

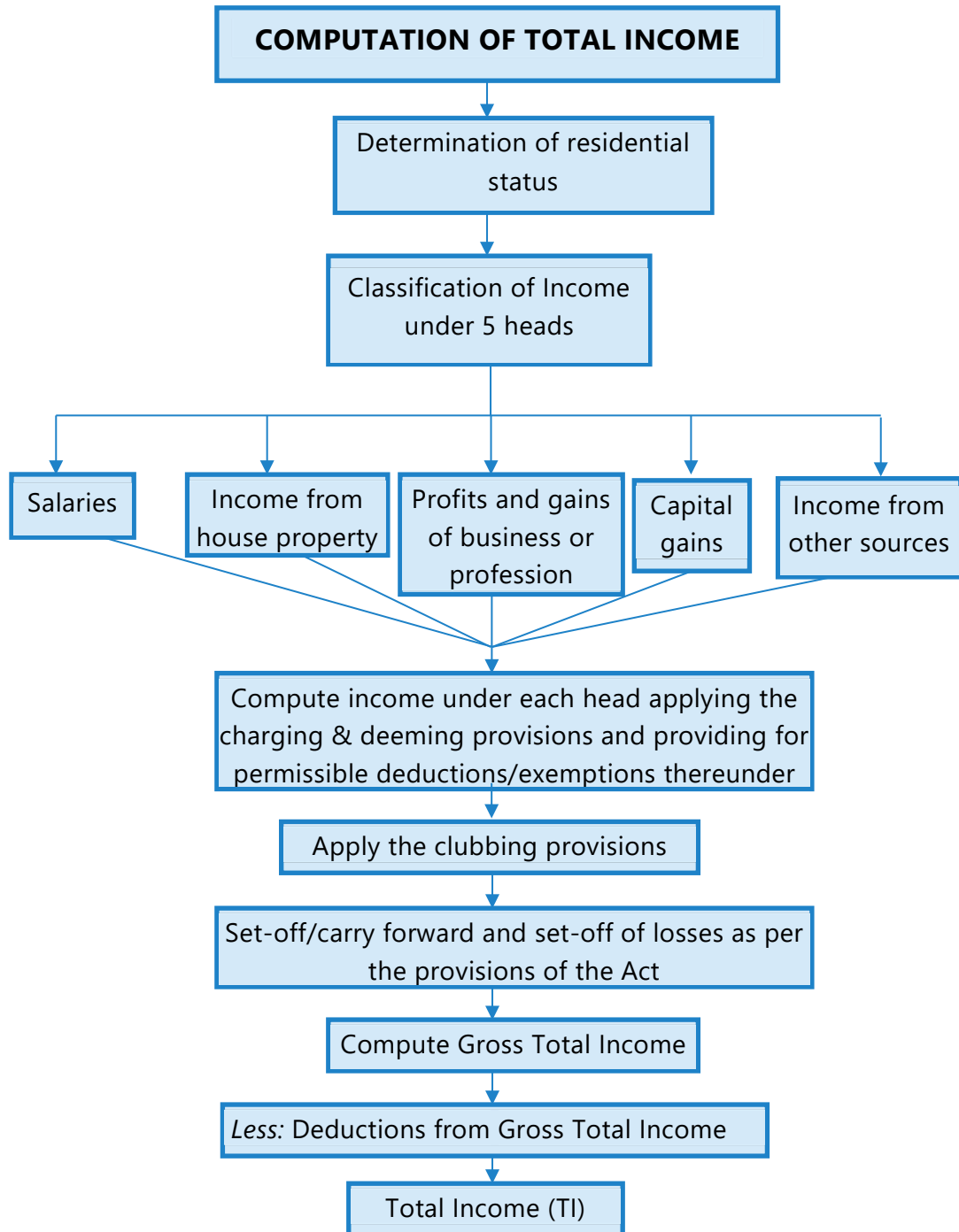
INCOME TAX LIABILITY - COMPUTATION AND OPTIMISATION



LEARNING OUTCOMES

After studying this chapter, you would be able to–

- ◆ **compute** the tax liability of an individual under the default tax regime under section 202(1);
- ◆ **compute** the tax liability of an individual as per the optional tax regime of the Income-tax Act, 2025;
- ◆ **examine** the applicability of the provisions of Alternate Minimum Tax (AMT), if applicable and compute the tax liability applying such provisions and determine the tax credit, if any, to be carried forward;
- ◆ **compare** the tax liability computed under the default tax regime under section 202(1) with the tax as per the optional tax regime (including provisions relating to AMT, if applicable) and determine which is more beneficial to the individual.

CHAPTER OVERVIEW



1. MEANING OF TOTAL INCOME

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



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

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

(3)	As a member of HUF	(i) Share of income of HUF is exempt in the hands of the member [Schedule III Table: Sl.No.1]. (ii) Income from an impartible estate of HUF is taxable in the hands of the holder of the estate who is the eldest member of the HUF. (iii) Income from self-acquired property converted into joint family property, without adequate consideration.
(4)	Income of other persons included in the income of the individual	(i) Transferee's income, where there is a transfer of income without transfer of assets (ii) Income arising to transferee from a revocable transfer of an asset. In cases (i) and (ii), income is includible in the hands of the transferor. (iii) Income of spouse as mentioned in section 99(1)(a)(i)/(ii) (iv) Income from assets transferred otherwise than for adequate consideration to any person for the benefit of spouse [Section 99(1)(d)]. (v) Income from assets transferred otherwise than for adequate consideration to son's wife or to any person for the benefit of son's wife [Section 99(1)(b)/(d)]. (vi) Income of minor child as mentioned in section 99(1)(c).



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

Income-tax is levied on an assessee's total income. Such total income has to be computed as per the provisions contained in the Income-tax Act, 2025. Steps 1 to 8 given hereunder have to be followed to compute the total income of an individual assessee. Thereafter, steps 9 to 15 have to be followed to compute the tax payable.

Step 1 – Determination of residential status

- ◆ The residential status of an individual has to be determined to ascertain which income is to be included in computing the total income.
- ◆ In the case of an individual, the duration for which he is present in India in the relevant tax year or relevant tax year and the preceding tax years, as the case may be, determine his residential status.
- ◆ An individual can be either a –
 - Resident and ordinarily resident
 - Resident but not ordinarily resident
 - Non-resident
- ◆ An individual would be deemed to be resident in India for a tax year if he
 - is a citizen of India;
 - is not liable to tax in any other country or territory due to his domicile, residence or similar criteria; and
 - has total income (other than the income from foreign sources) exceeding ₹ 15 lakhs during such tax year.

Such deemed resident would, by default, be a resident but not ordinarily resident in India in that tax year.

- ◆ The residential status of an individual determines the scope of his taxable income.
- ◆ Income which accrues outside India and is received outside India is taxable in the hands of a resident and ordinarily resident but is not taxable in the case of a non-resident. In the case of a resident but not ordinarily resident, such income would be taxable only if it is derived from a business controlled in India or profession set up in India.

Step 2 – Classification of income under different heads

- ◆ An individual may earn income from different sources. Under the Income-tax Act, 2025, for computation of total income, all income of an individual assessee can be classified into five different heads of income.

- ◆ There are five heads of income, namely, -
 - Salaries,
 - Income from house property,
 - Profits and gains of business or profession
 - Capital Gains
 - Income from other sources
- ◆ The income of an assessee should be identified and grouped under the respective head of income.
- ◆ Each head of income has a charging section (for example, section 15 for salaries, section 20 for income from house property).
- ◆ Deeming provisions are also contained under certain heads, by which specific items are sought to be taxed under those heads.



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

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

Step 3 – Computation of income under each head

- ◆ Income is to be computed as per the provisions governing a particular head of income.
- ◆ Assess the income under each head by -
 - applying the charging and deeming provisions,
 - excluding items of income relating to that head in respect of which specific exemptions are provided in schedules read with section 11.

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

Also, some incomes are partially exempt from income-tax. These incomes are excluded while computing income under the relevant head only to the extent of the limits specified in the Act. *For e.g. House Rent Allowance, Children Education Allowance are exempt upto prescribed limits under the optional tax regime. However, there is no exemption for these allowances under the default tax regime under section 202(1).*

- allowing the permissible deductions under that head, and



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

- disallowing the non-permissible deductions.



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

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

- ◆ In this step, it is necessary to consider whether the individual is paying tax under the default tax regime or exercising the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act. Certain deductions which are allowable under the normal provisions of the Act are not permissible under the default tax regime, *For e.g. additional depreciation, investment linked tax deduction under section 46, contribution to scientific research association, national laboratory, IIT etc. However, expenditure on in-house scientific research related to the business of the assessee is allowable as deduction under both the tax regimes.*



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

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



EXAMPLE

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

- ◆ In order to prevent evasion of income-tax by such means, clubbing provisions have been incorporated in the Act, under which income arising to certain persons (like spouse, son's wife etc.) have to be included in the income of the person who has diverted his income to such persons for the purpose of computing tax liability.
- ◆ Further, income of a minor child, not being a minor child suffering from any disability of the nature specified under section 154 (other than Income from work done by child or from activities where skill, talent or specialised knowledge / experience is applied) is includible in the hands of the parent whose total income excluding minor's income is greater. Such income will be included in the hands of the parent and if that parent has exercised the option to shift out of the default tax regime and pays tax under normal provisions of the Act, exemption of up to ₹ 1,500 under Schedule III (Table: S. No. 17) would be provided from that income.

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

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

◆ **Inter-source set-off of losses**

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

The loss of one business can be set-off against the profits of another business to arrive at the net income under the head "Profits and gains of business or profession". However, loss from speculation business can

be set-off only against profits from speculation business and not any other business.

- Set-off of loss from one source against income from another source within the same head of income is permissible, subject to certain exceptions, like long-term capital loss cannot be set-off against short-term capital gains though short-term capital loss can be set-off against long-term capital gains.

♦ **Inter-head set-off of losses**

- Likewise, set-off of loss from one head against income from another head is also permissible, subject to certain exceptions, like business loss cannot be set-off against salary income; loss under the head "Capital Gains" cannot be set-off against any other head of income.
- Loss from house property cannot be set-off against any other head of income, if the individual pays tax under the default tax regime under section 202(1).

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

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

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



Business loss can be carried forward for a maximum of 8 tax years immediately succeeding the tax year for which the loss was first computed to be set-off against business

income. However, loss from specified business referred to in section 46 can be carried forward indefinitely for set-off against income from any specified business.

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



Share of loss from a partnership firm cannot be set-off against sole proprietary business income of the partner, since share of income of the firm is exempt under Schedule III (Table: Sl.No.2).

Step 6 – Computation of Gross Total Income

- ♦ The income computed under each head, after giving effect to the clubbing provisions and provisions for set-off and carry forward and set-off of losses, have to be aggregated to arrive at the gross total income.
- ♦ The process of computing GTI is depicted hereunder -

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

Step 7 – Deductions from Gross Total Income

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

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

Section	Nature of Payment/Deposit
123	Payment of life insurance premium, tuition fees of children, deposit in public provident fund, repayment of housing loan etc.
126	Health insurance premium paid by an individual/HUF for the specified persons/ contribution to CGHS etc.

129	Payment of interest on educational loan taken for self or relative
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◆ **Deduction in respect of certain incomes, for example,**

Section	Nature of Income
144	Deduction in respect of units established in Special Economic Zones
151	Royalty income of authors of certain books other than text books
152	Royalty on patents

◆ **Deduction in respect of other incomes**

Section	Nature of Income
153	Interest on deposits with a bank, co-operative society and post office.

