CHAPTER 1

BASIC CONCEPTS



LEARNING OUTCOMES

After studying this chapter, you would be able to -

- **recap** the basic concepts of income-tax law, its components and the meaning of important terms used;
- **interpret** the provisions of income-tax law by applying the rules of interpretation;
- **examine** whether a receipt is capital or revenue in nature, in the context of the provisions of income-tax law;
- **appreciate** the difference between application of income and diversion of income by overriding title;
- **examine** the circumstances when income of the tax year would be assessed to tax in the tax year itself;
- **appreciate** the differences in the rates of tax and surcharge applicable to different categories of persons;
- **apply** the rates of tax applicable to different components of the total income of a person and the rates of surcharge, wherever applicable, and health and education cess for the purpose of determining the tax liability of such person.

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CHAPTER OVERVIEW

- Components of Income-tax Law
- Rules of Interpretation
- Charge of Income-tax
- Important Definitions
- Rates of Tax & Surcharge

1.1 OVERVIEW OF INCOME TAX LAW IN INDIA

The Constitution of India, in Article 265 lays down that *"No tax shall be levied or collected except by authority of law."* Accordingly, both the levy of tax as well as its collection shall be made under a law framed by the government.



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

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

The following are the lists:

(i) **Union List or List I:** Parliament has the exclusive power to make laws on the matters contained in Union List.

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(ii) **State List or List II:** The Legislatures of any State has the exclusive power to make laws on the matters contained in the State List.

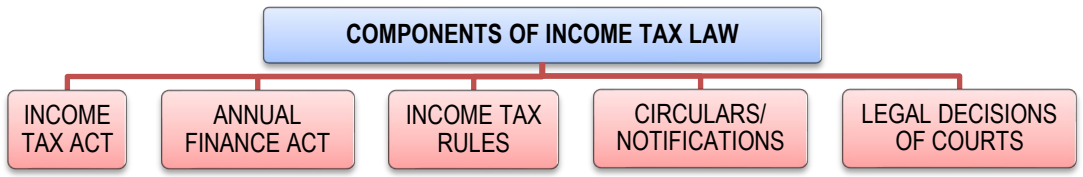
(iii) **Concurrent List or List III:** Both Parliament and State Legislatures have the power to make laws on the matters contained in the Concurrent List.



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

COMPONENTS OF INCOME TAX LAW

Income-tax is a tax levied on the total income of the tax year of every person. A person includes an individual, Hindu Undivided Family (HUF), Association of Persons (AOP), Body of Individuals (BOI), a firm, a company etc. The income-tax law in India consists of the following components –



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

Income-tax Act, 2025

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



- It extends to the whole of India.
- It came into force on 1st April, 2026.
- It contains 23 chapters comprising of 536 sections with 16 schedules.
- It undergoes a change every year by the Annual Finance Act passed by Parliament, and other legislations like the Taxation Laws (Amendment) Act.

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Prior to the Income-tax Act 2025 coming into force, i.e., till 31.03.2026, the levy of income tax in India was governed by the Income-tax Act, 1961. However, irrespective of repeal of the Income-tax Act,1961, its provision shall continue to apply in certain respects including for any proceedings pending on the date of commencement of Income-tax Act, 2025 and any proceeding initiated on or after 1st April, 2026 in respect of tax year beginning before 1st April, 2026.

Repeal and Saving Provisions [Section 536]

Section 536 provides for the repeal of the Income-tax Act, 1961 and lays down transitional provisions to ensure smooth implementation of the Income-tax Act, 2025.

Although the Income-tax Act, 1961 has been repealed, all proceedings, rights, liabilities, assessments, appeals, penalties, refunds, recoveries and other actions relating to tax years beginning before 1st April, 2026 shall continue to be governed by the repealed Act.

The section specifically provides that:

- *Pending assessments, reassessments, appeals, revisions, penalties and other proceedings relating to earlier tax years will continue under the Income-tax Act, 1961.*
- *Rights, obligations and liabilities already created under the repealed Act will remain valid.*
- *Elections, declarations and options exercised under the repealed Act will continue to remain effective under corresponding provisions of the new Act.*
- *Brought forward losses, unabsorbed depreciation, MAT/AMT credit and certain deductions allowed under the repealed Act will continue to be available under the new Act subject to prescribed conditions.*
- *Any violation of conditions relating to deductions or exemptions granted under the repealed Act after 1st April, 2026 will result in taxation under the new Act.*
- *Existing notifications, rules, schemes, circulars and approvals issued under the repealed Act will continue unless inconsistent with the new Act.*
- *Proceedings relating to searches initiated before commencement of the new Act will continue under the provisions of the repealed Act.*

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Further, section 6 of the General Clauses Act, 1897 shall also apply to safeguard the effect of repeal.

