%	Example • Dividend ₹ 10 lakhs; • STCG u/s 196 ₹ 35 lakhs; • LTCG u/s 197 ₹ 50 lakhs; • LTCG u/s 198 ₹ 35 lakhs; and • Other income ₹ 55 lakhs Surcharge would be levied @ 15% on income-tax computed on total income of ₹ 1.85 crores.	
(iii)	Where total income (excluding dividend and capital gains chargeable to tax u/s 196, 197 and 198) > ₹ 2 crore	25%	Example • Dividend ₹ 51 lakhs; • STCG u/s 196 ₹ 44 lakh; • LTCG u/s 197 ₹ 42 lakhs; • LTCG u/s 198 ₹ 55 lakh; and • Other income ₹ 6 crores Surcharge @ 15% would be levied on income-tax on: • Dividend income of ₹ 51 lakhs; • STCG of ₹ 44 lakhs chargeable to tax u/s 196; • LTCG of ₹ 42 lakhs chargeable to tax u/s 197; and • LTCG of ₹ 55 lakhs chargeable to tax u/s 198. Surcharge @ 25% would be leviable on income-tax computed on other income of ₹ 6 crores included in total income	
	The rate of surcharge on the income-tax payable on the portion of dividend and capital gains chargeable to tax u/s 196, 197 and 198	Not exceeding 15%		

(iv)	Where total income (including dividend income and capital gains chargeable to tax u/s 196, 197 and 198) > ₹ 2 crore in cases not covered under (iii) above	15%	Example	
			- Dividend income ₹ 40 lakhs; - STCG u/s 196 ₹ 35 lakhs; - LTCG u/s 197 ₹ 42 lakhs; - LTCG u/s 198 ₹ 50 lakhs; and - Other income ₹ 1.10 crore	Surcharge would be levied @ 15% on income-tax computed on total income of ₹ 2.77 crore.

Marginal relief

The purpose of marginal relief is to ensure that the increase in amount of tax payable (including surcharge) due to increase in total income of an assessee beyond the specified limit should not exceed the amount of increase in total income.

Marginal relief is available in case of such persons paying tax under default tax regime u/s 202(1) referred to in above would be as follows:

	Particulars	Marginal relief	
(i)	Where the total income > ₹ 50 lakhs but ≤ ₹ 1 crore	Marginal relief = Total amount of income-tax (together with surcharge) computed on such total income (-) Wn, being the amount determined as per the following formula:	
		Wn = Un + Vn	
		Wn	Total amount beyond which the total amount payable as income-tax and surcharge thereon shall not exceed
		Un	Total amount payable as income-tax on ₹ 50 lakhs
		Vn	Total income (-) ₹ 50 lakhs
(ii)	Where the total income > ₹ 1 crore but ≤ ₹ 2 crores	Marginal relief = Total amount of income-tax (together with surcharge) computed on such total income (-) Wn, being the amount determined as per the following formula:	

		Wn = Un + Vn	
		Wn	Total amount beyond which the total amount payable as income-tax and surcharge thereon shall not exceed
		Un	Total amount payable as income-tax and surcharge, if applicable on ₹ 1 crore
		Vn	Total income (-) ₹ 1 crore
(iii)	Where the total income > ₹ 2 crores	Marginal relief = Total amount of income-tax (together with surcharge) computed on such total income (-) Wn, being the amount determined as per the following formula:	
		Wn = Un + Vn	
		Wn	Total amount beyond which the total amount payable as income-tax and surcharge thereon shall not exceed
		Un	Total amount payable as income-tax and surcharge, if applicable on ₹ 2 crores
		Vn	Total income (-) ₹ 2 crores

Note – It is presumed that the total income referred to above does not include dividend income, long term capital gains taxable under section 197 / 198 and short-term capital gains taxable under section 196.

In case the total income includes dividend income, long term capital gains taxable under section 197 / 198 or short-term capital gains taxable under section 196 surcharge on income-tax computed on such dividend income and capital gains cannot exceed 15%. This must be kept in mind while computing marginal relief in cases referred to in (iii) above.

(B) In case the Individual/HUF/AoP⁷/BoI and Artificial Juridical Person exercises the option to shift out of the default tax regime

Income-tax computed in accordance with normal provisions of the Act or section 196 or section 197 or section 198 would be increased by surcharge given under the following table:

⁷ (other than an AOP consisting of only companies as members)

	Particulars	Rate of surcharge on income-tax	Example	
			Components of total income	Applicable rate of surcharge
(i)	Where the total income (including dividend income and capital gains chargeable to tax u/s 196, 197 and 198 > ₹ 50 lakhs but ≤ ₹ 1 crore	10%	Example	
			- Dividend ₹ 10 lakhs; - STCG u/s 196 ₹ 20 lakhs; - LTCG u/s 197 ₹ 15 lakhs; - LTCG u/s 198 ₹ 20 lakhs; and - Other income ₹ 25 lakhs	Surcharge would be levied @ 10% on income-tax computed on total income of ₹ 90 lakhs.
(ii)	Where total income (including dividend and capital gains chargeable to tax u/s 196, 197 and 198 > ₹ 1 crore but ≤ ₹ 2 crore	15%	Example	
			- Dividend ₹ 10 lakhs; - STCG u/s 196 ₹ 40 lakhs; - LTCG u/s 197 ₹ 55 lakhs; - LTCG u/s 198 ₹ 35 lakhs; and - Other income ₹ 50 lakhs	Surcharge would be levied @ 15% on income-tax computed on total income of ₹ 1.90 crores.
(iii)	Where total income (excluding dividend or capital gains chargeable to tax u/s 196, 197 and 198 > ₹ 2 crore but ≤ ₹ 5 crore	25%	Example	
	The rate of surcharge on the income-tax	Not exceeding 15%	- Dividend ₹ 51 lakhs; - STCG u/s 196 ₹ 44 lakh; - LTCG u/s 197 ₹ 42 lakhs; - LTCG u/s 198 ₹ 55 lakh; and	Surcharge @ 15% would be levied on income-tax on: - Dividend income of ₹ 51 lakhs; - STCG of ₹ 44 lakhs

	payable on the portion of dividend or capital gains chargeable to tax u/s 196, 197 and 198		Other income ₹ 3 crores	chargeable to tax u/s 196; - LTCG of ₹ 42 lakhs chargeable to tax u/s 197; and - LTCG of ₹ 55 lakhs chargeable to tax u/s 198. Surcharge@25% would be leviable on income-tax computed on other income of ₹ 3 crores included in total income
(iv)	Where total income (excluding dividend or capital gains chargeable to tax u/s 196, 197 and 198) > ₹ 5 crore	37%	Example	
	Rate of surcharge on the income-tax payable on the portion of dividend and capital gains chargeable to tax u/s 196, 197 and 198	Not exceeding 15%	- Dividend ₹ 60 lakhs; - STCG u/s 196 ₹ 50 lakhs; - LTCG u/s 197 ₹ 42 lakhs; - LTCG u/s 198 ₹ 25 lakhs; and - Other income ₹ 6 crore	Surcharge@15% would be levied on income-tax on: - Dividend of ₹ 60 lakhs; - STCG of ₹ 50 lakhs chargeable to tax u/s 196; - LTCG of ₹ 42 lakhs chargeable to tax u/s 197; and - LTCG of ₹ 25 lakhs chargeable to tax u/s 198. Surcharge@37% would be leviable

				on the income-tax computed on other income of ₹ 6 crores included in total income.
(v)	Where total income (including dividend or capital gains chargeable to tax u/s 196, 197 and 198) > ₹ 2 crore in cases not covered under (iii) and (iv) above	15%	Example - Dividend ₹ 55 lakhs; - STCG u/s 196 ₹ 60 lakhs; - LTCG u/s 197 ₹ 42 lakhs; - LTCG u/s 198 ₹ 35 lakhs; and - Other income ₹ 1.10 crore	Surcharge would be levied @ 15% on income-tax computed on total income of ₹ 3.02 crore.