◆ **Other Deductions**

Deduction under section 154 in case of a person with disability

There are limits in respect of deduction under certain sections. The payments/incomes are allowable as deduction subject to such limits. For example, the maximum deduction under section 151 is ₹ 3 lakhs; under section 153 is ₹ 10,000/ ₹ 50,000, as the case may be.

Note - Deduction under section 124(1)/(2) [Employer's contribution to pension scheme of Central Government], section 125(2) [Central Government's contribution to assessee's account in Agniveer Corpus Fund] and section 146 would be available even if the eligible assessee pays tax at concessional rates of tax u/s 202(1) under the default tax regime.

Step 8 – Computation of Total income

- ◆ The gross total income as reduced by the above deductions under Chapter VIII is the total income.

Total income = GTI – Deductions under Chapter VIII

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

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

◆ **Concessional tax rates under default tax regime under section 202(1) of the Income-tax Act, 2025**

For individuals, there is a slab rate and basic exemption limit. At present, the basic exemption limit is ₹ 4,00,000 under the default tax regime. The rates of tax and level of total income are as under –

	Total income (in ₹)	Rate of Tax
(i)	Upto ₹ 4,00,000	NIL
(ii)	From ₹ 4,00,001 to ₹ 8,00,000	5%
(iii)	From ₹ 8,00,001 to ₹ 12,00,000	10%
(iv)	From ₹ 12,00,001 to ₹ 16,00,000	15%
(v)	From ₹ 16,00,001 to ₹ 20,00,000	20%
(vi)	From ₹ 20,00,001 to ₹ 24,00,000	25%
(vii)	Above ₹ 24,00,000	30%

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

The slab rates for tax year 2026-27 applicable to Individual under normal provisions of the Act are as follows:

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

- ◆ The rates of tax have to be applied on the total income to compute the tax liability.

- ◆ Rates of tax in respect of certain incomes are provided under the Income-tax Act, 2025 itself. Slab rates are not applicable under both the tax regimes in respect of such incomes. For instance, the rates of tax for long term capital gains on certain assets, long term capital gain on other assets, certain short term capital gains, winnings from lotteries, crossword puzzles, races and winnings from online games etc. are prescribed in sections 198, 197, 196, 194(1) (Table: Sl. No. 1) and 194(1) (Table: Sl. No. 5), respectively.
- ◆ The special rates of tax have to be applied on the respective component of total income and the general slab rates have to be applied on the balance of total income as per the tax regime in which he pays tax.
- ◆ The unexhausted basic exemption limit can, however, be adjusted against long-term capital gains taxable under section 198/197 and short-term capital gains taxable under section 196 in case of resident individual in both the tax regime.

Step 10 – Surcharge/ Rebate under section 156

Surcharge

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

In case the assessee pays tax under default tax regime under section 202(1)

The rates of surcharge applicable for tax year 2026-27, in case the individual assessee pays tax under default regime under section 202(1), are as follows:

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

	197 and 198, the rate of surcharge on the amount of income-tax computed in respect of that part of income	
(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%

In case the assessee exercises the option to shift out of the default regime

The rates of surcharge applicable for tax year 2026-27, in case the individual assessee exercises the option to shift out of the default regime, are as follows:

	Particulars	Rate of surcharge on income-tax
(i)	Where the total income (including dividend income and capital gains chargeable to tax u/s 196, 197 and 198) > ₹ 50 lakhs but ≤ ₹ 1 crore	10%
(ii)	Where total income (including dividend income and capital gains chargeable to tax u/s 196, 197 and 198) > ₹ 1 crore but ≤ ₹ 2 crore	15%
(iii)	Where total income (excluding dividend income and capital gains chargeable to tax u/s 196, 197 and 198) > ₹ 2 crore but ≤ ₹ 5 crore	25%
	Where the total income includes any dividend income or capital gains chargeable to tax u/s 196, 197 and 198, the rate of surcharge on the amount of income-tax computed in respect of that part of income	Not exceeding 15%
(iv)	Where total income (excluding dividend income and capital gains chargeable to tax u/s 196, 197 and 198) > ₹ 5 crore	37%
	Where the total income includes any dividend income or capital gains chargeable to tax u/s 196, 197 and 198, the rate of surcharge on the amount of income-tax computed in respect of that part of income	Not exceeding 15%

(v)	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) and (iv) above	15%
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Marginal relief would also be available under both the tax regimes to ensure that the increase in amount of tax payable (including surcharge) due to increase in total income of an assessee beyond the prescribed limit should not exceed the amount of increase in total income.

Rebate u/s 156

Section 156 provides a rebate from the tax payable by an assessee, being an individual resident in India.

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

- (i) If the total income of the resident individual for any tax year is chargeable to tax under section 202(1) and the total income of such individual **does not exceed ₹ 12,00,000**, the rebate shall be equal to
- the amount of income-tax payable or
 - **₹ 60,000**,
- whichever is less.
- (ii) If the total income of the resident individual for any tax year is chargeable to tax under section 202(1) and the total income of such individual **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 payable on total income (B)

Step 3 - If $B > A$, rebate under section 202(1) would be a $B - A$.

In both the above situations, rebate shall 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.

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

If total income of such individual **does not exceed ₹ 5,00,000**, the rebate shall be equal to

- ♦ the amount of income-tax payable or
- ♦ **₹ 12,500**,

whichever is less.

However, rebate under section 156 shall be allowed from the income-tax on the total income as reduced by tax payable on capital gain chargeable to tax u/s 198. It implies that rebate would be available against tax payable on LTCG u/s 197 or on STCG u/s 196.

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

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

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

$$\begin{array}{rclclcl}
 \text{Total Tax} & = & \text{Tax on total} & (+) & \text{Surcharge, at} & (+) & \text{HEC@} \\
 \text{Liability of} & & \text{income at} & & \text{applicable rates, if} & & 4\% \\
 \text{an individual} & & \text{applicable rates} & & \text{total income} > & & \\
 & & & & \text{₹ 50 lakhs,} & & \\
 & & & & \text{or} & & \\
 & & & (-) & \text{Rebate u/s 156} & &
 \end{array}$$

Step 12 – Alternate Minimum Tax (AMT)

The Income-tax Act, 2025 contains profit-linked and investment-linked deductions in order to encourage investment in various industries and infrastructure facilities. Taxpayers who exercise the option to shift out of the default tax regime and are

eligible to claim such deductions end up paying no income-tax or marginal income-tax though they are capable of paying higher taxes. It has to be kept in mind that our Government also needs regular/consistent inflow of tax, which is one of its major source of revenue, to fund various expenses for the welfare of the country. Hence, in order to ensure payment of reasonable tax by such zero-tax paying/marginal-tax paying entities, the concept of alternate minimum tax has been introduced in the Act.

Section 206(2) contains special provisions for levy of alternate minimum tax in case of persons other than a company¹. Any person other than a company, who has claimed any deduction under any section (other than section 149) included in Chapter VIII Part C – Deductions in respect of certain incomes” or under section 46 would be subject to AMT [Section 206(2)(c)].

The provisions of AMT would, however, not be applicable to

- ◆ a person whose income-tax payable in respect of the total income of such person is computed under section 202(1) or
- ◆ an individual, HUF, AOPs, BOIs, whether incorporated or not, or artificial juridical person, if the adjusted total income of such person does not exceed ₹ 20 lakh [Section 206(2)(d)].

Note - At intermediate level, since profit-linked deductions provided under section 138 to 143, section 145, 147, 148, 149, 150 have been excluded from the scope of syllabus by way of Study Guidelines and computation of total income and tax liability is restricted to individual assessee only, the discussion in relation to AMT in this chapter is limited with respect to deduction under section 46 and deduction under section 144, 146, 151 & 152 only.

Accordingly, where the regular income-tax payable for a tax year by a person, other than a company as per the normal provisions of the Income-tax Act, 2025 is less than the AMT payable for such tax year, the adjusted total income shall be deemed to be the total income of that person for such year and he shall be liable to pay income-tax equal to the AMT [Section 206(2)(a)].

AMT means the amount of tax computed on adjusted total income @18.5% plus surcharge, if applicable, and HEC@4% [Section 206(2)(b)(ii)].

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

“Adjusted total income” would mean the total income before giving effect to section 206(2)(a) as increased by deductions claimed, if any, under

- (i) any section (other than section 149) included in Chapter VIII Part C - Deductions in respect of certain incomes [For Intermediate level, the relevant sections are 144, 146, 151 & 152]; and
- (ii) section 46, as reduced by the depreciation allowable as per section 33, as if no deduction under section 46 was allowed in respect of the asset on which such deduction is claimed.

Tax credit for AMT [Section 206(2)(e)/(g)]

Where AMT is paid by an assessee, then, credit shall be allowed to him of an amount which shall be the excess of AMT over the regular income-tax payable of that year.

Such tax credit shall be carried forward and set-off against in a year, when the regular income-tax exceeds the AMT and such set off in respect of brought forward tax credit shall be allowed for any tax year to the extent of the excess of regular income-tax over the AMT for that tax year.

The carry forward shall not be allowed beyond the 15 tax years immediately succeeding the tax year in which the tax credit becomes allowable.

Step 13 – Examine whether to pay tax under default regime under section 202(1) or pay tax under the optional tax regime as per the regular provisions of the Act

In case of an assessee not having income from business or profession:

In case of individuals not having income from business or profession, the total income and tax liability may be computed every year, both in accordance with default tax regime under section 202(1) and regular provisions of the Act (including provisions relating to AMT, if applicable), in order to determine which is more beneficial and accordingly, decide whether or not to shift out of the default tax regime.

In effect, such individual can choose whether or not to exercise the option of shifting out in each tax year. He may choose to pay tax under default regime under section 202(1) in one year and exercise the option to shift out of default tax regime in another year.

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

In case of individuals having income from business or profession, the total income and tax liability may be computed, both in accordance with default tax regime under section 202(1) and regular provisions of the Act (including provisions relating to AMT, if applicable), in order to determine which is more beneficial.

Such individuals have an option to shift out/opt out of the default tax regime 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 such option, once exercised, would apply to subsequent tax years.

Such person who has exercised the above option of shifting out of the default regime for any tax year shall be able to withdraw such option only once and pay tax under the default regime under section 202(1) for a tax year other than the year for which it was exercised.

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

Step 14 – Credit for advance tax, TDS and TCS

- ◆ Tax is deductible at source on payment of salary, rent, interest, fees for professional services, royalty etc.
- ◆ The payer has to deduct tax at source at the rates specified in section 393.
- ◆ Such tax deducted at source has to be reduced by the payee to determine his net tax liability.
- ◆ Tax is collectible by the seller in case of certain goods at the rate specified in section 394. Credit of such tax collection at source is allowable to determine the net tax liability.
- ◆ The Income-tax Act, 2025 also requires payment of advance tax in instalments during the tax year itself on the basis of estimated income, if the amount of tax payable during that year, after reducing TDS/TCS, is ₹ 10,000 or more.
- ◆ An individual is required to pay advance tax in four instalments, on or before 15th June, 15th September, 15th December and 15th March of the financial year.

- ◆ Assessee who declares profits and gains as per the presumptive taxation provisions under section 58(2) (Table: Sl. No. 1 or 3) shall pay the whole advance tax on or before 15th March of the financial year.
- ◆ From the total tax due, deduct the TDS, TCS and advance tax paid for the relevant tax year to arrive at the net tax liability.