Thus, section 536 ensures continuity and protects pending matters and existing rights despite replacement of the Income-tax Act, 1961 by the Income-tax Act, 2025.

***Note** - The provisions of section 536 are covered in detail in Chapter 18: Miscellaneous Provisions*

The Finance Act

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

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

- **Part IB** of the First Schedule to the Finance Act specifies the rates of tax applicable to the current Tax Year. Accordingly, Part IB of the First Schedule to the Finance Act, 2026 specifies the rates of tax for T.Y. 2026-27.
- **Part II** specifies the rates at which tax is deductible at source for the current Tax Year. Accordingly, Part II of the First Schedule to the Finance Act, 2026 specifies the rates at which tax is deductible at source for T.Y. 2026-27.
- **Part III** gives the rates for calculating income-tax for deducting tax from income chargeable under the head "Salaries" and computation of advance tax for the current tax year i.e., T.Y. 2026-27, where the assessee exercises the option under section 202(4) to shift out of the default tax regime.
- **Part IV** contains the rules for computing net agricultural income.

Income-tax Rules, 2026

- The Income-tax Act, 2025 contains the provisions relating to levy and administration of income-tax. However, for effective implementation of these provisions, the Act empowers the Central Board of Direct Taxes (CBDT) or the Central Government to make rules.
- In this regard, the definition of the term "prescribed" may first be

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understood. As per section 2(80), "prescribed" means prescribed by rules made under this Act.

- Therefore, wherever the Act uses the words "in the prescribed manner", "prescribed form" or "prescribed authority", reference has to be made to the Income-tax Rules framed under the Act.
- Thus, the rules derive their authority from the provisions of the Act itself.
- It is important to keep in mind that along with the Income-tax Act, 2025, these rules should also be studied.

Circulars and Notifications

- Circulars are issued by the CBDT from time to time to deal with certain specific problems and to clarify doubts regarding the scope and meaning of certain provisions of the Act.
- Circulars are issued for the guidance of the officers and/or assessees.



- The department is bound by the circulars. While such circulars are not binding on the assessees, they can take advantage of beneficial circulars.
- Certain circulars are issued as **Guidelines**. These Guidelines may be issued with the approval of the Central Government and binding on the income-tax authorities and on the assessee and need to be laid before each House of Parliament.
- Notifications are issued by the Central Government to give effect to the provisions of the Act.



- The CBDT is also empowered to make and amend rules for the purposes of the Act by issuing notifications which are binding on both department and assessees.



Section 2(111) defining "Virtual Digital Asset", provides that the Central Government may, by notification, exclude any digital asset from the definition of Virtual Digital Asset. Therefore, any such digital assets which are so notified by the Central Government shall be excluded from the provisions applicable for a Virtual Digital Asset in the act.

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Case Laws



The study of case laws is an important and unavoidable part of the study of Income-tax law. It is not possible for Parliament to conceive and provide for all possible issues that may arise in the implementation of any Act. Hence the judiciary will hear the disputes between the assessees and the department and give decisions on various issues.

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



The Apex Court or High Court rulings which were issued with respect to the repealed Income-tax Act, 1961 but are still relevant for the purposes of the new Income-tax Act, 2025 are covered in the study material during the discussion of the related provision. Consequently, the reference to section numbers of the repealed Income-tax Act, 1961 are replaced with the section numbers of the Income-tax Act, 2025.

Rules of Interpretation

Rules of Interpretation are principles that have evolved over the years, on account of interpretation of provisions of law by various Courts. These rules help in interpretation of law. The object behind use of these rules is to ascertain the intention of the lawmakers. These rules are not static and keep on evolving. At times, there may be more than one rule of interpretation which appear be applicable to a given situation. The Courts then decide the most appropriate one in the given situation considering the facts of the case.