Marginal relief

Marginal relief under the optional tax regime (as per the normal provisions of the Act) would be as follows:

	Particulars	Marginal relief								
(i)	Where the total income > ₹ 50 lakhs but ≤ ₹ 1 crore	Marginal relief = Total amount of income-tax (together with surcharge) computed on such total income (-) Wn, being the amount determined as per the following formula: <table><tr><th colspan="2">Wn = Un + Vn</th></tr><tr><td>Wn</td><td>Total amount beyond which the total amount payable as income-tax and surcharge thereon shall not exceed</td></tr><tr><td>Un</td><td>Total amount payable as income-tax on ₹ 50 lakhs</td></tr><tr><td>Vn</td><td>Total income (-) ₹ 50 lakhs</td></tr></table>	Wn = Un + Vn		Wn	Total amount beyond which the total amount payable as income-tax and surcharge thereon shall not exceed	Un	Total amount payable as income-tax on ₹ 50 lakhs	Vn	Total income (-) ₹ 50 lakhs
Wn = Un + Vn										
Wn	Total amount beyond which the total amount payable as income-tax and surcharge thereon shall not exceed									
Un	Total amount payable as income-tax on ₹ 50 lakhs									
Vn	Total income (-) ₹ 50 lakhs									
(ii)	Where the total income > ₹ 1 crore but ≤ ₹ 2 crores	Marginal relief = Total amount of income-tax (together with surcharge) computed on such total income (-) Wn, being the amount determined as per the following formula:								

		Wn = Un + Vn	
		Wn	Total amount beyond which the total amount payable as income-tax and surcharge thereon shall not exceed
		Un	Total amount payable as income-tax and surcharge, if applicable on ₹ 1 crore
		Vn	Total income (-) ₹ 1 crore
(iii)	Where the total income > ₹ 2 crores but ≤ ₹ 5 crores	Marginal relief = Total amount of income-tax (together with surcharge) computed on such total income (-) Wn, being the amount determined as per the following formula:	
		Wn = Un + Vn	
		Wn	Total amount beyond which the total amount payable as income-tax and surcharge thereon shall not exceed
		Un	Total amount payable as income-tax and surcharge, if applicable on ₹ 2 crores
		Vn	Total income (-) ₹ 2 crores
(iv)	Where the total income > ₹ 5 crores	Marginal relief = Total amount of income-tax (together with surcharge) computed on such total income (-) Wn, being the amount determined as per the following formula:	
		Wn = Un + Vn	
		Wn	Total amount beyond which the total amount payable as income-tax and surcharge thereon shall not exceed
		Un	Total amount payable as income-tax and surcharge, if applicable on ₹ 5 crores
		Vn	Total income (-) ₹ 5 crores

Note – It is presumed that the total income referred to above does not include dividend income, long term capital gains taxable under section 197/ 198 and short-term capital gains taxable under section 196.

In case the total income includes dividend income, long term capital gains taxable under section 197/198 or short-term capital gains taxable under section 196, surcharge on income-tax computed on such dividend income and capital gains cannot exceed 15%. This must be kept in mind while computing marginal relief in cases referred to in (iii) and (iv) above.

ILLUSTRATION 5

Compute the tax liability of Mr. A (aged 42), having total income of ₹51 lakhs for the Tax Year 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. A has exercised the option to shift out of section 202(1).

SOLUTION**Computation of tax liability of Mr. A for the T.Y. 2026-27**

Particular	Amount in (₹)
(A) Income tax (including surcharge) computed on total income of ₹ 51,00,000	
₹ 2,50,000 – ₹ 5,00,000 @5%	12,500
₹ 5,00,001 – ₹ 10,00,000 @20%	1,00,000
₹ 10,00,001 – ₹ 51,00,000 @30%	12,30,000
Total	13,42,500
Add: Surcharge @ 10%	1,34,250
	14,76,750
(B) Income tax plus surcharge computed in (A) cannot exceed Wn	
Wn = Un + Vn	
Un = Income tax computed on total income of ₹ 50 lakhs (₹ 12,500 plus ₹ 1,00,000 plus ₹ 12,00,000)	13,12,500
Vn = Total Income Less ₹ 50 lakhs	1,00,000
Wn = Un+ Vn	14,12,500
(C) Tax liability: lower of (A) and (B)	14,12,500
Add: Health and education cess @4%	56,500
Tax liability (including cess)	14,69,000
(D) Marginal Relief (A – B)	64,250

ILLUSTRATION 6

Compute the tax liability of Mr. B (aged 51) under the default tax regime, having total income of ₹ 1,01,00,000 for the Tax Year 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit.

SOLUTION

Computation of tax liability of Mr. B for the tax year 2026-27

Particular	Amount in (₹)
(A) Income tax (including surcharge) computed on total income of ₹ 1,01,00,000	
₹ 4,00,000 – ₹ 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 – ₹ 20,00,000@20%	80,000
₹ 20,00,001 – ₹ 24,00,000@25%	1,00,000
₹ 24,00,001 – ₹ 1,01,00,000@30%	23,10,000
Total	26,10,000
Add: Surcharge@15%	3,91,500
Tax liability without marginal relief	30,01,500
(B) Income tax plus surcharge computed in (A) cannot exceed Wn	
Wn = Un + Vn	
Un = Income tax computed on total income of ₹ 1 crore (₹ 3,00,000 plus ₹ 22,80,000)	25,80,000
Add: Surcharge@10%	2,58,000
	28,38,000
Vn = Total Income Less ₹ 1 crore	1,00,000
Wn = Un + Vn	29,38,000
(C) Tax liability: lower of (A) & (B)	29,38,000
Add: Health and education cess @4%	1,17,520
Tax liability (including cess)	30,55,520
(D) Marginal relief (A - B)	63,500

ILLUSTRATION 7

Compute the tax liability of Mr. C (aged 58), having total income of ₹ 2,01,00,000 for the Tax Year 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. C has exercised the option to shift out of section 202(1).

SOLUTION

Computation of tax liability of Mr. C for the T.Y. 2026-27

Particulars	Amount in (₹)
(A) Income-tax (including surcharge) computed on total income of ₹ 2,01,00,000	
₹ 2,50,000 – ₹ 5,00,000 @ 5%	12,500
₹ 5,00,001 – ₹ 10,00,000 @ 20%	1,00,000
₹ 10,00,001 – ₹ 2,01,00,000 @ 30%	57,30,000
Total	58,42,500
Add: Surcharge @ 25%	14,60,625
	73,03,125
(B) Income-tax plus surcharge computed in (A) cannot exceed Wn	
Wn = Un + Vn	
Un = Income-tax computed on total income of ₹ 2 crore (₹ 12,500 plus ₹ 1,00,000 plus ₹ 57,00,000)	58,12,500
Add: Surcharge @ 15%	8,71,875
	66,84,375
Vn = Total Income Less ₹ 2 crore	1,00,000
Wn = Un + Vn	67,84,375
(C) Tax liability (A) or (B), whichever is lower	67,84,375
Add: Health and education cess @ 4%	2,71,375
Tax liability (including cess)	70,55,750
(D) Marginal relief (A-B)	₹ 5,18,750

ILLUSTRATION 8

Compute the tax liability of Mr. D (aged 65) in a most beneficial manner. He is having total income of ₹ 5,01,00,000 for the Tax Year 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit and is the same under both tax regimes.