Net tax liability = Gross tax liability – TDS – TCS - Advance tax paid

Step 15 - Tax Payable/ Tax Refundable

After adjusting the advance tax, tax deducted and collected at source, the assessee would arrive at the amount of net tax liability or refundable. Such amount should be rounded off to the nearest multiple of ₹ 10. The assessee has to pay the amount of net tax liability along with the interest and fee payable before or at the time of filing of the return. Similarly, if any refund is due, assessee will get the same after filing the return of income.

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



4. TAX PLANNING IN RESPECT OF SALARY INCOME

The definition of salary is very wide and includes not only monetary salary but also benefits and perquisites in kind. Under the default tax regime under section 202(1), all the deductions available under section 19(1) are allowable except deduction at Table: Sl. No. 1 i.e., deduction for professional tax. Further, there are many exemptions under schedule III in respect of allowances received from employer which are not available under the default tax regime under section 202(1).

The following are some of the aspects which can be considered for tax planning in regard to salary income -

- (1) **Salary Structure:** An employer may plan the salary structure of employees keeping in view the deductions and exemptions available under the Act. If salary is paid as a consolidated amount, without any break-up, the amount of salary after providing standard deduction of upto ₹ 50,000 (under optional regime) and ₹ 75,000 (under default regime), would become taxable without any further exemption and deduction. Therefore, the employer may structure

the salary by including various allowances and perquisites in addition to basic salary, so as to enable the employee to optimise his tax liability.

For example, the employer may include allowances as part of the salary structure of the employees for which exemption can be claimed under Rule 280 if the employee exercises the option to shift out of the default tax regime, e.g. Children education allowance, hostel allowance, etc. The employer will get a deduction of all the above amounts paid while computing his profits and gains of business or profession.

Further, if the employee exercises the option to shift out of the default tax regime, the employer can give such allowances like special compensatory allowance, compensatory modified field area allowance depending upon the place of posting of the employee. Some exemptions are available in respect of these allowances. In this connection, Rule 280 specifies the exempt allowances. The employer has to make a careful study and fix the salary structure in such a manner that it will include allowances which are exempt.

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

For example, gratuity received by an employee under the Payment of Gratuity Act, 1972 is exempt upto ₹ 20 lakh. The provident fund received by the employee from recognised provident fund is exempt, subject to limits and conditions. The employer can institute such welfare schemes for the benefit of the employees. Such amount contributed by the employer towards the above funds is deductible under section 29 subject to the conditions specified therein. Further, the employer can contribute to recognized provident fund account of the employee without any limit and the same would not be taxable in the hands of the employees. The aggregate amounts of any contribution in excess of ₹ 7,50,000 in a tax year, made in a recognised provident fund, in NPS referred to in section 124(1) and in an approved superannuation fund by the employer to the account of the assessee, would be taxable as perquisite in the hands of the employee. Likewise, interest accrued during the tax year on RPF shall not be eligible for exclusion from total income where it is attributable to the contribution (including aggregate thereof) made by that person on or after 1st April, 2021 and employee's contribution to RPF exceeds ₹ 2,50,000 p.a. or ₹ 5,00,000 p.a., as the case may be, depending on whether

the employer contributes to RPF. The detailed provisions have been dealt with in Unit 1 of Chapter 3.

- (3) **Insurance policies:** Any payment made by an employer on behalf of an employee to maintain a life policy will be treated as perquisite in the hands of the employee. Further, payments received from the employer in respect of keyman insurance policies constitute income in the hands of the employees. However, any sum paid by the employer in respect of any premium paid by the employee to effect or to keep in force an insurance on his health or the health of any member of his family under any scheme approved by the Central Government or IRDA for the purpose of section 126 is not a perquisite in the hands of the employee.

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

In respect of accident insurance policies, the term perquisite applies to only such sums in regard to which there was an obligation on the part of the employer to pay and a vested right on the part of the employee. If the employee has no vested interest in the policy, it cannot be considered as a perquisite. In cases where an employer takes out accident insurance policy covering all workmen and staff members and pays insurance premium and whenever any worker/staff member meets with an accident and the amount of claim is received from the insurance company and the same is paid away by the employer to the said worker or his family members, the premium paid by the employer in respect of group accident policies could not be considered as a perquisite³. The amount received from insurance company on accident or death by employee or his dependents will not also be in the nature of income but a capital receipt and therefore the same will not be taxable.

- (4) **Dearness allowance, dearness pay:** The employer should ensure that dearness allowance and dearness pay should form part of "salary". This is because certain items like commuted pension etc. are calculated on the basis of salary. Therefore, if dearness allowance, dearness pay etc. are included in

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

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

salary, the above benefits will also increase leading to higher terminal benefits in the hands of the employee.

Also, for determining the exemption in respect of house rent allowance etc., dearness allowance forming part of pay for retirement benefits is included within the meaning of "Salary".

- (5) **Leave travel facility:** If the employee exercises the option to shift out of the default tax regime, the employer should avail leave travel facility. Under Schedule III (Table: Sl. No. 8), exemption is provided in the hands of the employee in respect of leave travel concession. Such exemption is available for the employee, spouse, children (upto a maximum of 2 children), dependent parents, dependent brothers and dependent sisters.

However, if the employee pays tax under the default tax regime under section 202(1), exemption under schedule III (Table: Sl. No. 8) would not be available.

- (6) **Rent free accommodation / House Rent Allowance (HRA):** An employee should analyse the tax incidence of a perquisite and an allowance, whenever he is given an option, in order to choose the one which is more beneficial to him. In the case of Rent Free Accommodation vs. HRA, it must be noted that the perquisite of rent free accommodation is taxed as per Rule 15(2) of the Income-tax Rules, 2026 and HRA is exempt to the extent mentioned in schedule III (Table: Sl. No. 11) read with Rule 279. However, exemption for HRA would be available only if the employee exercises the option to shift out of the default tax regime. The employee should therefore work out his tax liability and net cash flow under both the options and then, decide on whether to receive HRA or choose a rent free accommodation.
- (7) **Uncommuted/Commuted pension:** Uncommuted pension is fully taxable. Therefore, the employees should get their pension commuted. Deduction for commuted pension is fully allowed in the case of government employees and partly allowed in the case of non-government employees.
- (8) **Provident Fund:** Accumulated balance due to an employee participating in a Recognized Provident Fund (RPF) would be exempt, where an employee who is a member of a recognised provident fund and who resigns after completing five years of continuous service. However, if he resigns before completing five years of continuous service, he should ensure that he joins an organisation which maintains a recognised provident fund. The accumulated balance of the provident fund with the previous employer will

be exempt from tax provided the same is transferred to the new employer who also maintains a recognised provident fund.

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

(9) Tax free perquisites: The following are the perquisites which are exempt from tax–

- (i) Use of computers and laptop by employee;
- (ii) Medical facility in employer's own hospital or a public hospital or Government or other approved hospital;
- (iii) Educational benefit in a school run by employer provided value of benefit does not exceed ₹ 3,000 per month per child.

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

It may be noted that a salaried person has an option to choose whether to pay tax under the default tax regime under section 202(1) or shift out of the default tax regime and pay tax under normal provisions of the Act in each tax year.

Under section 202(1), in respect of his total income, he can not avail certain exemptions/deductions like Leave Travel Concession, special allowance being House Rent Allowance, exemption under schedule III (Table: Sl. No. 12 and 13) (other than those allowable), deduction for professional tax, interest on housing loan on self-occupied property, deductions under Chapter VIII [other than under section 124(1)/(2) and 125(2)] etc. The exemptions allowable, specified in schedule III (Table: Sl. No. 12 and 13) under the default tax regime under section 202(1), include travelling allowance, conveyance allowance and

transport allowance to blind/deaf and dumb/orthopedically handicapped employee.

Therefore, a salaried taxpayer not availing the above deductions/ exemptions or availing a lesser amount of such deductions/ exemptions can analyse his tax liability under default tax regime under section 202(1) *vis-à-vis* the regular provisions of the Income-tax Act, 2025 in each tax year. An employee intending to shift out of the default tax regime has to intimate the same to the employer.

ILLUSTRATION 1

Mr. A, aged 32 years, is employed with XYZ (P) Ltd. on a basic salary of ₹80,000 p.m. He has received transport allowance of ₹15,000 p.m. and house rent allowance of ₹20,000 p.m. from the company for the tax year 2026-27. He has paid rent of ₹25,000 p.m. for an accommodation in Delhi. Mr. A has paid interest of ₹2,10,000 for housing loan taken for the construction of his house in Mumbai. The construction of the house is completed in March, 2027 and his parents live in that house.

Other Information

- ◆ Contribution to PPF - ₹1,50,000
- ◆ Contribution to pension scheme referred to in section 124 - ₹50,000
- ◆ Payment of medical insurance premium for father, who is of the age of 65 - ₹55,000
- ◆ Payment of medical insurance premium for self and spouse - ₹32,000

Compute the total income and tax liability of Mr. A for the T.Y. 2026-27 in the most beneficial manner.

SOLUTION

Computation of total income and tax liability of Mr. A for T.Y. 2026-27 under default tax regime under section 202(1)

Particulars	₹
Salaries	
Basic Salary [₹ 80,000 x 12]	9,60,000
Transport allowance [₹ 15,000 x 12]	1,80,000
HRA received [₹ 20,000 x 12]	2,40,000
Gross salary	13,80,000

Less: Standard deduction u/s 19(1) (Table: Sl. No. 2)	(75,000)
	13,05,000
Income from house property	
Interest on housing loan [Not allowable under default tax regime]	-
Gross Total Income	13,05,000
Less: Deductions under Chapter VIII	
Section 123	
Contribution in PPF	-
Section 124	
Contribution to pension scheme	-
Section 126	
Mediclaim insurance premium for self and parents	-
Total Income	13,05,000
Tax liability	
Tax @5% on ₹ 4,00,000 [₹ 8,00,000 - ₹ 4,00,000] 20,000	
Tax @10% on ₹ 4,00,000 [₹ 12,00,000 - ₹ 8,00,000] 40,000	
Tax @15% on ₹ 1,05,000 [₹ 13,05,000 - ₹ 12,00,000] 15,750	75,750
Add: Health & Education cess @ 4%	3,030
Total Tax Liability	78,780

Computation of total income and tax liability of Mr. A for T.Y. 2026-27 as per optional tax regime

Particulars	₹
Salaries	
Basic Salary [₹ 80,000 x 12]	9,60,000
Transport allowance [₹ 15,000 x 12]	1,80,000
HRA received 2,40,000	
Less: Least of the following exempt u/s schedule III (Table: Sl. No. 11) read with Rule 279 2,04,000	36,000
HRA Received 2,40,000	

Actual rent paid – 1/10 of salary [₹ 3,00,000 – ₹ 96,000]	2,04,000	
50% of salary (Since he is staying in Delhi)	4,80,000	
Gross salary		11,76,000
Less: Standard deduction u/s 19(1) (Table: Sl. No. 2)		(50,000)
		11,26,000
Income from house property		
[Annual Value is Nil. Deduction u/s 22(1)(b) for interest on housing loan would be restricted to ₹ 2,00,000, in case of self-occupied property, which would represent loss from house property]		(2,00,000)
Gross Total Income		9,26,000
Less: Deductions under Chapter VIII		
Section 123		
Contribution to PPF		1,50,000
Section 124(3)		
Own contribution to pension scheme		50,000
Section 126		
Mediclaime insurance premium		
For self and spouse, restricted to	25,000	
For father, who is a senior citizen, restricted to	50,000	
		75,000
Total Income		6,51,000
Tax liability		
Tax @ 5% on ₹ 2,50,000 [₹ 5,00,000 – ₹ 2,50,000]	12,500	
Tax @ 20% on ₹ 1,51,000 [₹ 6,51,000 – ₹ 5,00,000]	<u>30,200</u>	42,700
Add: Health & Education cess @ 4%		1,708
Total Tax Liability		44,408
Total Tax Liability (Rounded Off)		44,410

Since tax liability as per optional tax regime is lower than the tax liability under the default tax regime under section 202(1), it would be beneficial for Mr. A to shift out of the default tax regime for T.Y. 2026-27.