In the ensuing paragraphs, we have made an attempt to discuss the Rules of Interpretation, largely in the context of income-tax law, citing appropriate instances.

(i) Significant rules of interpretation used by Courts

- **Rule of literal interpretation -** This rule is based on the age-old doctrine that *"judges do not legislate, they only interpret law"*. It stipulates that the

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intention of the legislation must be found in the words used by the legislature itself. Attention must be given to what has been said and also what has not been said. Nothing should be added or subtracted. If the provision is unambiguous and if from that provision the legislative intent is clear, the other rules of construction of statutes need not be called into aid.

- **Mischief rule -** The mischief rule originated in 16th century in the Heydon's case in the United Kingdom. It is commonly known as the Heydon's Rule or Purposive construction. Under this rule, the position before an amendment or enactment of an Act is examined to find out the mischief sought to be remedied to determine the rationale for the remedy. In order to do so, the following aspects are looked at:
  - What was law before the provision was introduced or amended?
  - What was the mischief or the defect for which the earlier provision of law did not provide a remedy?
  - What remedy has the Parliament effected in the provisions of law to cure the mischief or defect?
  - What is the intended effect of such remedy?

  Courts then have to make a construction that suppresses the mischief and advances the remedy.

- **The Golden rule** – It allows a judge to depart from a word's normal meaning in order to avoid an absurd result. It is a compromise between the literal rule and the mischief rule. Like the literal rule, it gives the words of a statute their plain, ordinary meaning. However, if this leads to an irrational result which is unlikely to be the legislature's intention, the court can depart from this meaning.

  In such a case, the Court would also look at the context in which a provision appears. The same words may mean one thing in one context and another in a different context. While ascertaining the true intention of the Legislature, the court must not only look at the words used by the Legislature but also have regard to the context and the setting in which they occur. The meaning of words in an enactment is not to be ascertained by reading them in isolation.

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- **Rule of Harmonious construction -** The entire statute must be read as a whole. Further, all parts of a section should be read harmoniously. Construction should be such that it provides meaning to all parts of a statute. A construction which creates inconsistency or repugnancy between the various sections or parts of the statute should be avoided.
- **Principle of beneficial construction -** If the court finds that two views are possible construction which is most beneficial to the taxpayer should be adopted. This principle is also widely used in case of interpretation of fiscal laws.

Apart from these rules, there are several other rules such as *ejusdem generis, noscitur a sociis* and *stare decisis* which are often used by Courts.

- **Rule of *ejusdem generis**** is used when particular words pertaining to a class, category or genus are followed by general words. In that case general words are construed as limited to things of the same kind.
- The principle of ***noscitur a sociis***** implies that meaning of a word may be ascertained by reference to words associated with it. Words derive colour from the surrounding words.
- The principle of ***stare decisis***** stipulates that a view which is operating for long and is accepted and acted upon should not be easily departed from.

(ii) Interpretation of different provisions of the Income-tax Act, 2025

In context of the Income-tax Act, 2025, the ensuing table summarizes how different types of provisions are typically construed by Courts.

Type of provision	Interpretation
Charging provisions	Tax is levied by a charging section i.e., it imposes a charge or liability to pay tax. If a person has been brought to tax within the ambit of the charging section by clear words, he has to be taxed, subject to specific exemption/ deduction, if any, available

* *same kind or nature.*

** *to determine the meaning of an ambiguous or unclear word by looking at the specific words and context immediately surrounding it.*

*** *rely on previous judicial decision/precedent.*

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	under the provisions of the Act. Charging sections should be strictly construed.
Machinery provisions	Machinery provisions provide machinery for assessment and collection of charge created by the charging section. Machinery and charging provisions constitute an integrated code. The machinery provisions should be construed in a way that makes the machinery workable.
Penal provisions	Penal provisions are required to be construed in a strict manner. In case of ambiguity, the taxpayer should be entitled to the benefit of doubt.
Deeming provisions	Deeming provision is intended to enlarge the scope of chargeability of income under a particular head or scope of coverage of a certain provision. It includes matters which otherwise may or may not fall within the provision. Deeming provision should be strictly construed. It should be given its full effect and carried to its logical conclusion.
Appeal and refund provisions	The taxpayer has a right to appeal only if there is a statutory provision for the same. It cannot be implied. Appeal provision should be liberally construed in a reasonable and practical manner. Similarly, provisions granting refund must also be read liberally, in favor of the taxpayer.
Provisions giving exemptions and reliefs	Provisions giving deduction, exemption or relief should be interpreted liberally and in favor of taxpayers. They should be construed to effectuate the object of legislature and not to defeat it.