SOLUTION

**Computation of tax liability of Mr. D under default tax regime
for the tax year 2026-27**

(A) Income-tax (including surcharge) computed on total income of ₹ 5,01,00,000

Particulars	Amount in (₹)
₹ 4,00,000 – ₹ 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 – ₹ 20,00,000@20%	80,000
₹ 20,00,001 – ₹ 24,00,000@25%	1,00,000
₹ 24,00,001 – ₹ 5,01,00,000@30%	1,43,10,000
Total	1,46,10,000
Add: Surcharge@25%	36,52,500
	1,82,62,500
Add: Health and education cess @4%	7,30,500
Tax liability	1,89,93,000

**Computation of tax liability of Mr. D under optional tax regime
for the T.Y. 2026-27**

Particulars	Amount in (₹)
(A) Income-tax (including surcharge) computed on total income of ₹ 5,01,00,000	
₹ 3,00,000 – ₹ 5,00,000 @ 5%	10,000
₹ 5,00,001 – ₹ 10,00,000 @ 20%	1,00,000
₹ 10,00,001 – ₹ 5,01,00,000@30%	1,47,30,000
Total	1,48,40,000
Add: Surcharge @ 37%	54,90,800
	2,03,30,800

(B) Income-tax plus surcharge computed in (A) cannot exceed Wn	
Wn = Un + Vn	
Un = Income-tax computed on total income of ₹ 5 crore (₹ 10,000 plus ₹ 1,00,000 plus ₹ 1,47,00,000)	1,48,10,000
Add: Surcharge@25%	37,02,500
	1,85,12,500
Vn = Total Income Less ₹ 5 crore	1,00,000
Wn = Un + Vn	1,86,12,500
(C) Tax liability (A) or (B), whichever is lower	1,86,12,500
Add: Health and education cess@4%	7,44,500
Tax liability (including cess)	1,93,57,000
(D) Marginal Relief (A – B)	17,18,300

It is beneficial for Mr. D to pay tax under default tax regime under section 202(1), since his tax liability would be lower by ₹ 3,64,000 (₹ 1,93,57,000 - ₹ 1,89,93,000).

5.2 Firm/ LLP/ Local Authority

Income-tax

On the whole of the total income 30%

Special rates for capital gains under sections 196, 197 and 198 would be applicable to Firm/ LLP/ local authority also.

Surcharge

Where the total income exceeds ₹ 1 crore, surcharge is payable at the rate of 12% of income-tax computed as above and/ or sections 196, 197 and 198.

Marginal Relief

Marginal relief is available in case of such firms i.e., the total amount of income-tax (together with surcharge) computed on total income should not exceed the amount determined as per the following formula –

Wn = Un + Vn	
Wn	Total amount beyond which the total amount payable as income-tax and surcharge thereon shall not exceed
Un	Total amount payable as income-tax on ₹ 1 crore
Vn	Total income – ₹ 1 crore

5.3 Co-operative Society

Income-tax rates as per the normal provisions of the Act

(i)	Where the total income does not exceed ₹ 10,000	10% of the total income
(ii)	Where the total income exceeds ₹ 10,000 but does not exceed ₹ 20,000	₹ 1,000 plus 20% of the amount by which the total income exceeds ₹ 10,000
(iii)	Where the total income exceeds ₹ 20,000	3,000 plus 30% of the amount by which the total income exceeds ₹ 20,000

Notes –

- (1) **A co-operative society, resident in India**, can opt on or before the due date of return of income for concessional rate of tax i.e., @22% under section 203 subject to certain conditions specified thereunder.
- (2) Special rates for capital gains under sections 196, 197 and 198 would be applicable to Co-operative society also.
- (3) Sections relating to co-operative societies shall be dealt with in detail at the final level.

Surcharge

- (a) **In case of a co-operative society (other than a co-operative society opting for section 203), whose total income > ₹ 1 crore but ≤ ₹ 10 crore**

Where the total income exceeds ₹ 1 crore but does not exceed ₹ 10 crore, surcharge is payable at the rate of 7% of income-tax computed in accordance with the slab rates given above and/ or section 196 or section 197 or section 198.

Marginal Relief

Marginal relief is available in case of such co-operative societies i.e., the total amount of income-tax (together with surcharge) computed on total income should not exceed the amount determined as per the following formula -

$W_n = U_n + V_n$	
W_n	Total amount beyond which the total amount payable as income-tax and surcharge thereon shall not exceed
U_n	Total amount payable as income-tax on ₹ 1 crore
V_n	Total income – ₹ 1 crore

(b) In case of a co-operative society (other than a co-operative society opting for section 203), whose total income > ₹ 10 crore

Where the total income exceeds ₹ 10 crore, surcharge is payable at the rate of 12% of income-tax computed in accordance with the slab rates given above and/ or section 196 or 197 or 198.

Marginal Relief

Marginal relief is available in case of such co-operative societies i.e., the total amount of income-tax (together with surcharge) computed on total income should not exceed the amount determined as per the following formula –

Wn = Un + Vn	
Wn	Total amount beyond which the total amount payable as income-tax and surcharge thereon shall not exceed
Un	Total amount payable as income-tax and surcharge, if applicable on ₹ 10 crore
Vn	Total income – ₹ 10 crore

(c) In case of a co-operative society opting for section 203

Surcharge @10% of income-tax computed under section 203 would be leviable. Since there is no threshold limit for applicability of surcharge, consequently, there would be no marginal relief.

5.4 Domestic Company

Income-tax

If the total turnover or gross receipt in the tax year 2024-25 ≤ ₹ 400 crore	25% of the total income
For a domestic company exercising option u/s 200 ⁸	22% of the total income [Subject to certain conditions specified u/s 200 and 205]
In any other case	30% of the total income
Note - Special rates for capital gains under sections 196, 197 and 198 would be applicable to domestic company also.	

⁸ Section 200 relating to companies shall be dealt with in detail at the final level.

Surcharge

(a) In case of a domestic company (other than a domestic company opting for section 200), whose total income > ₹ 1 crore but ≤ ₹ 10 crore

Where the total income exceeds ₹ 1 crore but does not exceed ₹ 10 crore, surcharge is payable at the rate of 7% of income-tax computed in accordance with the rates given above and/ or sections 196, 197 and 198.

Marginal Relief

Marginal relief is available in case of such companies i.e., the total amount of income-tax (together with surcharge) computed on total income should not exceed the amount determined as per the following formula -

Wn = Un + Vn	
Wn	Total amount beyond which the total amount payable as income-tax and surcharge thereon shall not exceed
Un	Total amount payable as income-tax on ₹ 1 crore
Vn	Total income (–) ₹ 1 crore

(b) In case of a domestic company (other than a domestic company opting for section 200), whose total income > ₹ 10 crore

Where the total income exceeds ₹ 10 crore, surcharge is payable at the rate of 12% of income-tax computed in accordance with the rates given above and/ or sections 196, 197 and 198.