Note: In this case, Mr. A is entitled to exemption under schedule III (Table: Sl. No. 11), benefit of interest on housing loan in respect of self-occupied property and Chapter VIII deductions, owing to which his total income is reduced by ₹ 6,54,000. Hence, in this case, it is beneficial for Mr. A to shift out of the default tax regime for T.Y. 2026-27.

ILLUSTRATION 2

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

SOLUTION

Computation of tax liability of Kadam under both the options

Particulars	Option I – HRA (₹)	Option II – RFA (₹)
Basic Salary (₹ 41,000 x 12 Months)	4,92,000	4,92,000
Perquisite value of rent-free accommodation (10% of ₹ 4,92,000)	N.A.	49,200
House rent Allowance (₹ 7,000 x 12 Months) ₹ 84,000		
Less: Exempt under schedule III (Table: Sl. No. 11) read with Rule 279 – least of the following -		
- 50% of Basic Salary ₹ 2,46,000		
- Actual HRA received ₹ 84,000		
- Rent paid less 1/10 of salary ₹ 22,800 ₹ 22,800	61,200	
Gross Salary	5,53,200	5,41,200
Less: Standard deduction u/s 19(1) (Table: Sl. No. 2)	50,000	50,000
Net Salary	5,03,200	4,91,200
Less: Deduction under Chapter VIII	-	-
Total Income	5,03,200	4,91,200
Tax on total income	13,140	12,060

Less: Rebate under section 156 - Lower of ₹ 12,500 or income-tax of ₹ 12,060, since total income does not exceed ₹ 5,00,000	Nil	12,060
	13,140	Nil
Add: Health and Education cess@4%	526	Nil
Tax liability	13,666	Nil
Tax liability (Rounded off)	13,670	Nil

Cash Flow Statement

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

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



TEST YOUR KNOWLEDGE

1. Compute the tax liability of Mr. Gupta (aged 61) under default tax regime, having total income of ₹ 1,01,50,000 for T.Y.2026-27. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit.
2. Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 02.03.2026 and came to India for the first time on 16.03.2026. She left for USA on 19.9.2026. She returned to India again on 27.03.2027. While in India, she had purchased a show room in Mumbai on 30.04.2026, which was leased out to a company on a rent of ₹ 25,000 p.m. from 01.05.2026. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹ 97,500 upto 31.03.2027. She had received the following cash gifts from her relatives and friends during 1.4.2026 to 31.3.2027:
 - From parents of husband ₹ 51,000
 - From married sister of husband ₹ 11,000
 - From two very close friends of her husband (₹ 1,51,000 and ₹ 21,000)
 - (a) Determine her residential status and compute the total income chargeable to tax along with the amount of tax liability on such income for the T.Y. 2026-27 if she opts out of the default tax regime.
 - (b) Would her residential status undergo any change, assuming that she is a person of Indian origin and her total income from Indian sources is ₹ 18,00,000 and she is not liable to tax in USA?
3. Dr. Niranjana, a resident individual, aged 60 years is running a clinic in Surat. Her Income and Expenditure Account for the year ending March 31st, 2027 is as under:

Expenditure	₹	Income	₹
To Medicine consumed	35,38,400	By Consultation and medical charges	58,85,850
To Staff salary	13,80,000	By Income-tax refund (principal ₹ 5,000, interest ₹ 450)	5,450

To Clinic consumables	1,10,000	By Dividend from units of UTI (Gross)	10,500
To Rent paid	90,000	By Winning from game show on T.V. (net of TDS of ₹ 15,000)	35,000
To Administrative expenses	2,55,000	By Rent	27,000
To Amount paid to scientific research association approved u/s 45(3)	1,50,000		
To Net profit	4,40,400		
	59,63,800		59,63,800

- (i) Rent paid includes ₹ 30,000 paid by cheque towards rent for her residential house in Surat.
- (ii) Clinic equipments are:
- 1.4.2026 Opening W.D.V. - ₹ 5,00,000
- 7.12.2026 Acquired (cost) by cheque - ₹ 2,00,000
- (iii) Rent received relates to residential house property situated at Surat. Gross Annual Value ₹ 27,000. The municipal tax of ₹ 2,000, paid in December, 2026, has been included in "administrative expenses".
- (iv) She received salary of ₹ 7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".
- (v) Dr. Niranjana availed a loan of ₹ 5,50,000 from a bank for higher education of her daughter. She repaid principal of ₹ 1,00,000, and interest thereon ₹ 55,000 during the tax year 2026-27.
- (vi) She paid ₹ 1,00,000 as tuition fee (not in the nature of development fees/ donation) to the university for full time education of her daughter.
- (vii) An amount of ₹ 28,000 has also been paid by cheque on 27th March, 2027 for her health insurance premium.

From the above, compute the total income of Dr. Niranjana for the T.Y. 2026-27 under the default tax regime and optional tax regime as per the normal provisions of the Act.

4. Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2027 reads as follows:

Expenditure	(₹)	Income	(₹)	(₹)
Salary to staff	15,50,000	Fees earned:		
Stipend to articled Assistants	1,37,000	Audit	27,88,000	
		Taxation services	15,40,300	
Incentive to articled Assistants	13,000	Consultancy	12,70,000	55,98,300
		Dividend on shares of X Ltd., an Indian company (Gross)		10,524
Office rent	12,24,000	Income from UTI (Gross)		7,600
Printing and stationery	12,22,000	Honorarium received from various institutions for valuation of answer papers		15,800
Meeting, seminar and conference	31,600	Rent received from residential flat let out		85,600
Purchase of car (for official use)	80,000			
Repair, maintenance and petrol of car	4,000			
Travelling expenses	5,25,000			
Municipal tax paid in respect of house property	3,000			
Net Profit	9,28,224			
	57,17,824			57,17,824

Other Information:

- (i) Allowable rate of depreciation on motor car is 15%.
- (ii) Value of benefits received from clients during the course of profession is ₹ 10,500.
- (iii) Incentives to articled assistants represent amount paid to two articled assistants for passing CA Intermediate Examination at first attempt.
- (iv) Repairs and maintenance of car include ₹ 2,000 for the period from 1-10-2026 to 30-09-2027.
- (v) Salary includes ₹ 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
- (vi) The travelling expenses include expenditure incurred on foreign tour of ₹ 32,000 which was within the RBI norms.
- (vii) Health Insurance Premium on the health of dependent brother and major son dependent on her amounts to ₹ 5,000 and ₹ 10,000, respectively, paid in cash.
- (viii) She invested an amount of ₹ 10,000 in National Saving Certificate.

Compute the total income and tax liability of Ms. Purvi for the T.Y. 2026-27 in a most beneficial manner.

5. Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2027 revealed the following information:

- (1) The net profit was ₹ 11,20,000.
- (2) The following incomes were credited in the profit and loss account:
 - (a) Income from UTI ₹ 22,000 (Gross)
 - (b) Interest on debentures ₹ 17,500 (Gross)
 - (c) Winnings from horse races ₹ 15,000 (Gross)
- (3) It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:
 - Opening stock ₹ 8,000.
 - Closing stock ₹ 12,000.

- (4) ₹ 1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified under section 45(3)(a).
- (5) Salary includes ₹ 20,000 paid to his brother which is unreasonable to the extent of ₹ 2,500.
- (6) Advertisement expenses include 15 gift packets of dry fruits costing ₹ 1,000 per packet presented to important customers.
- (7) Total expenses on car was ₹ 78,000. The car was used both for business and personal purposes. $\frac{3}{4}^{\text{th}}$ is for business purposes.
- (8) Miscellaneous expenses included ₹ 30,000 paid to A & Co., a goods transport operator in cash on 31-1-2027 for distribution of the company's product to the warehouses.
- (9) Depreciation debited in the books was ₹ 55,000. Depreciation allowed as per Income-tax Rules, 2026 was ₹ 50,000.
- (10) Drawings of ₹ 10,000 debited in the books.
- (11) Investment in NSC ₹ 15,000 debited in the books.

Compute the total income of Mr. Y for the tax year 2026-27 under optional tax regime as per normal provisions of the Act.

6. Balamurugan furnishes the following information for the year ended 31-03-2027:

Particulars	₹
Income from textile business	(1,35,000)
Income from house property	(15,000)
Lottery winning (Gross)	5,00,000
Speculation business income	1,00,000
Income by way of salary (Computed)	3,70,000
Long term capital gain u/s 197	70,000

Compute his total income, tax liability and advance tax obligations under default tax regime under section 202(1).

7. Mr. Rajiv aged 50 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2026-27.

Receipts and Payments Account

Receipts	₹	Payments	₹
Opening balance (1.4.2026) Cash on hand and at Bank	12,000	Staff salary, bonus and stipend to articled clerks	21,50,000
Fee from professional services (Gross)	59,38,000	Other administrative expenses	11,48,000
Rent	50,000	Office rent	30,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000	Housing loan repaid to SBI (includes interest of ₹ 88,000)	1,88,000
		Life insurance premium (10% of sum assured)	24,000
		Motor car (acquired in Jan. 2027 by A/c payee cheque)	4,25,000
		Health insurance premium (for self and wife) (paid by A/c Payee cheque)	18,000
		Books bought on 1.07.2026 (annual publications by A/c payee cheque)	20,000
		Computer acquired on 1.11.2026 by A/c payee cheque (for professional use)	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000
		Motor car maintenance	10,000
		Closing balance (31.3.2027) Cash on hand and at Bank	19,15,000
	62,50,000		62,50,000

Following further information is given to you:

- (1) He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of ₹ 5,000. The building was constructed during the year 2010-11, when the housing loan was taken.
- (2) Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
- (3) The written down value of assets as on 1-4-2026 are given below:

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

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

Compute the total income of Mr. Rajiv for the T.Y. 2026-27 assuming that he has shifted out of the default tax regime.