(iii) Aids to interpretation

An aid is a device that helps or assists Courts in interpretation of statutes. They can be broadly classified as:

- **Internal Aids**
- **External Aids**

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Internal aids to construction

Internal aids of construction refer to aids present within the statutes itself, such as the long title, the preamble, heading, marginal notes, punctuations, definition and sections. Let us now examine some of these:

- **Non-obstante clause –** Non-obstante clause is a clause which uses the phrase "Irrespective of anything to the contrary contained in this Act" or "Irrespective of anything contained in a particular provision(s) of the Act". Use of this phrase shows that the intent of lawmakers is to give it an overriding effect, in case of a conflict, over the other provisions of the statute mentioned in the provision.



Section 35 provides that irrespective of any other provision of Chapter IV-D certain amounts shall not wholly or partly allowed as deduction including on account of non-deduction of tax deducted at source or after deduction non-deposit of tax at source while computing of income under the head "Profits and gains from business or profession". It contains the phrase "Irrespective of any other provision Chapter IV-D". Thus, it overrides the other provisions of the Chapter IV-D and restrict deduction of certain expenditures which are otherwise allowable.

- **Marginal notes and headings -** Headings may be prefixed to a section or a group of sections. Marginal notes are the notes which are inserted at the side of the sections in a statute and express the effect of the sections stated. Headings and marginal notes cannot control the plain words of the provisions. Only in the case of ambiguity they may be referred to throw light on intention of legislature.
- **Definition clauses and undefined words -**The object of a definition clause is to avoid the necessity of frequent repetitions in describing the subject matter in the statute. When the statute defines a particular word, the same should be used, unless the context otherwise requires. A word occurring more than once in a statute should be generally given the same meaning, unless the context requires otherwise. Words not specifically defined must be taken in their legal sense, dictionary meaning, commercial or common meaning. Definition from any other statute cannot be borrowed and used ignoring the definition contained in the statute itself.

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In the Income-tax Act, 2025, definitions contained in section 2 are for the purposes of whole of the Income-tax Act, 2025. Further, various chapters of the act also contain an "Interpretation" section which gives definition of various terms related with that chapter only. For example, Section 402 contained in Chapter XIX- Collection and Recovery of Tax gives definition of various terms which are relevant for that chapter only.

External aids to construction

External aids refer to aids which are external to the statutes such as legislative history, dictionaries, foreign decisions, reference to other statutes. Let us examine some of them:

- **Legislative history -** Historical setting cannot be used as an aid if the words are plain and clear. If the wordings are ambiguous, one can look at the historical facts and circumstances that prevailed at the time when the law was passed for determining the object and purpose. Reports of Commissions including Law Commission or Committees including Parliamentary Committees preceding the introduction of a bill can also be referred to as evidence of historical facts, surrounding circumstances or mischief intended to be remedied.
- **Circulars -** CBDT Circulars issued under section 239 of the Income-tax Act, 2025 are binding on the tax officers and persons employed in the execution of the Income-tax Act 2025. They express the views of CBDT on any issue. They are, however, not binding on the Appellate Authorities, Tribunal, Courts or the taxpayer. Taxpayers can however take benefit of the beneficial circulars.
- **Speech -** The speech made by the mover of the Bill can also be used to ascertain the mischief sought to be remedied, the object and purpose of the legislation. However, speeches made by the Members of the Parliament at the time of consideration of a Bill, are not admissible as an aid.
- **Explanatory Memorandum -** Notes on clauses and memorandum explaining the provisions of the Finance Bill can also aid in construction, in case of ambiguity.
- **Dictionary meaning -** The dictionary meaning of a word should not be looked at where the word has been statutorily defined or judicially interpreted. However, when there is no such interpretation or definition, the Court may take aid of dictionaries to ascertain a meaning of the word.

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1.2 CHARGE OF INCOME TAX

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

(1) Income-tax shall be charged at the rates specified for the tax year by the annual Finance Act (such as tax rates for individual, firms, companies etc.) or the Income-tax Act, 2025 [such as tax rates specified under section 202(1)] or both.