Marginal Relief

Marginal relief is available in case of such companies i.e., the total amount of income-tax (together with surcharge) computed on total income should not exceed the amount determined as per the following formula -

Wn = Un + Vn	
Wn	Total amount beyond which the total amount payable as income-tax and surcharge thereon shall not exceed
Un	Total amount payable as income-tax and surcharge, if applicable on ₹ 10 crore
Vn	Total income (–) amount of ₹ 10 crore

(c) In case of a domestic company opting for section 200

Surcharge @10% of income-tax computed under section 200 would be leviable. Since there is no threshold limit for applicability of surcharge, consequently, there would be no marginal relief.

5.5 Foreign Company**Income-tax**

Royalties and fees for rendering technical services (FTS) received from Government or an Indian concern in pursuance of an agreement, approved by the Central Government, made by the company with the Government or Indian concern between 1.4.1961 and 31.3.1976 (in case of royalties) and between 1.3.1964 and 31.3.1976 (in case of FTS)	50%
Other income	35%

Special rates for capital gains under sections 196, 197 and 198 would be applicable to foreign company also.

Surcharge**(a) In case of a foreign company, whose total income > ₹ 1 crore but ≤ ₹ 10 crore**

Where the total income exceeds ₹ 1 crore but does not exceed ₹ 10 crore, surcharge is payable at the rate of 2% of income-tax computed in accordance with the rates given above.

Marginal Relief

Marginal relief is available in case of such companies i.e., the total amount of income-tax (together with surcharge) computed on total income should not exceed the amount determined as per the following formula -

$W_n = U_n + V_n$	
W_n	Total amount beyond which the total amount payable as income-tax and surcharge thereon shall not exceed
U_n	Total amount payable as income-tax on ₹ 1 crore
V_n	Total income (–) ₹ 1 crore

(b) In case of a foreign company, whose total income > ₹ 10 crore

Where the total income exceeds ₹ 10 crore, surcharge is payable at the rate of 5% of income-tax computed in accordance with the rates given above.

Marginal Relief

Marginal relief is available in case of such companies i.e., the total amount of income-tax (together with surcharge) computed on total income should not exceed the amount determined as per the following formula -

Wn = Un + Vn	
Wn	Total amount beyond which the total amount payable as income-tax and surcharge thereon shall not exceed
Un	Total amount payable as income-tax and surcharge, if applicable on ₹ 10 crore
Vn	Total income (–) ₹ 10 crore



11.	Mr. X, a resident individual, was born on 1st April, 1967. While computing tax liability for T.Y. 2026-27 under the optional tax regime, he claimed the benefit of higher basic exemption limit applicable to senior citizens. The Assessing Officer denied the claim on the ground that he actually completes 60 years only on 1st April, 2027. Which of the following is correct?
(a)	Mr. X is not a senior citizen during T.Y. 2026-27
(b)	Mr. X will be treated as senior citizen only from T.Y. 2027-28
(c)	Mr. X would be treated as having attained the age of 60 years on 31st March, 2027
(d)	Higher basic exemption limit is available only under default tax regime
12.	Mr. K earned the following income during T.Y. 2026-27: ◆ Salary income: ₹ 18 lakhs ◆ STCG under section 196: ₹ 4 lakhs

♦ Lottery winnings: ₹ 2 lakhs Which of the following incomes would be taxable at special rates irrespective of tax regime?	
(a)	Salary income only
(b)	Salary income and STCG only
(c)	STCG under section 196 and lottery winnings
(d)	Lottery winnings only



6. REBATE FOR RESIDENT INDIVIDUALS [SECTION 156]

In order to provide tax relief to the individual taxpayers, section 156 provides a rebate from the tax payable by an assessee, being an **individual resident in India**.

I. Rebate to resident individual paying tax under default tax regime u/s 202(1)

Where the total income of a resident individual assessee for any tax year is chargeable to tax under section 202(1), then from income-tax (computed before allowing the deduction under this section) following deductions shall be allowed, if

(a) **total income does not exceed ₹ 12,00,000** -

- 100% of the income-tax or

- ₹ 60,000,

whichever is less.

ILLUSTRATION 9

Mr. Raghav aged 26 years and a resident in India, has a total income of ₹ 10,50,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for tax year 2026-27 under default tax regime under section 202(1).

SOLUTION

Computation of tax liability of Mr. Raghav for tax year 2026-27

Particulars	₹
Tax on total income of ₹ 10,50,000	
Tax@10% of ₹ 2,50,000 plus ₹ 20,000	45,000
Less: Rebate u/s 156 (Lower of tax payable or ₹ 60,000)	45,000
Tax Liability	Nil

- (b) **total income exceeds ₹ 12,00,000** and the income-tax on such total income exceeds the amount by which the total income is in excess of ₹ 12,00,000
- an amount equal to the amount by which the income-tax on such total income
 - is in excess of the amount by which the total income exceeds ₹ 12,00,000.

In simple terms, if the total income of the resident individual computed under section 202(1) exceeds ₹ 12,00,000 and income-tax payable on such total income exceeds the amount by which the total income is in excess of ₹ 12,00,000, the rebate would be as follows.

Step 1 – Total income (-) ₹ 12 lakhs **(A)**

Step 2 - Compute income-tax liability on total income **(B)**

Step 3 - If **B > A**, rebate under section 156 would be a **B – A**.

Note - The deduction under section 156 should not exceed income-tax payable as per the rates provided in section 202(1). It implies that deduction against tax payable on income taxable at special rates such as LTCG taxable under section 197 or 198, STCG taxable under section 196 would not be available.

ILLUSTRATION 10

Mr. Pawan aged 35 years and a resident in India, has a total income of ₹ 12,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for tax year 2026-27 under default tax regime under section 202(1)

SOLUTION**Computation of tax liability of Mr. Pawan for tax year 2026-27**

Particulars	₹	
Step 1: Total Income of ₹ 12,15,000 - ₹ 12,00,000	15,000	(A)
Step 2: Tax on total income of ₹ 12,15,000 Tax@15% of ₹ 15,000 + ₹ 60,000	62,250	(B)
Step 3: Since B>A, rebate u/s 156 would be B-A [₹ 62,250 - ₹ 15,000]	47,250	
	15,000	
Add: HEC@4%	600	
Tax Liability	15,600	

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

An individual resident in India, is entitled to a deduction of

- 100% of income-tax payable or
- ₹ 12500,

whichever is less,

from the income-tax (computed before allowing the deduction under this section) chargeable on the total income for any tax year **if such total income does not exceed ₹ 5,00,000.**

Note - Rebate is, however, not available in respect of tax payable on long-term capital gains taxable u/s 198 under the optional tax regime. It implies that rebate would be available against tax payable on LTCG u/s 197 or on STCG u/s 196.

ILLUSTRATION 11

Mr. Piyush, aged 35 years and a resident in India, has a total income of ₹ 4,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for tax year 2026-27 if he exercises the option to shift out of the default tax regime.

SOLUTION

Computation of tax liability of Mr. Piyush for tax year 2026-27

Particulars	₹
Tax on total income of ₹ 4,15,000	
Tax@5%of ₹ 1,65,000	8,250
Less: Rebate u/s 156 (Lower of tax payable or ₹ 12,500)	8,250
Tax Liability	Nil



Rebate under section 156 is allowed from income-tax computed **before adding** Health and education cess on income-tax.