8. From the following details, compute the total income and tax liability of Mr. Siddhant, aged 31 years, of Delhi both as per section 202(1) and as per optional tax regime for the T.Y.2026-27. Advise Mr. Siddhant in which regime he should pay tax for T.Y. 2026-27:

Particulars	₹
Salary including dearness allowance	4,35,000
Bonus	15,000
Salary of servant provided by the employer	12,000
Rent paid by Siddhant for his accommodation	49,600
Bills paid by the employer for gas, electricity and water provided free of cost at the above flat	11,000

Siddhant purchased a flat in a co-operative housing society in Delhi for ₹ 4,75,000 in April, 2017, which was financed by a loan from Life Insurance Corporation of India of ₹ 1,60,000@15% interest, his own savings of ₹ 65,000 and a deposit from a nationalized bank for ₹ 2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was ₹ 3,500 per month. The following particulars are relevant:

- (a) *Municipal taxes paid by Mr. Siddhant* ₹ 4,300 (per annum)
- (b) *House Insurance* ₹ 860
- (c) *He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.*
- (d) *In the year 2022-23, he had gifted ₹ 30,000 to his wife and ₹ 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest @ 19% per annum.*
- (e) *Siddhant received a gift of ₹ 30,000 each from four friends.*
- (f) *He contributed ₹ 50,000 to Public Provident Fund.*
9. *Ramdin, aged 50 years, working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2027:*
- ◆ *Basic Salary* ₹ 15,000 p.m.
 - ◆ *DA (50% of it meant for retirement benefits)* ₹ 12,000 p.m.
 - ◆ *Commission as a percentage of turnover of the Company* 0.5 %
 - ◆ *Turnover of the Company* ₹ 50 lakhs
 - ◆ *Bonus* ₹ 50,000
 - ◆ *Gratuity* ₹ 30,000
 - ◆ *Own Contribution to R.P.F.* ₹ 30,000
 - ◆ *Employer's contribution to R.P.F. 20% of basic salary*
 - ◆ *Interest credited in the R.P.F. account @ 15% p.a.* ₹ 15,000
 - ◆ *Gold Ring worth ₹ 10,000 was given by employer on his 25th wedding anniversary.*
 - ◆ *Music System purchased on 01.04.2026 by the company for ₹ 85,000 and was given to him for personal use.*
 - ◆ *Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of ₹ 6,500 p.m. Books of account are not maintained.*
 - ◆ *Received interest of ₹ 5,860 on bank FDRs on 24.4.2026 and interest of ₹ 7,540 from the debentures of Indian Companies on 5.5.2026.*

- ◆ Made payment by cheques of ₹ 15,370 towards premium on Life Insurance policies and ₹ 22,500 for Health Insurance policy for self and spouse.
- ◆ Invested in NSC ₹ 30,000 and in FDR of SBI for 5 years ₹ 50,000.
- ◆ Donations of ₹ 11,000 to an institution approved u/s 133 and of ₹ 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute his total income and tax liability thereon for the T.Y. 2026-27. Assume that Mr. Ramdin has exercised the option to shift out of the default tax regime.

10. From the following particulars furnished by Mr. X for the year ended 31.3.2027, you are requested to compute his total income and tax payable for the tax year 2026-27, assuming that he opts out of the default tax regime.
- (a) Mr. X retired on 31.12.2026 at the age of 58, after putting in 26 years and 1 month of service, from a private company at Mumbai.
 - (b) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m. during his tenure of service.
 - (c) On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.
 - (d) After retirement, he ventured into textile business and incurred a loss of ₹ 80,000 for the period upto 31.3.2027.
 - (e) Mr. X has deposited ₹ 1,00,000 in public provident fund.
11. Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1992 and settled at Canada since 1992. Mary got married and settled in Mumbai. Both of them are below 60 years. The following are the details of their income for the tax year ended 31.3.2027:

S. No.	Particulars	Rosy ₹	Mary ₹
1.	Pension received from State Government	--	60,000
2.	Pension received from Canadian Government	20,000	--
3.	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000

4.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5.	LIC premium paid	--	10,000
6.	Premium paid to Canadian Life Insurance Corporation at Canada	40,000	--
7.	Health insurance premium paid by A/c Payee Cheque	--	25,000
8.	Deposit in PPF	--	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the total income and tax liability of Mrs. Rosy and Mrs. Mary for the T.Y. 2026-27 and tax thereon assuming both exercised the option to shift out of the default tax regime.

12. Mr. Rishabh, a resident individual, aged 54 years, is engaged in the business of manufacturing clothes. He earned profit of ₹ 82,45,000 as per profit and loss account after debiting and crediting the following items:

- (i) Depreciation ₹ 15,40,000
- (ii) Short term capital gains on transfer of listed equity shares in a company on which STT is paid ₹ 10,00,000
- (iii) He received income-tax refund of ₹ 15,550 which includes interest on refund of ₹ 4,550.
- (iv) Dividend income from Indian companies ₹ 15,00,000

Additional information –

- (i) Mr. Rishabh installed new plant and machinery for ₹ 65 lakhs on 1.10.2026 which was put to use on 1.1.2027. Depreciation (including additional depreciation) on this amount of ₹ 65 lakhs is included in the depreciation debited to profit and loss account which has been computed as per Income-tax Rules, 2026.
- (ii) Mr. Rishabh took a loan from SBI of ₹ 50 lakhs on 15.9.2026 @10.5% p.a. to purchase such plant and machinery. Total interest upto 31.3.2027 has been paid on 31.3.2027 and the same has been debited to profit and loss account.

- (iii) Advance tax paid during the year is ₹ 17,50,000
- (iv) Rishabh purchased goods for ₹ 40 lakhs from Mr. Ram, his brother. The market value of the goods is ₹ 35 lakhs.
- (v) He paid ₹ 40,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is ₹ 5,00,000 and the policy was taken on 1.4.2020.
- (vi) He paid ₹ 45,000 by cheque towards health insurance policy covering himself, his spouse and his children.

You are required to compute the total income and net tax liability after adjusting TDS/TCS/advance tax, if any, by Mr. Rishabh for the T.Y. 2026-27, in the manner so that he can make maximum tax savings.

13. Mr. Sunil, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2027:

- (i) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,95,000. He has paid municipal taxes of ₹ 25,000 for the current financial year. Both these floors are of equal size.
- (ii) As per interest certificate from HDFC bank, he paid ₹ 1,50,000 as interest and ₹ 80,000 towards principal repayment of housing loan borrowed for the above residential building in the year 2020.
- (iii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2019-20. Total turnover of the undertaking was ₹ 400 lakhs, which includes ₹ 150 lakhs from export turnover. Out of ₹ 150 lakhs, only ₹ 120 lakhs have been received in India in convertible foreign exchange on or before 30.9.2027. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹ 40 lakhs.
- (iv) He employed 20 new employees for the said industrial undertaking during the tax year 2026-27. Out of 20 employees, 12 were employed on 1st May 2026 for monthly emoluments of ₹ 18,000 and remaining were employed on 1st September 2026 on monthly emoluments of ₹ 12,000. All these employees participate in recognised provident fund and they are paid their emoluments directly to their bank accounts.
- (v) He earned ₹ 30,000 and ₹ 40,000 as interest on saving bank deposits and fixed deposits, respectively.

- (vi) He also sold his vacant land on 01.12.2026 for ₹ 16 lakhs. The stamp duty value of land at the time of transfer was ₹ 17 lakhs. This land was acquired by him on 15.10.1998 for ₹ 2.80 lakhs. The FMV of the land as on 1st April, 2001 was ₹ 4.8 lakhs and Stamp duty value on the said date was ₹ 4 lakhs. He had incurred registration expenses of ₹ 12,000 at that time.
- (vii) He paid insurance premium of ₹ 40,000 towards life insurance policy of his son, who is not dependent on him.

You are requested to compute total income of Mr. Sunil for the Tax Year 2026-27 under default tax regime.

14. Mr. X, an individual set up a unit in Special Economic Zone (SEZ) in the financial year 2019-20 for production of washing machines. During the financial year 2025-26, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 46. Capital expenditure in respect of warehouse amounted to ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1st April, 2026 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for the T.Y. 2026-27 are as follows:

Particulars	₹
Profit of unit located in SEZ	40,00,000
Export turnover received in India in convertible foreign exchange on or before 30.9.2027	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction under section 46)	1,05,00,000

Compute income-tax (including AMT under section 206(2)) liability of Mr. X for T.Y. 2026-27 both as per section 202(1) and as per regular provisions of the Income-tax Act, 2025 for T.Y. 2026-27. Advise Mr. X whether he should pay tax under default tax regime or normal provisions of the Act.

ANSWERS

1. Computation of tax liability of Mr. Gupta for the T.Y.2026-27 under default tax regime

(A) Income-tax (including surcharge) computed on total income of ₹ 1,01,50,000

₹ 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 – ₹ 1,01,50,000 @30%	<u>₹ 23,25,000</u>
Total	₹ 26,25,000
Add: Surcharge @15%	<u>₹ 3,93,750</u>
	₹ 30,18,750

(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%	<u>₹ 2,58,000</u>
	₹ 28,38,000

Vn = Total Income - ₹ 1 crore ₹ 1,50,000

(B) Wn = Un + Vn ₹ 29,88,000

(C) Tax liability (A) or (B), whichever is lower ₹ 29,88,000

Add: Health and education cess @4% ₹ 1,19,520

Tax liability (including cess) **₹ 31,07,520**

(D) Marginal Relief (A – B) **₹ 30,750**

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

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

Therefore, the residential status of Miss Charlie, an American National, for T.Y.2026-27 has to be determined on the basis of her stay in India during the T.Y.2026-27 and in the 4 years preceding tax year 2026-27.

Her stay in India during the T.Y.2026-27 and in the 4 years preceding tax year 2026-27 are as under:

T.Y. 2026-27

01.04.2026 to 19.09.2026	-	172 days
27.03.2027 to 31.03.2027	-	<u>5 days</u>
Total		<u>177 days</u>

Four years preceding tax year 2026-27

T.Y. 2025-26 [1.4.2025 to 31.3.2026]	-	16 days
T.Y. 2024-25 [1.4.2024 to 31.3.2025]	-	Nil
T.Y. 2023-24 [1.4.2023 to 31.3.2024]	-	Nil
T.Y. 2022-23 [1.4.2022 to 31.3.2023]	-	<u>Nil</u>
Total		<u>16 days</u>

The total stay of the assessee during the relevant tax year in India was less than 182 days and during the four years preceding this year was for 16 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the T.Y. 2026-27.

Computation of total income of Miss Charlie for the T.Y. 2026-27

Particulars	₹	₹
Income from house property		
Show room located in Mumbai remained on rent from 01.05.2026 to 31.03.2027@ ₹ 25,000/- p.m.	2,75,000	
Gross Annual Value [₹ 25,000 x 11] (See Note 1 below)		
Less: Municipal taxes	Nil	
Net Annual Value (NAV)	2,75,000	
Less: Deduction under section 22		
30% of NAV	82,500	
Interest on loan	97,500	1,80,000
		95,000
Income from other sources		
Cash gifts received from non-relatives is chargeable to tax as per section 92(2)(m), if the total value of such gifts exceeds ₹ 50,000.		
- ₹ 50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relative' and gifts from a relative are not chargeable to tax.	Nil	
- ₹ 11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil	
- Gift received from two friends of husband	1,72,000	1,72,000
₹ 1,51,000 and ₹ 21,000 totaling to ₹ 1,72,000 is taxable under section 92(2)(m) since the total of ₹ 1,72,000 exceeds ₹ 50,000. (See Note 2 below)		
Total income		2,67,000

**Computation of tax liability by Miss Charlie for the T.Y. 2026-27
under normal provisions of the Act**

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

Notes:

1. Actual rent received has been taken as the gross annual value in the absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.
2. If the total value of taxable gifts received from non-relatives exceed ₹ 50,000 during the year, the whole amount received (i.e. the total value of taxable gifts received) is taxable. Therefore, the entire amount of ₹ 1,72,000 is taxable under section 92(2)(m).
3. Since Miss Charlie is a non-resident for the T.Y. 2026-27, rebate under section 156 would not be available to her, even though her total income does not exceed ₹ 5 lakhs.

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

If she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 (₹ 18,00,000, in her case), the condition of stay in India for a period exceeding 120 days during the tax year and 365 days in the four years preceding such tax year would be applicable for being treated as a resident. Since her stay in India exceeds 120 days in the T.Y.2026-27 but the period of her stay in India during the four years preceding such tax year is less than 365 days (only 16 days), her residential status as per section 6(2) would continue to be same i.e., non-resident in India.