7. PARTIAL INTEGRATION OF AGRICULTURAL INCOME WITH NON-AGRICULTURAL INCOME

Agricultural income is exempt subject to conditions mentioned in the definition given under section 2(5). However, a method has been laid down to levy tax on agricultural income in an indirect way. This concept is known as **partial integration of agricultural income with non-agricultural income**. It is applicable to individuals, HUF, AOPs, BOIs and artificial juridical persons. Two conditions which need to be satisfied for partial integration are:

1. The net agricultural income should exceed ₹ 5,000 p.a., and
2. Non-agricultural income should exceed the maximum amount not chargeable to tax.

Tax Regime	Basic Exemption Limit
Default Tax Regime u/s 202(1)	₹ 4,00,000
Optional Tax Regime	
- for resident individuals of the age of 80 years or more at any time during the tax year	₹ 5,00,000

- for resident individuals of the age of 60 years or more but less than 80 years at any time during the tax year	₹ 3,00,000
- for all others	₹ 2,50,000

It may be noted that aggregation provisions do not apply to company, LLP, firm, co-operative society and local authority. The object of aggregating the net agricultural income with non-agricultural income is to tax the non-agricultural income at higher rates.

Tax calculation in such cases is as follows:

Income-tax shall be computed as per the following formula:

$Z_n = X_n - Y_n$	
Zn	Income-tax chargeable
Xn	Amount of income-tax determined in respect of the Aggregate Income (AIn) as if such AIn were the total income [Note - Tax shall be computed as per the rates specified under default tax regime u/s 202(1) or optional tax regime, as the case may be]
Yn	Amount of income-tax determined in respect of the net agricultural income increased by applicable basic exemption limit, as if the net agricultural income as so increased were the total income
Aggregate Income (AIn)	Total income + Net agricultural income.

The sum (**Zn**) so arrived at shall be –

- increased by surcharge, if applicable,
- reduced by the rebate, if any, available u/s 156.

Thereafter, it would be increased by health and education cess @4%.

The above concept can be clearly understood with the help of the following illustration:

ILLUSTRATION 12

Mr. X, a resident, has provided the following particulars of his income for the tax year 2026-27.

- i. Income from salary (computed) - ₹ 15,80,000
- ii. Income from house property (computed) - ₹ 2,50,000
- iii. Agricultural income from a land in Jaipur - ₹ 4,80,000
- iv. Expenses incurred for earning agricultural income - ₹ 1,70,000

Compute his tax liability for tax year 2026-27 assuming his age is -

- (a) 45 years
- (b) 70 years

SOLUTION

(a) Computation of tax liability (age 45 years)

Computation of total income of Mr. X for the tax year 2026-27 under default tax regime under section 202(1)

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

- Net agricultural income exceeds ₹ 5,000 p.a., and
- Non-agricultural income exceeds the basic exemption limit under default regime i.e., ₹ 4,00,000.

His tax liability is computed in the following manner:

Particulars	₹	₹
Income from salary		15,80,000
Income from house property		2,50,000
Net agricultural income [₹ 4,80,000 – ₹ 1,70,000]	3,10,000	
Less: Exempt under schedule II (Table SI No. 1)	(3,10,000)	-
Gross Total Income		18,30,000
Less: Deductions under Chapter VIII		-
Total Income		18,30,000
Income-tax [Refer Note Below]		2,19,500
Add: Health and Education Cess @4%		8,780
Tax Liability		2,28,280

Note -

Income tax	$Z_n = X_n - Y_n$ ₹ 2,19,500 = ₹ 2,35,000 – ₹ 15,500
X_n	Tax on Aggregate Income (Aln) i.e., Total Income + Net agricultural income Aln = ₹ 21,40,000 (₹ 18,30,000 + ₹ 3,10,000) Tax on ₹ 21,40,000 = ₹ 2,35,000 (i.e., 5% of ₹ 4,00,000 <i>plus</i> 10% of ₹ 4,00,000 <i>plus</i> 15% of ₹ 4,00,000 <i>plus</i> 20% of ₹ 4,00,000 <i>plus</i> 25% of ₹ 1,40,000)
Y_n	Tax on (net agricultural income + basic exemption limit) = ₹ 7,10,000 (₹ 3,10,000, net agriculture income + ₹ 4,00,000, Basic Exemption Limit) Tax on ₹ 7,10,000 = ₹ 15,500 (i.e. 5% of ₹ 3,10,000)

**Computation of total income of Mr. X for the tax year 2026-27
under normal provisions of the Act**

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.,

1. Net agricultural income exceeds ₹ 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit under normal provisions i.e., ₹ 2,50,000.

His tax liability is computed in the following manner:

Particulars	₹	₹
Income from salary		15,80,000
Income from house property		2,50,000
Net agricultural income [₹ 4,80,000 – ₹ 1,70,000]	3,10,000	
Less: Exempt under schedule II (Table SI No. 1)	(3,10,000)	-
Gross Total Income		18,30,000
Less: Deductions under Chapter VIII		-
Total Income		18,30,000
Income-tax [Refer Note Below]		4,30,000
Add: Health and Education Cess @4%		17,200
Tax Liability		4,47,200

Note -

Income tax	$Z_n = X_n - Y_n$ ₹ 4,30,000 = ₹ 4,54,500 – ₹ 24,500
X_n	Tax on Aggregate Income (A _n) i.e., Total Income + Net agricultural income A _n = ₹ 21,40,000 (₹ 18,30,000 + ₹ 3,10,000) Tax on ₹ 21,40,000 = ₹ 4,54,500 (i.e., 5% of ₹ 2,00,000 <i>plus</i> 20% of ₹ 5,00,000 <i>plus</i> 30% of ₹ 11,40,000)
Y_n	Tax on (net agricultural income + basic exemption limit) = ₹ 5,60,000 (₹ 3,10,000, net agriculture income + ₹ 2,50,000, Basic Exemption Limit) Tax on ₹ 5,60,000 = ₹ 24,500 (i.e. 5% of ₹ 2,50,000 <i>plus</i> 20% of ₹ 60,000)

(b) Computation of tax liability (age 70 years)

**Computation of total income of Mr. X for the tax year 2026-27
under default tax regime under section 202(1)**

Tax liability of Mr. X would be same under default tax regime whether he is of age of 45 years or 70 years i.e., ₹ 2,28,280.

**Computation of total income of Mr. X for the tax year 2026-27
under normal provisions of the Act**

His tax liability is computed in the following manner:

Particulars	Amount (₹)
Income-tax [Refer Note Below]	4,20,000
Add: Health and Education Cess @4%	16,800
Tax Liability	4,36,800

Note -

Income tax	$Z_n = X_n - Y_n$ ₹ 4,20,000 = ₹ 4,52,000 – ₹ 32,000
X_n	Tax on Aggregate Income (A _n) i.e., Total Income + Net agricultural income A _n = ₹ 21,40,000 (₹ 18,30,000 + ₹ 3,10,000)

	Tax on ₹ 21,40,000 = ₹ 4,52,000 (i.e., 5% of ₹ 2,00,000 <i>plus</i> 20% of ₹ 5,00,000 <i>plus</i> 30% of ₹ 11,40,000)
Yn	Tax on (net agricultural income + basic exemption limit) = ₹ 6,10,000 (₹ 3,10,000, net agriculture income + ₹ 3,00,000, Basic Exemption Limit) Tax on ₹ 6,10,000 = ₹ 32,000 (i.e. 5% of ₹ 2,00,000 <i>plus</i> 20% of ₹ 1,10,000)



13.	Mr. A, aged 45 years, has non-agricultural income of ₹ 3,90,000 and net agricultural income of ₹ 80,000 for T.Y. 2026-27 under the default tax regime under section 202(1). Which of the following is correct regarding applicability of partial integration?
(a)	Partial integration is applicable since agricultural income exceeds ₹ 5,000
(b)	Partial integration is not applicable since non-agricultural income does not exceed the basic exemption limit
(c)	Partial integration is compulsory for every assessee having agricultural income
(d)	Agricultural income becomes fully taxable
14.	XYZ Pvt. Ltd. has agricultural income of 15 lakhs and business income of 80 lakhs. Which of the following is correct?
(a)	Partial integration provisions apply since agricultural income exceeds ₹ 5,000
(b)	Agricultural income becomes taxable at slab rates
(c)	Partial integration provisions do not apply to companies
(d)	Agricultural income is treated as capital gains



LET US RECAPITULATE

Income-tax is the most significant direct tax. **Entry 82 of the Union List** i.e., List I of Seventh Schedule to Article 246 of the Constitution of India has given the power to Parliament to make laws on taxes on income other than agricultural income.

Components of income-tax law

- ◆ **Income-tax Act, 2025** – governs the levy of income-tax in India.
- ◆ **Income-tax Rules, 2026** – formulated for proper administration of the Act.
- ◆ **Annual Finance Act** – Amendments in the Income-tax Act, 2025 are effected every year through the Annual Finance Act.
- ◆ **Circulars** – issued by CBDT to clarify the meaning and scope of certain provisions of the Act.
- ◆ **Notifications** – issued to give effect to the provisions of the Act/ make or amend Rules.
- ◆ **Court decisions** – interprets the various provisions of income-tax law.

Income-tax is a **TAX** levied on the **TOTAL INCOME** of the **TAX YEAR** of every **PERSON**.

(1) Total Income: Total income has to be computed as per the provisions contained in the Income-tax Act, 2025. The following steps has to be followed for computing the total income of an assessee:

Step 1 – Determination of residential status

Step 2 – Classification of income under different heads

Step 3 – Computation of income under each head after providing for permissible deductions/ exemptions.

In this step, it is necessary to consider whether the individual is paying tax under the default tax regime or exercising the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act. Certain deductions which are allowable under the normal provisions of the Act are not permissible under the default tax regime.

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

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

Step 6 – Computation of Gross Total Income

Step 7 – Providing Deductions from Gross Total Income

Step 8 – Computation of Total income

Step 9 - Application of the rates of tax on the total income

For default tax regime, concessional tax rates are provided under section 202(1). For optional tax regime, the tax rates are provided in the Annual Finance Act. The special rates u/s 196, 197, 198, 194 (Table SI No. 1,4,5), 195 etc. would apply under both tax regimes.

Step 10 – Add Surcharge, if applicable/ Deduct Rebate under section 156, if applicable.

Step 11 – Add Health and education cess on income-tax

Step 12 – Compute Alternate Minimum Tax (AMT), if applicable [only under the optional tax regime]

Step 13 - Examine whether to pay tax under default tax regime under section 202(1) or pay tax under optional tax regime as per the regular provisions of the Act, by comparing the tax liability under both regimes.

Step 14 – Deduct Advance tax and tax deducted/ collected at source

Step 15 – The resultant figure would be Tax Payable/Tax Refundable

(2) Person: A person includes an individual, Hindu Undivided Family (HUF), Association of Persons (AOP), Body of Individuals (BOI), a firm, a company etc.

(3) Concept of tax year : Tax year is twelve months period of the financial year commencing on the 1st April. Income earned during the tax year is taxable after that tax year.

Business or profession newly set up during the financial year: In case of a newly set-up business, the tax year would be the period beginning with

- ◆ the date of setting up of the business or profession or
- ◆ the date on which the source of income newly came into existence, and ending on 31st March.

Exceptions to the rule that income is charged to income-tax after the end of that tax year:

The income of an assessee for a tax year is charged to income-tax after the end of that tax year. However, in the following cases, this rule does not apply and the income is taxed in the tax year in which it is earned.

- (i) Shipping business of non-resident [Section 316]
- (ii) Persons leaving India [Section 317]

- (iii) AOP/BOI/Artificial Juridical Person formed for a particular event or purpose [Section 318]
- (iv) Persons likely to transfer property to avoid tax [Section 319]
- (v) Discontinued business [Section 320]

Rate of tax for Unexplained Sources of Income: The following incomes are chargeable to tax @ 39% [i.e., 30% *plus* surcharge @25% *plus* cess @4%] as specified under section 195:

- (i) Unexplained Credits [Section 102]
- (ii) Unexplained Investments [Section 103]
- (iii) Unexplained Asset [Section 104]
- (iv) Unexplained Expenditure [Section 105]
- (v) Amount borrowed or repaid through negotiable instrument, hundi etc. [Section 106]

(4) Tax liability: Tax has to be computed by applying the rates of tax mentioned in the Annual Finance Act and the rate specified under the Income-tax Act, 2025, as the case may be.

If an Individual/ Hindu Undivided Family (HUF)/ Association of Persons (AOP)/ Body of Individuals (BOI)/ Artificial Juridical Person is paying tax under default tax regime, concessional tax rates are specified under section 202(1). However, if he/it exercises the option to shift out of the default tax regime, tax rates provided by the Annual Finance Act of that year would apply.

Persons	Rate of taxes	
	Total income (in ₹)	Rate of Tax
Individual/HUF/ AOP/BOI/ Artificial Juridical Person (Under default tax regime)	Upto ₹ 4,00,000	Nil
	₹ 4,00,001 to ₹ 8,00,000	5%
	₹ 8,00,001 to ₹ 12,00,000	10%
	₹ 12,00,001 to ₹ 16,00,000	15%
	₹ 16,00,001 to ₹ 20,00,000	20%
	₹ 20,00,001 to ₹ 24,00,000	25%
	Above ₹ 24,00,000	30%

Individual (Under optional regime) the tax	Total income (in ₹)		Rate of Tax
	(i) Upto ₹ 2,50,000 (below 60 years)		Nil
	(ii) Upto ₹ 3,00,000 (60 years or above but less than 80 years and resident in India)		
	(iii) Upto ₹ 5,00,000 (above 80 years and resident in India)		
	₹ 2,50,001/ ₹ 3,00,001, as the case may be, to ₹ 5,00,000 [in cases (i) and (ii) above, respectively]		5%
₹ 5,00,001 to ₹ 10,00,000		20%	
Above ₹ 10,00,000		30%	
HUF/AOP/BOI/ Artificial Juridical Person (under the optional tax regime)	Total income (in ₹)		Rate of Tax
	Upto ₹ 2,50,000		Nil
	₹ 2,50,001 to ₹ 5,00,000		5%
	₹ 5,00,001 to ₹ 10,00,000		20%
	Above ₹ 10,00,000		30%
Firm/LLP/local authority	30%		
Co-operative Society (not opting for the provisions of section 203)	Total income (in ₹)		Rate of Tax
	Upto ₹ 10,000		10%
	₹ 10,001 to ₹ 20,000		20%
	Above ₹ 20,000		30%
Company (not opting for the provisions of section 200)	Domestic Company		Foreign Company
	Total turnover or gross receipts in the tax year 2024-25 ≤ ₹ 400 crore	Other domestic companies	
	25%	30%	35%

Surcharge**Under the default tax regime****Individual/ HUF/ AOP (other than an AOP consisting of only companies as members)/ BOI/ Artificial juridical person**