Further, since she is not a citizen of India, the provisions of section 6(7) deeming an individual to be a resident in India would not get attracted

in her case, even though she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 and she is not liable to pay tax in USA.

Therefore, her residential status would be non-resident in India for the tax year 2026-27.

**3. Computation of total income of Dr. Niranjana for T.Y. 2026-27
under default tax regime**

	Particulars	₹	₹	₹
I	Income from Salary			
	Basic Salary (₹ 7,500 x 12)		90,000	
	Less: Standard deduction u/s 19(1) (Table: Sl. No. 2)		75,000	15,000
II	Income from house property			
	Gross Annual Value (GAV)		27,000	
	Less: Municipal taxes paid		2,000	
	Net Annual Value (NAV)		25,000	
	Less: Deduction u/s 22@30% of ₹ 25,000		7,500	17,500
III	Income from profession			
	Net profit as per Income and Expenditure account		4,40,400	
	Less: Items of income to be treated separately			
	(i) Rent received (taxable under the head "Income from house property")	27,000		
	(ii) Dividend from units of UTI (taxable under the head "Income from other sources")	10,500		
	(iii) Winning from game show on T.V. (net of TDS) (taxable under the head "Income from other sources")	35,000		

	(iv) Income tax refund	5,450	77,950	
			3,62,450	
	Less: Allowable expenditure			
	Depreciation on clinic equipments			
	on ₹ 5,00,000@15%	75,000		
	on ₹ 2,00,000 @ 7.5%	15,000	90,000	
	(On equipments acquired during the year in December 2026, she is entitled to depreciation @50% of normal depreciation, since the same are put to use for less than 180 days during the tax year)			
			2,72,450	
	Add: Items of expenditure not allowable while computing business income			
	(i) Amount paid to scientific research association approved u/s 45(3) (not allowed under default tax regime)	1,50,000		
IV	(i) Rent for her residential accommodation included in Income and Expenditure A/c	30,000		4,54,450
	(ii) Municipal tax paid relating to residential house at Surat included in administrative expenses	2,000	1,82,000	
	IV Income from other sources			
	(a) Interest on income-tax refund		450	
	(b) Dividend from UTI (taxable in the hands of unit holders)		10,500	
	(c) Winnings from TV game show (₹ 35,000 + ₹ 15,000)		50,000	
			60,950	
	Gross Total Income			5,47,900

<i>Less: Deductions under Chapter VIII:</i>			
(a) Section 123 [Not allowed under default tax regime]			Nil
(b) Section 126 [Not allowed under default tax regime]			Nil
(c) Section 129 [Not allowed under default tax regime]			Nil
Total income			5,47,900

**Computation of total income of Dr. Niranjana for T.Y. 2026-27
under normal provisions of the Act**

Particulars	₹	₹
Gross Total Income as per default tax regime		5,47,900
<i>Add:</i> Standard deduction of ₹ 25,000, being the excess amount allowed u/s 202(1)		25,000
<i>Less:</i> Items of expenditure allowable while computing business income under normal provisions of the Act		
100% deduction is allowable in respect of the amount paid to scientific research association allowable under normal provisions of the Act.		1,50,000
Gross Total Income as per normal provisions of the Act		4,22,900
<i>Less: Deductions under Chapter VIII:</i>		
(a) Section 123 - Tuition fee paid to university for full time education of her daughter	1,00,000	
(b) Section 126 – Health insurance premium (fully allowed since she is a senior citizen)	28,000	
(c) Section 129 - Interest on loan taken for higher education is deductible	55,000	1,83,000
Total income		2,39,900

Notes:

- (i) The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head "Income from other sources".
- (ii) Winnings from game show on T.V. should be grossed up for the chargeability under the head "Income from other sources" (₹ 35,000 + ₹ 15,000). Winnings from game show are subject to tax @30% as per section 194(1) (Table: Sl. No. 1).
- (iii) Dr. Niranjana would not be eligible for deduction u/s 134 under normal provisions of the Act, as she owns a house in Surat, a place where she is residing as well as carrying on her profession.

4. Computation of total income and tax liability of Ms. Purvi for the T.Y. 2026-27 under default tax regime under section 202(1)

Particulars	₹	₹
Income from house property (See Working Note 1)		57,820
Profit and gains of business or profession (See Working Note 2)		9,20,200
Income from other sources (See Working Note 3)		33,924
Gross Total Income		10,11,944
Less: Deductions under Chapter VIII [not allowable under default tax regime]		-
Total Income		10,11,944
Total Income (rounded off)		10,11,940
Tax on total income		
Upto ₹ 4,00,000	Nil	
₹ 4,00,001 - ₹ 8,00,000 @5%	20,000	
₹ 8,00,001 - ₹ 10,11,940 @10%	21,194	41,194
Less: Rebate under section 156, since the total income does not exceed ₹ 12 lakhs		41,194
Total tax liability		Nil

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

Particulars	₹	₹
Gross Total Income [Income under the "Income from house property" "Profits and gains from business or profession" and "Income from other sources" would remain the same even if Ms. Purvi opts out of the default tax regime]		10,11,944
Less: Deductions under Chapter VIII (See Working Note 4)		10,000
Total Income		10,01,944
Total Income (rounded off)		10,01,940
Tax on total income		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @5%	12,500	
₹ 5,00,000 - ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,000 – ₹ 10,01,940 @ 30%	582	1,13,082
Add: Health and Education cess @ 4%		4,523
Total tax liability		1,17,605
Total tax liability (rounded off)		1,17,610

Since Ms. Purvi is not liable to pay any tax under default tax regime under section 202(1), it would be beneficial for her to not to exercise the option of shift out of the default tax regime for T.Y.2026-27.

Working Notes:

(1) Income from House Property

Particulars	₹	₹
Gross Annual Value under section 21(1)	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Deduction u/s 22@30% of NAV	24,780	57,820

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

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

Particulars	₹	₹
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed u/s 36(4), since such cash payment exceeds ₹ 10,000	30,000	
(ii) Amount paid for purchase of car is not allowable under section 34(1) since it is a capital expenditure	80,000	
(ii) Municipal taxes paid in respect of residential flat let out	3,000	1,13,000
		10,41,224
Add: Value of benefit received from clients during the course of profession [taxable as business income under section 26(2)(f)]		10,500
		10,51,724
Less: Income credited but not taxable under this head:		
(i) Dividend on shares of X Ltd., an Indian company (taxable under the head “Income from other sources”)	10,524	
(ii) Income from UTI (taxable under the head “Income from other sources”)	7,600	
(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	85,600	1,19,524
		9,32,200
Less: Depreciation on motor car @15% (See Note (i) below)		12,000
		9,20,200

Notes:

- (i) It has been assumed that the motor car was put to use for more than 180 days during the tax year and hence, full depreciation @15% has been provided for under section 33(1).

Note: *Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per section 33(4).*

- (ii) Incentive to articled assistants for passing CA Intermediate examination in their first attempt is deductible under section 34(1).
- (iii) Repairs and maintenance paid in advance for the period 1.4.2027 to 30.9.2027 i.e. for 6 months amounting to ₹ 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- (iv) ₹ 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

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

(4) Deduction under Chapter VIII:

Particulars	₹
Deduction under section 123 (Investment in NSC)	10,000
Deduction under section 126 (See Notes (i) & (ii) below)	Nil
Total deduction under Chapter VIII	10,000

Notes:

- (i) Premium paid to insure the health of brother is not eligible for deduction under section 126, even though he is a dependent, since brother is not included in the definition of "family" under section 126.
- (ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

5. Computation of total income of Mr. Y for the T.Y. 2026-27

Particulars	₹
Profits and gains of business or profession (See Working Note 1 below)	11,21,500
Income from other sources (See Working Note 2 below)	54,500
Gross Total Income	11,76,000
Less: Deduction under section 123 (Investment in NSC)	15,000
Total Income	11,61,000

Working Notes:**1. Computation of profits and gains of business or profession**

Particulars	₹	₹
Net profit as per profit and loss account		11,20,000
Add: Expenses debited to profit and loss account but not allowable as deduction		
Salary paid to brother disallowed to the extent considered unreasonable [Section 36(2)]	2,500	
Motor car expenses attributable to personal use not allowable ($\text{₹ } 78,000 \times \frac{1}{4}$)	19,500	
Depreciation debited in the books of account	55,000	
Drawings (not allowable since it is personal in nature) [See Note (iii)]	10,000	

Investment in NSC [See Note (iii)]	15,000	1,02,000
		12,22,000
<i>Add:</i> Under statement of closing stock		12,000
		12,34,000
<i>Less:</i> Under statement of opening stock		8,000
<i>Less:</i> Contribution to a University approved and notified u/s 45(3)(a) is eligible for 100% deduction. Since whole of the actual contribution (100%) has been debited to profit and loss account, no further adjustment is required.		-
		12,26,000
<i>Less:</i> Incomes credited to profit and loss account but not taxable as business income		
Income from UTI [taxable under the head "Income from other sources"]	22,000	
Interest on debentures (taxable under the head "Income from other sources")	17,500	
Winnings from horse races (taxable under the head "Income from other sources")	15,000	54,500
		11,71,500
<i>Less:</i> Depreciation allowable under the Income-tax Rules, 2026		50,000
		11,21,500

Notes:

- (i) Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction under section 34.
- (ii) Disallowance under section 36(4) is not attracted in respect of cash payment exceeding ₹ 10,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing goods carriages, an increased limit of ₹ 35,000 is

applicable (i.e. payment of upto ₹ 35,000 can be made in cash without attracting disallowance under section 36(4))

- (iii) Since drawings and investment in NSC have been given effect to in the profit and loss account, the same have to be added back to arrive at the business income.
- (iv) In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 2026 is ₹ 50,000. It has been assumed that, in the said figure of ₹ 50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car.

2. Computation of "Income from Other Sources"

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

**6. Computation of total income of Balamurugan
for the T.Y. 2026-27**

Particulars	₹	₹
Salaries	3,70,000	3,70,000
Less: Loss from house property (Cannot be set off against income under any other head)	-	
Profits and gains of business or profession		
Speculation business income	1,00,000	
Less: Business loss of ₹ 1,35,000 set-off to the extent of ₹ 1,00,000	(1,00,000)	
	Nil	
Balance current year business loss of ₹ 35,000 to be set-off against long-term capital gain		
Capital Gains		
Long term capital gain	70,000	

Less: Balance current year business loss set-off	(35,000)	
Long term capital gain after set off of business loss		35,000
Income from other sources		
Lottery winnings (Gross)		5,00,000
Total Income		9,05,000

Computation of tax liability for T.Y.2026-27

Particulars	₹
On total income of ₹ 3,70,000 (excluding lottery winning and LTCG)	Nil
On LTCG of ₹ 5,000 @12.5% (balance unexhausted basic exemption limit of ₹ 30,000 can be adjusted against LTCG taxable u/s 197)	625
On lottery winnings of ₹ 5,00,000 @ 30%	1,50,000
	1,50,625
Add: Health and Education cess @ 4%	6,025
Total tax liability	1,56,650

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under section 194(1) (Table: Sl. No. 1). If the tax has been deducted on lottery income, advance tax liability will not be attracted since the remaining tax liability of ₹ 6,650 (₹ 1,56,650 – ₹ 1,50,000) is less than ₹ 10,000.