(i)	Where the total income (including dividend or capital gains chargeable to tax u/s 196, 197 and 198) > ₹ 50 lakh but ≤ ₹ 1 crore	10%
(ii)	Where the total income (including dividend or capital gains chargeable to tax u/s 196, 197 and 198) > ₹ 1 crore but is ≤ ₹ 2 crore	15%
(iii)	- Where the total income (excluding dividend or capital gains chargeable to tax u/s 196, 197 and 198) > ₹ 2 crore - Rate of surcharge on the income-tax payable on the portion of dividend or capital gains chargeable to tax u/s 196, 197 and 198	25% Not exceeding 15%
(iv)	Where the total income (including dividend or capital gains chargeable to tax u/s 196, 197 and 198) > ₹ 2 crore in cases not covered in (iii) above	15%

Under the optional tax regime as per the normal provisions of the Act**Individual/ HUF/ AOP (other than an AOP consisting of only companies as members)/ BOI/ Artificial juridical person**

(i)	Where the total income (including dividend or capital gains chargeable to tax u/s 196, 197 and 198) > ₹ 50 lakh but is ≤ ₹ 1 crore	10%
(ii)	Where the total income (including dividend or capital gains chargeable to tax u/s 196, 197 and 198) > ₹ 1 crore but is ≤ ₹ 2 crore	15%
(iii)	- Where the total income (excluding dividend or capital gains chargeable to tax u/s 196, 197 and 198) > ₹ 2 crore but is ≤ ₹ 5 crore - Rate of surcharge on the income-tax payable on the portion of dividend or capital gains chargeable to tax u/s 196, 197 and 198	25% Not exceeding 15%

(iv)	- Where the total income (excluding dividend or capital gains chargeable to tax u/s 196, 197 and 198) > ₹ 5 crore - Rate of surcharge on the income-tax payable on the portion of dividend income or capital gains chargeable to tax u/s 196, 197 and 198	37% Not exceeding 15%
(v)	Where the total income (including dividend or capital gains chargeable to tax u/s 196, 197 and 198) > ₹ 2 crore in cases not covered in (iii) and (iv) above	15%
In case of an AOP of only companies as members		
(i)	Where the total income > ₹ 50 lakh but < ₹ 1 crore	10%
(ii)	Where the total income > ₹ 1 crore	15%
Firm/Limited Liability Partnership/Local Authorities		
	Where the total income > ₹ 1 crore	12%
Co-operative societies (other than a co-operative society opting for section 203)		
	Total income > ₹ 1 crore but ≤ ₹ 10 crore	7%
	Total income is > ₹ 10 crore	12%
Domestic company (other than a domestic company opting for section 200)		
	Total income > ₹ 1 crore but ≤ ₹ 10 crore	7%
	Total income is > ₹ 10 crore	12%
Foreign company		
	Total income > ₹ 1 crore but ≤ ₹ 10 crore	2%
	Total income is > ₹ 10 crore	5%

Rebate under section 156:**I. Rebate under default tax regime u/e 202(1)****If the total income of the resident individual**

(i) ≤ ₹ 12,00,000 – 100% of income-tax or ₹ 60,000, whichever is lower

(ii) > ₹ 12,00,000 and income-tax payable on such total income exceeds the amount by which the total income is in excess of ₹ 12,00,000 - total income as reduced by the total income exceeding ₹ 12,00,000.

II. Rebate under optional tax regime

If the total income of the resident individual $\leq$ ₹ 5,00,000 - 100% of income-tax or ₹ 12,500, whichever is lower.

Note – After deducting rebate u/s 156 add "Health and Education cess" on Income-tax @ 4%.

Agricultural income is exempt under Schedule II (Table SI No. 1).

However, agricultural income has to be aggregated with non-agricultural income for determining the rate at which non-agricultural income would be subject to tax, in case of individuals, HUF, AOPs & BOIs etc., where the –

- agricultural income exceeds ₹ 5,000 p.a. and
- non-agricultural income exceeds basic exemption limit.

In such case, tax would be $Z_n = X_n - Y_n$.

X_n: Tax on Aggregate Income (AIn) i.e., Total Income + Net agricultural income

Y_n: Tax on net agricultural income plus basic exemption limit

On the amount derived as Z_n Deduct Rebate u/s 156 if TI does not exceed the specified limit *add* Surcharge, if TI exceed the specified limit, as the case may be. Thereafter, *add* Health and Education Cess@4%.



TEST YOUR KNOWLEDGE

1. Who is an "Assessee"? Explain
2. State any four instances where the income of the tax year is assessable in the tax year itself instead of the chargeable to tax after the end of that tax year.
3. Whether the income derived from saplings or seedlings grown in a nursery is taxable under the Income-tax Act, 2025? Examine.
4. What are the two schools of Hindu law and where are they prevalent? Explain. Also, mention the difference between the two schools of Hindu Law.
5. What is the difference between an Association of Persons and Body of Individuals?
6. Mr. Sumit, a resident Indian, earns income of ₹ 15 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in India and ₹ 20 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia during the tax year 2026-27. What would be his business income, assuming he has no other business?
7. Mr. Raja, a resident Indian, earns income of ₹ 10 lakhs from sale of coffee grown and cured in India during the tax year 2026-27. His friend, Mr. Shyam, a resident Indian, earns income of ₹ 20 lakhs from sale of coffee grown, cured, roasted and grounded by him in India during the tax year 2026-27. What would be the business income chargeable to tax in India of Mr. Raja and Mr. Shyam?
8. The Mr. Suresh Jain's father HUF in Assam comprises of Mr. Suresh Jain, his wife Mrs. Sapna Jain, his son Mr. Sarthak Jain, his daughter-in-law Mrs. Preeti Jain, his daughter Miss Seema Jain and his unmarried brother Mr. Pritam Jain. Which of the members of the HUF are eligible for coparcenary rights?
9. Compute the tax liability under default tax regime of Mr. Kashyap (aged 35), having total income of ₹ 51,25,000 for the Tax Year 2026-27. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit.
10. Mr. Agarwal, aged 40 years and a resident in India, has a total income of ₹ 6,50,00,000, comprising long term capital gain taxable under section 197 of

₹ 55,00,000, short term capital gain taxable under section 196 of ₹ 65,00,000 and other income of ₹ 5,30,00,000. Compute his tax liability for tax year 2026-27 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes.

11. Mr. Sharma aged 62 years and a resident in India, has a total income of ₹ 2,30,00,000, comprising long term capital gain taxable under section 197 of ₹ 52,00,000, short term capital gain taxable under section 196 of ₹ 64,00,000 and other income of ₹ 1,14,00,000. Compute his tax liability for tax year 2026-27 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes.

ANSWERS

1. As per section 2(11), assessee means a person by whom any tax or any other sum of money is payable under the Income-tax Act, 2025.

In addition, the term includes –

- Every person in respect of whom any proceeding under the Act has been taken for the assessment of –
 - his income; or of the loss sustained by him or refund due to him
 - the income of any other person in respect of which he is assessable; or loss sustained by such other person or refund due to such other person.
- Every person who is deemed to be an assessee under the Act;
- Every person who is deemed to be an assessee in default under the Act.

2. The income of an assessee for a tax year assessed after the end of that tax year. However, in a few cases, the income is assessed in the year in which it is earned. These exceptions have been made to protect the interests of revenue. The exceptions are as follows:

- (i) **Shipping business of non-resident:** Where a ship, belonging to or chartered by a non-resident, carries passengers, livestock, mail or goods shipped at a port in India, the ship is allowed to leave the port only when the tax has been paid or satisfactory arrangement has been made

for payment thereof. 7.5% of the amount paid or payable (including demurrage charge, handling charge or any other charge of similar nature) to the owner or the charterer or to any person on his behalf, whether in India or outside India on account of such carriage is deemed to be his income which is charged to tax in the same year in which it is earned.

- (ii) **Persons leaving India:** Where it appears to the Assessing Officer that any individual may leave India during the current tax year or shortly after its expiry and he has no present intention of returning to India, the total income of such individual for the period beginning from the first day of that current tax year upto up to the probable date of his departure from India is chargeable to tax in that current tax year.
 - (iii) **AOP/BOI/Artificial Juridical Person formed for a particular event or purpose:** If an AOP/BOI etc. is formed or established for a particular event or purpose and the Assessing Officer apprehends that the AOP/BOI is likely to be dissolved in the same year or immediately after such year , the total income of such AOP/BOI for the period beginning from first day of that tax year upto the date of dissolution shall be chargeable to tax in that tax year.
 - (iv) **Persons likely to transfer property to avoid tax:** During the current tax year, if it appears to the Assessing Officer that a person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets to avoid payment of any liability under this Act, the total income of such person for the period beginning from first day of that current tax year upto the date, when the Assessing Officer commences proceedings under this section is chargeable to tax in the current tax.
 - (v) **Discontinued business:** Where any business or profession is discontinued in any tax year, the income of the period beginning from first day of that current tax year upto to the date of such discontinuance may, at the discretion of the Assessing Officer, be charged to tax in that tax year.
3. As per section 2(5)(d), income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income and exempt from tax.
4. The two schools of Hindu law are Dayabhaga school, prevalent in West Bengal and Assam, and Mitakshara school, prevalent in rest of India.

Under the Dayabhaga school of Hindu Law, nobody acquires the right, share in the property by birth as long as the head of family is living. Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property. Hence, the father and his brothers would be the coparceners of the HUF.

Under the Mitakshara school of Hindu Law, one acquires the right to the family property by his birth and not by succession irrespective of the fact that his elders are living. Thus, every child born in the family acquires a right/share in the family property.

5. In order to constitute an Association of Persons (AOP), persons must join for a common purpose or action and their object must be to produce income; it is not enough that the persons receive the income jointly.

Body of Individuals refers to a group of individuals who join together for a common purpose or common income-producing activity.

The difference between an AOP and BOI is that in case of a BOI, only individuals can be the members, whereas in case of AOP, any person can be its member i.e. entities like company, firm etc. can be the member of AOP but not of BOI.

In case of an AOP, members voluntarily come together with a common will for a common intention or purpose, whereas in case of BOI, such common will may or may not be present.

6. Since Mr. Sumit is a resident, his global income would be taxable in India. Income of ₹ 20 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia would be his business income since it is from rubber plants grown **outside India**. 35% income from sale of rubber manufactured from latex obtained from rubber plants grown by him in India would be taxable as business income and balance 65% would be exempt as agricultural income.

Business income = 35% of ₹ 15 lakhs + ₹ 20 lakhs = ₹ 25.25 lakhs

7. In case of income derived from the sale of coffee grown and cured by the seller in India, 25% income on such sale is taxable as business income. In case of income derived from the sale of coffee grown, cured, roasted and

(C) **Tax payable: lower of (A) and (B)** ₹ 12,05,000

Add: Health and education cess @4% ₹ 48,200

Tax liability **₹ 12,53,200**

(D) **Marginal Relief (A – B)** ₹ 24,250

10. Computation of tax liability of Mr. Agarwal for the tax year 2026-27 under default tax regime

Particulars	₹
<u>Tax on total income of ₹ 6,50,00,000</u>	
Tax@12.50% of ₹ 55,00,000	6,87,500
Tax@20% of ₹ 65,00,000	13,00,000
Tax on other income of ₹ 5,30,00,000	
₹ 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 – ₹ 20,00,000 @20%	80,000
₹ 20,00,001 – ₹ 24,00,000 @25%	1,00,000
₹ 24,00,001 – ₹ 5,30,00,000 @30%	1,51,80,000
	1,74,67,500
Add: Surcharge @15% on ₹ 19,87,500	2,98,125
@25% on ₹ 1,54,80,000	38,70,000
	2,16,35,625
Add: Health and education cess @4%	8,65,425
Tax Liability	2,25,01,050

Computation of tax liability of Mr. Agarwal for the tax year 2026-27 under normal provisions of the Act

Particulars	₹
<u>Tax on total income of ₹ 6,50,00,000</u>	
Tax@12.50% of ₹ 55,00,000	6,87,500
Tax@20% of ₹ 65,00,000	13,00,000
Tax on other income of ₹ 5,30,00,000	
₹ 2,50,000 – ₹ 5,00,000 @5%	12,500

₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,000 – ₹ 5,30,00,000 @30%	1,56,00,000	1,57,12,500
		1,77,00,000
Add: Surcharge @15% on ₹ 19,87,500	2,98,125	
@37% on ₹ 1,57,12,500	58,13,625	61,11,750
		2,38,11,750
Add: Health and education cess @4%		9,52,470
Tax Liability		2,47,64,220

**11. Computation of tax liability of Mr. Sharma for the tax year 2026-27
under default tax regime**

Particulars	₹
<u>Tax on total income of ₹ 2,30,00,000</u>	
Tax@12.5% of ₹ 52,00,000	6,50,000
Tax@20% of ₹ 64,00,000	12,80,000
Tax on other income of ₹ 1,14,00,000	
₹ 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 – ₹ 20,00,000 @20%	80,000
₹ 20,00,001 – ₹ 24,00,000 @25%	1,00,000
₹ 24,00,001 – ₹ 1,14,00,000 @30%	27,00,000
	30,00,000
	49,30,000
Add: Surcharge @15%	7,39,500
	56,69,500
Add: Health and education cess @4%	2,26,780
Tax Liability	58,96,280

**Computation of tax liability of Mr. Sharma for the T.Y.2026-27
under normal provisions of the Act**

Particulars	₹
<u>Tax on total income of ₹ 2,30,00,000</u>	
Tax@12.5% of ₹ 52,00,000	6,50,000

Tax@20% of ₹ 64,00,000	12,80,000
Tax on other income of ₹ 1,14,00,000	
₹ 3,00,000 – ₹ 5,00,000 @5%	10,000
₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000
₹ 10,00,000 – ₹ 1,14,00,000 @30%	31,20,000
	51,60,000
Add: Surcharge @15%	7,74,000
	59,34,000
Add: Health and education cess @4%	2,37,360
Tax Liability	61,71,360



Q. NO.	ANSWERS	
1	(b)	No tax shall be levied or collected except by authority of law
2	(a)	Only (i)
3	(c)	Daughters are also coparceners with effect from 6th September, 2005
4	(c)	Foreign company
5	(b)	1.9.2026 to 31.3.2027
6	(c)	Non-agricultural income, since the land is treated as urban agricultural land
7	(b)	Agricultural income, since ownership of land is not necessary
8	(b)	Residential status
9	(c)	Not allowable as deduction under section 14
10	(c)	Mr. X would be treated as having attained the age of 60 years on 31 st March, 2027
11	(c)	STCG under section 196 and lottery winnings
12	(b)	Partial integration is not applicable since non-agricultural income does not exceed the basic exemption limit.
13	(c)	Partial integration provisions do not apply to companies