Note – Section 425(4) provides that no interest shall be payable in respect of shortfall in the payment of advance tax where the shortfall is on account of capital gain or lottery income and the entire amount of tax payable (after considering TDS, if any) on such income has been paid in the remaining instalments of advance tax which are due. Where no such instalment is due, the entire tax has been paid by 31st March, 2027.

In this case, it has been assumed that tax deductible at source under section 194(1) (Table: Sl. No. 1) has been fully deducted from lottery income. Since the remaining tax liability of ₹ 6,650 (₹ 1,56,650 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

7. Computation of total income of Mr. Rajiv for the T.Y.2026-27

Particulars	₹	₹	₹
Income from house property			
Self-occupied			
Annual value	Nil		
Less: Deduction under section 22(1)(b)			
Interest on housing loan			
50% of ₹ 88,000 = 44,000	44,000		
Loss from self-occupied property		(44,000)	
Let out property			
Annual value (Rent receivable has been taken as the annual value in the absence of other information)	60,000		
Less: Deductions u/s 22			
30% of Net Annual Value 18,000			
Interest on housing loan (50% of ₹ 88,000) 44,000	62,000	(2,000)	
Loss from house property			(46,000)
Profits and gains of business or profession			
Fees from professional services		59,38,000	
Less: Expenses allowable as deduction			
Staff salary, bonus and stipend 21,50,000			
Other administrative expenses 11,48,000			
Office rent 30,000			
Motor car maintenance (10,000 x 4/5) 8,000			
Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting)	Nil	33,36,000	
		26,02,000	
Less: Depreciation			
Motor car ₹ 4,25,000 x 7.5% x 4/5 25,500	25,500		

Books being annual publications@40%	8,000		
Furniture and fittings@10% of ₹ 60,000	6,000		
Plant and machinery@15% of ₹ 80,000	12,000		
Computer@40% of ₹ 50,000	20,000		
Computer (New) ₹ 30,000 @ 40% x 50%	6,000	77,500	25,24,500
Gross Total income			24,78,500
<i>Less: Deductions under Chapter VIII</i>			
Deduction under section 123			
Housing loan principal repayment	1,00,000		
PPF subscription	20,000		
Life insurance premium	24,000		
Total amount of ₹ 1,44,000 is allowed as deduction since it is within the limit of ₹ 1,50,000		1,44,000	
Deduction under section 126			
Health insurance premium paid		18,000	1,62,000
Total income			23,16,500

8. Computation of total income and tax liability of Siddhant under default tax regime under section 202(1) for the T.Y. 2026-27

Particulars	₹	₹
Salary Income		
Salary including dearness allowance		4,35,000
Bonus		15,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	23,000
		4,73,000
<i>Less: Standard deduction under section 19(1) (Table: Sl. No. 2)</i>		75,000
		3,98,000
Income from house property		
Gross Annual Value (GAV) (Rent receivable is taken as	42,000	

GAV in the absence of other information) (₹ 3,500 × 12)		
Less: Municipal taxes paid	4,300	
Net Annual Value (NAV)	37,700	
Less: Deductions under section 22		
(i) 30% of NAV	₹ 11,310	
(ii) Interest on loan from LIC @15% of ₹ 1,60,000 [See Note 2]	₹ 24,000	2,390
Income from speculative business		
Income from share speculation business	2,700	
Less: Loss of ₹ 4,200 from cotton speculation business set-off to the extent of ₹ 2,700	2,700	Nil
Balance loss of ₹ 1,500 from cotton speculation business has to be carried forward to the next year as it cannot be set off against any other head of income.		
Income from Other Sources		
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 99(1)(c) [Exemption under Schedule III (Table: S. No. 17) would not be available]	3,800	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 99(1)(a)(ii)	5,700	
(iii) Gift received from four friends (taxable under section 92(2)(3) as the total value of gift received during the year exceeds ₹ 50,000)	1,20,000	1,29,500
Gross Total Income		5,29,890
Deduction under section 123 [No deduction under Chapter VIII would be allowed as per section 202(2)]		Nil
Total Income		5,29,890
Tax on total income [5% of ₹ 1,29,890 (₹ 5,29,890 - ₹ 4,00,000)]		6,495
Less: Rebate u/s 156, since total income does not exceed ₹ 12,00,000		6,495
Tax liability		Nil

**Computation of total income and tax liability of Siddhant
for the T.Y. 2026-27 under optional tax regime**

Particulars	₹	₹
Gross total income (as per default scheme)		5,29,890
Add: Standard Deduction [₹ 25,000 being excess amount allowed under section 202]		25,000
Less: Exemption under Schedule III (Table: S. No. 17) in respect of interest income of minor son included in the hands of Siddhant		1,500
Gross total income (under optional tax regime)		5,53,390
Less: Deductions under Chapter VIII		
Under section 123 [Contribution to PPF]		50,000
Total Income		5,03,390
Tax on total income [5% of ₹ 2,50,000 + 20% of ₹ 3,390]		13,178
Add: HEC @4%		527
Tax liability		13,705
Tax liability (Rounded off)		13,710

Since his total income under optional tax regime exceeds ₹ 5,00,000, he would not be eligible for rebate under section 156.

Since Mr. Siddhant is not liable to pay any tax under default tax regime under section 202(1), it would be beneficial for him to not to exercise the option of shift out of the default tax regime for T.Y.2026-27.

Notes:

- (1) It is assumed that the entire loan of ₹ 1,60,000 is outstanding as on 31.3.2027;
- (2) Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalized bank, is also in Delhi, he is not eligible for deduction under section 134 in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 134 is that the assessee should not own any residential accommodation in the same place.

**9. Computation of Total Income and tax liability of Mr. Ramdin for
T.Y.2026-27 under optional tax regime**

Particulars	₹	₹
Income from Salaries		
Basic Salary (₹ 15,000 x 12)		1,80,000
Dearness Allowance (₹ 12,000 x12)		1,44,000
Commission on Turnover (0.5% of ₹ 50 lakhs)		25,000
Bonus		50,000
Gratuity		30,000
Employer's contribution to recognized provident fund		-
Interest credited in recognized provident fund account @15% p.a.	15,000	
Less: Exempt upto 9.5% p.a.	9,500	5,500
Gift of gold ring worth ₹ 10,000 on 25 th wedding anniversary by employer (Not a perquisite)		-
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ₹ 85,000		8,500
		4,43,000
Less: Standard deduction under section 19(1) (Table: Sl. No. 2)		50,000
		3,93,000
Profits and Gains of Business or Profession		
Lease of 2 light goods vehicles on contract basis against fixed charges of ₹ 6,500 p.m. In this case, presumptive tax provisions of section 58(2) (Table: Sl. No. 2) will apply i.e. ₹ 7,500 p.m. for each of the two light goods vehicle (₹ 7,500 x 2 x 12). He cannot claim lower profits and gains since he has not maintained books of account.		1,80,000

Income from Other Sources		
Interest on bank FDRs	5,860	
Interest on debentures	7,540	13,400
Gross total Income		5,86,400
<i>Less: Deductions under Chapter VIII</i>		
Section 123		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	1,25,370
Section 126 – Health Insurance premium		22,500
Section 133 (See Note below)		10,600
Total Income		4,27,930
Tax on total income		
Income-tax [5% of ₹ 1,77,930 (i.e., ₹ 4,27,930 – ₹ 2,50,000)]		8,897
<i>Less: Rebate u/s 156, since total income does not exceed ₹ 5,00,000</i>		8,897
Tax liability		Nil

Note:

Deduction under section 133 is computed as under:

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 133 (50% of ₹ 11,000) (amount contributed ₹ 11,000 or 10% of Adjusted Total Income i.e. ₹ 43,853, whichever is lower)	5,500
Total deduction	10,600

Adjusted Total Income = Gross Total Income – Deductions under section 123 and 126 = ₹ 5,86,400 – ₹ 1,47,870 = ₹ 4,38,530.

10. Computation of total income of Mr. X for T.Y.2026-27

Particulars	₹	₹
Income from Salaries		
Basic salary (₹ 25,000 x 9 months)		2,25,000
House rent allowance:		
Actual amount received (₹ 6,000 x 9 months)	54,000	
Less: Exemption under schedule III (Table: Sl. No. 11) read with Rule 279 (Note 1)	36,000	18,000
Gratuity		3,50,000
Gross Salary		5,93,000
Less: Deductions under section 19(1)		
Standard deduction	50,000	
Gratuity received under the Payment of Gratuity Act (Note 2)	3,50,000	4,00,000
		1,93,000
Profits and gains of business or profession		
Business loss of ₹ 80,000 to be carried forward as the same cannot be set off against salary income		Nil
Gross Total income		1,93,000
Less: Deduction under section 123		
Deposit in Public Provident Fund		1,00,000
Total income		93,000
Tax on total income (Nil, since it is lower than the basic exemption limit of ₹ 2,50,000)		Nil

Notes:

- (1) As per schedule III (Table: Sl. No. 11) read with Rule 279, house rent allowance will be exempt to the extent of least of the following three amounts:

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

- (2) Deduction for gratuity of ₹ 3,50,000 is allowed under section 19(1) (Table: Sl. No. 5), being the minimum of the following amounts:

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

11. Computation of total income of Mrs. Rosy and Mrs. Mary for the T.Y. 2026-27

S. No.	Particulars	Mrs. Rosy (Non-resident)	Mrs. Mary (ROR)
		₹	₹
(I) Salaries	Pension received from State Govt. ₹ 60,000		
	Less: Standard deduction u/s 19(1) ₹ 50,000 (Table: Sl. No. 2)	-	10,000
	Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India	-	-
		-	10,000
(II) Income from house property	Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent)	60,000	30,000
	Less: Deduction u/s 22(1)(a)@30%	18,000	9,000
		42,000	21,000

(III) Capital gains			
Long-term capital gain on sale of land at Mumbai		1,00,000	1,00,000
Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid		20,000	2,50,000
		1,20,000	3,50,000
(A) Gross Total Income [(I)+(II)+(III)]		1,62,000	3,81,000
<i>Less: Deductions under Chapter VIII</i>			
1. Deduction u/s 123			
1. LIC Premium paid		-	10,000
2. Premium paid to Canadian Life Insurance Corporation		40,000	-
3. Deposit in PPF		-	20,000
		40,000	30,000
2. Deduction u/s 126 – Health insurance premium paid		-	25,000
		40,000	55,000
(B) Total deduction under Chapter VIII is restricted to income other than capital gains taxable under sections 196 & 197		40,000	31,000
(C) Total income (A-B)		1,22,000	3,50,000
Tax liability of Mrs. Rosy for T.Y.2026-27			
Tax on long-term capital gains @12.5% of ₹ 1,00,000		12,500	
Tax on short-term capital gains @20% of ₹ 20,000		4,000	
Tax on balance income of ₹ 2,000		Nil	
		16,500	
Tax liability of Mrs. Mary for T.Y. 2026-27			
Tax on LTCG @12.5% of ₹ 1,00,000			12,500
Tax on STCG of ₹ 2,50,000 (unexhausted basic exemption limit of ₹ 2,50,000 is adjusted)			Nil
			12,500

Less: Rebate u/s 156 would be lower of ₹ 12,500 or tax liability, since total income does not exceed ₹ 5,00,000		12,500
		Nil
Add: Health and Education cess@4%	660	Nil
Total tax liability	17,160	Nil

Notes:

- (1) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then the long-term capital gains u/s 197/short-term capital gains u/s 196 will be reduced by the unexhausted basic exemption limit and only the balance will be taxed as per rates u/s 197/196. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust unexhausted basic exemption limit against long-term capital gains taxable under section 197 and short-term capital gains taxable under section 196, Mrs. Rosy cannot do so.
- (2) Since long-term capital gains is taxable at the rate of 12.5% and short-term capital gains is taxable at the rate of 20%, it is more beneficial for Mrs. Mary to exhaust her basic exemption limit of ₹ 2,50,000 against short-term capital gains of ₹ 2,50,000.
- (3) Rebate under section 156 would not be available to Mrs. Rosy even though her total income does not exceed ₹ 5,00,000, since she is non-resident for the T.Y. 2026-27.

12. Computation of total income of Mr. Rishabh for T.Y. 2026-27 (under default tax regime under section 202(1))

Particulars		₹	₹	₹
I	Income from business or profession			
	Net profit as per profit and loss account		82,45,000	
	Add: Items of expenditure not allowable while computing business income			
	(i) Interest on loan taken for purchase of plant & machinery	1,53,125		

[Interest from the date on which capital was borrowed for acquisition of asset till the date on which asset was first put to use, not allowable as deduction under section 32(b). Accordingly, interest of ₹ 1,53,125 [₹ 50,00,000 x 10.5% x 3.5/12] has to be added back, since the same is debited to the profit and loss account]			
(ii) Purchase of goods at a price higher than the fair market value [The difference between the purchase price (₹ 40 lakhs) and the fair market value (₹ 35 lakhs) has to be added back as per section 36(2) since the purchase is from a specified person, i.e., his brother and at a price higher than the fair market value]	5,00,000	6,53,125	
Less: Items of income to be treated separately under the respective head of income		88,98,125	
(i) Income-tax refund including interest on refund of ₹ 4,550	15,550		
(ii) Dividend from Indian companies	15,00,000		

	(iii) Short term capital gains on transfer of listed equity shares	10,00,000	25,15,550	
	Less: Depreciation on interest on loan capitalized to plant and machinery ₹ 1,53,125, being the amount of interest on loan taken for purchase of plant and machinery from the date on which capital was borrowed till the date on which asset was first put to use, shall be capitalized Normal depreciation @15% x 50% on such interest		63,82,575	
			11,484	
	Add: Additional depreciation on newly plant and machinery [Not allowable under default tax regime] [₹ 65,00,000 x 20% x 50%]		63,71,091 6,50,000	
				70,21,091
II	Capital Gains Short term capital gains on transfer of listed equity shares			10,00,000
III	Income from Other Sources Interest on income-tax refund Dividend from Indian companies		4,550 15,00,000	15,04,550
	Gross Total Income			95,25,641

Less: Deductions under Chapter VIII			
- Deduction under section 123 [Not allowable under default tax regime]			Nil
- Deduction under section 126 [Not allowable under default tax regime]			Nil
Total Income			95,25,641
Total Income (Rounded off)			95,25,640

Computation of net tax liability under default tax regime

Particulars	₹	₹
Tax on total income of ₹ 95,25,640		
Tax on STCG of ₹ 10,00,000@20% u/s 196		2,00,000
Tax on remaining total income of ₹ 85,25,640		
Upto ₹ 4,00,000	Nil	
₹ 4,00,001 – ₹ 8,00,000 [@5% of ₹ 4 lakhs]	20,000	
₹ 8,00,001 – ₹ 12,00,000 [@10% of ₹ 4 lakhs]	40,000	
₹ 12,00,001 – ₹ 16,00,000 [@15% of ₹ 4 lakhs]	60,000	
₹ 16,00,001 – ₹ 20,00,000 [@20% of ₹ 4 lakhs]	80,000	
₹ 20,00,001 – ₹ 24,00,000 [@25% of ₹ 4 lakhs]	1,00,000	
₹ 24,00,001 – ₹ 85,25,640 [@30% of ₹ 61,25,640]	18,37,692	21,37,692
		23,37,692
Add: Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		2,33,769
		25,71,461
Add: Health and education cess@4%		1,02,858
Total tax liability		26,74,319
Less: Advance tax paid		17,50,000
Net Tax liability		9,24,319
Net Tax Liability (rounded off)		9,24,320

**Computation of total income of Mr. Rishabh under optional tax regime
for T.Y. 2026-27**

Particulars	₹	₹
Gross Total Income as per default tax regime		95,25,641
Less: Additional depreciation on plant and machinery		
- On interest which is capitalised	15,313	
- On cost of plant and machinery [₹ 65 lakhs x 20% x 50%]	6,50,000	6,65,313
Gross Total Income under optional tax regime		88,60,328
- Deduction under section 123	40,000	
Life insurance premium for married daughter [Allowable as deduction though she is not dependent, since child of an individual whether dependent or not falls within the meaning of term "Person". Accordingly, whole of the amount of ₹ 40,000 is allowable as it does not exceed 10% of the ₹ 5, 00,000, being the sum assured]		
- Deduction under section 126	25,000	65,000
Health insurance premium for self, spouse and children [Allowable as deduction, since it is paid otherwise than by way of cash. However, it is to be restricted to ₹ 25,000]		
Total Income		87,95,328
Total Income (Rounded off)		87,95,330

Computation of net tax liability under optional tax regime

Particulars	₹	₹
Tax on total income of ₹ 87,95,330		
Tax on short term capital gains on transfer of listed equity shares @20% u/s 196		2,00,000
Tax on other Income of ₹ 77,95,330		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001- ₹ 77,95,330 [@30% of ₹ 67,95,330]	20,38,599	21,51,099
		23,51,099

Add: Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		2,35,110
		25,86,209
Add: Health and education cess@4%		1,03,448
Total tax liability		26,89,657
Less: Advance tax paid		17,50,000
Net Tax Liability		9,39,657
Net Tax Liability (rounded off)		9,39,660

Since tax payable as per section 202(1) is lower than the tax payable under optional tax regime, it is beneficial for Mr. Rishabh to pay tax under default tax regime under section 202(1) for T.Y. 2026-27.

**13. Computation of total income of Mr. Sunil for T.Y. 2026-27
(under default tax regime under section 202(1))**

	Particulars	₹	₹	₹
I	Income from house property			
	Let out portion [First floor]			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		2,95,000	
	Less: Municipal taxes paid by him in the T.Y. 2026-27 pertaining to let out portion [₹ 25,000/2]		12,500	
	Net Annual Value (NAV)		2,82,500	
	Less: Deduction u/s 22(1)			
	(a) 30% of ₹ 2,82,500	84,750		
	(b) Interest on housing loan [₹ 1,50,000/2]	75,000	1,59,750	
			1,22,750	
	Self-occupied portion [Ground Floor]			
	Annual Value			Nil

	[No deduction is allowable in respect of municipal taxes paid]		
	Less: Interest on housing loan [Not allowable under section 202]	Nil	
		Nil	
	Income from house property		1,22,750
II	Profits and gains of business or profession		
	Income from SEZ unit		40,00,000
III	Capital Gains		
	Long-term capital gains on sale of land (since held for more than 24 months)		
	Full Value of Consideration [Actual consideration of ₹ 16 lakhs, since stamp duty value of ₹ 17 lakhs does not exceed 110% of actual consideration of ₹ 16 lakhs]	16,00,000	
	Less: Cost of acquisition [₹ 4,00,000]	4,00,000	12,00,000
	Cost of acquisition		
	Higher of -		
	- Actual cost ₹ 2.80 lakhs + ₹ 0.12 lakhs = ₹ 2.92 lakhs and		
	- Fair Market Value (FMV) as on 1.4.2001 = ₹ 4.8 lakhs but cannot exceed stamp duty value of ₹ 4 lakhs.		
IV	Income from Other Sources		
	Interest on savings bank deposits	30,000	
	Interest on fixed deposits	40,000	70,000
	Gross Total Income		53,92,750

Less: Deduction under Chapter VIII			
Deduction under section 146			7,12,800
30% of the employee cost of the new employees employed during the T.Y. 2026-27 for 240 days or more during the T.Y. 2026-27 allowable as deduction [30% of ₹ 23,76,000 (12 x 18,000 x 11)]			
As per section 202(2), no deduction under Chapter VIII is allowable except u/s 146			
Total Income			46,79,950

14. Computation of total income and tax liability of Mr. X for T.Y.2026-27 (under default tax regime under section 202(1))

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ		40,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Depreciation under section 33		
On building @10% of ₹ 65 lakhs ⁴ (normal depreciation under section 33 is allowable)	6,50,000	98,50,000
Total Income		1,38,50,000
Computation of tax liability as per section 202(1)		
Tax on ₹ 1,38,50,000		37,35,000
Add: Surcharge@15% (since the total income exceeds ₹ 1 crore but does not exceed ₹ 2 cores)		5,60,250
		42,95,250
Add: Health and Education cess@4%		1,71,810
Total tax liability		44,67,060

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

Notes:

- (1) Deductions u/s 144 and 46 are **not** allowable as per section 202(2). However, normal depreciation u/s 33 is allowable.
- (2) Mr. X is **not** liable to alternate minimum tax u/s 206(2) under default tax regime under section 202(1).

**Computation of total income and tax liability of Mr. X for T.Y.2026-27
(under the regular provisions of the Income-tax Act, 2025)**

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ	40,00,000	
Less: Deduction u/s 144 [See Note (1) below]	16,00,000	
Business income of SEZ unit chargeable to tax		24,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction u/s 46 [See Note (2) below]	65,00,000	
Business income of warehousing facility chargeable to tax		40,00,000
Total Income		64,00,000
Computation of tax liability (under the normal/ regular provisions)		
Tax on ₹ 64,00,000		17,32,500
Add: Surcharge @ 10% (since the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 core)		1,73,250
		19,05,750
Add: Health and Education cess@4%		76,230
Total tax liability		19,81,980

Computation of adjusted total income and AMT liability of Mr. X

Particulars	₹	₹
Total Income (computed above as per regular provisions of income tax)		64,00,000
Add: Deduction under section 144		16,00,000
		80,00,000

Add: Deduction under section 46	65,00,000	
Less: Depreciation under section 33		
On building @ 10% of ₹65 lakhs ⁵	6,50,000	58,50,000
Adjusted Total Income		1,38,50,000
Alternate Minimum Tax@18.5%		25,62,250
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore)		3,84,338
		29,46,588
Add: Health and Education cess@4%		1,17,863
		30,64,451
Tax liability u/s 206(2) (rounded off)		30,64,450

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof *plus* surcharge@15% and cess@4%. Therefore, tax liability as per section 206(2) is ₹ 30,64,450.

Since the tax liability of Mr. X under section 206(2) is lower than the tax liability as computed u/s 202(1), it would be beneficial for him **to opt out of the default tax regime for T.Y. 2026-27**. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess over regular tax.

AMT Credit to be carried forward under section 206(2)

	₹
Tax liability under section 206(2)	30,64,450
Less: Tax liability under the regular provisions of the Income-tax Act, 2025	19,81,980
	10,82,470

Notes:

- (1) Deduction under section 144 in respect of Unit in SEZ =

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

$$40,00,000 \times \frac{80,00,000}{1,00,00,000} \times 50\% = ₹ 16,00,000$$

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

- (2) Deduction for whole of the capital expenditure is available under section 46 for T.Y.2026-27 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.

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

Deduction under section 46 would, however, **not** be available on expenditure incurred on acquisition of land.

In this case, since the capital expenditure of ₹ 65 lakhs (i.e., ₹ 75 lakhs – ₹ 10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y.2025-26 and capitalized in the books of account on 1.4.2026, being the date when the warehouse became operational, ₹ 65,00,000, being 100% of ₹ 65 lakhs would qualify for deduction under section 46.