(2) The charge is on the total income of the tax year of every person specified under section 2(77);

(3) Tax shall be levied in accordance with and subject to the various provisions contained in the Act.

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

1.3 IMPORTANT DEFINITIONS

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

Terms defined in the Act

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

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

Terms not defined under the Act

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

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

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

Assessee [Section 2(11)]

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

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

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

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

Assessment [Section 2(13)]

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

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

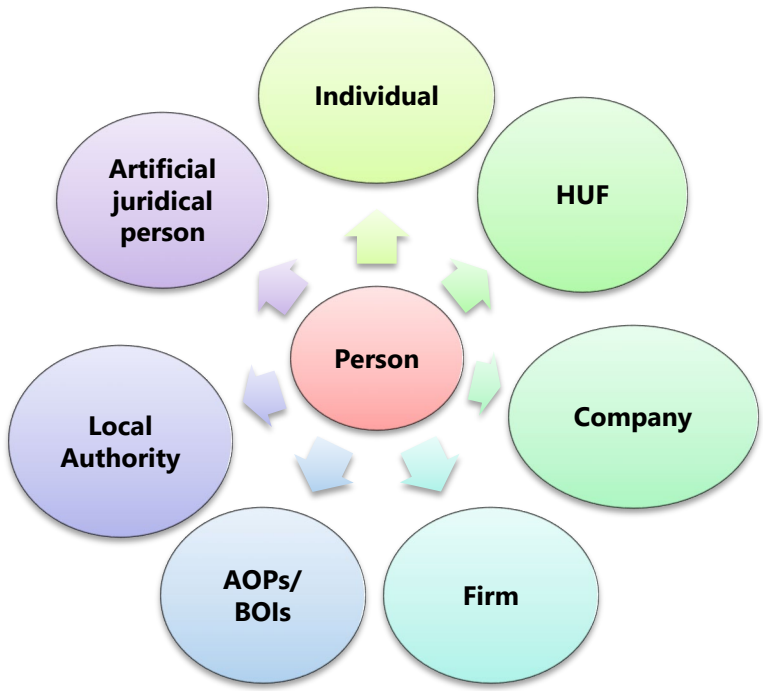
Types of income-tax assessment:

1. Self-assessment under section 266
2. Summary assessment under section 270(1)
3. Scrutiny assessment under section 270(10)
4. Best judgment assessment under section 271
5. Income escaping assessment under section 279.

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Person [Section 2(77)]

The definition of 'assessee' leads us to the definition of 'person' as the former is closely connected with the latter. The term 'person' is important from another point of view also *viz.,* the charge of income-tax is on every 'person'. The definition of the term 'person' is inclusive and not exhaustive. The different types of persons recognized under the Act are provided in the diagram below:



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

Individual



The term 'individual' means only a natural person, *i.e.,* a human being. It also includes a minor or a person of unsound mind. But the assessment in such a case may be made on the guardian or manager of the minor or lunatic who is entitled to receive his income by virtue of section 303. In the case of deceased person, assessment would be made on the legal representative.

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Hindu Undivided Family



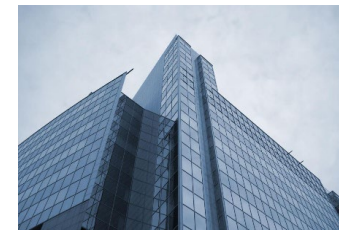
Under the Income-tax Act, 2025, a Hindu undivided family (HUF) is treated as a separate entity for the purpose of assessment. It is included in the definition of the term "person" under section 2(77). The levy of income-tax is on "every person". Therefore, income-tax is payable by a HUF.

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

[Refer Chapter 9: Assessment of various entities in Module 2 for detail discussion of HUF]

Company [Section 2(28)]

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



(a) any Indian company as defined in section 2(53); or

(b) any body corporate incorporated by or under the laws of a country outside India, i.e., any foreign company; or

(c) any institution, association or body which is or was assessable or was assessed as a company under the repealed Income-tax Act, 1961; or

(d) any institution, association or body, whether incorporated or not and whether Indian or non-Indian, which is declared by order of the CBDT to be a company for such period as specified in such declaration.

Classes of Companies

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

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- Domestic company and
- Foreign company.

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

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

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

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

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

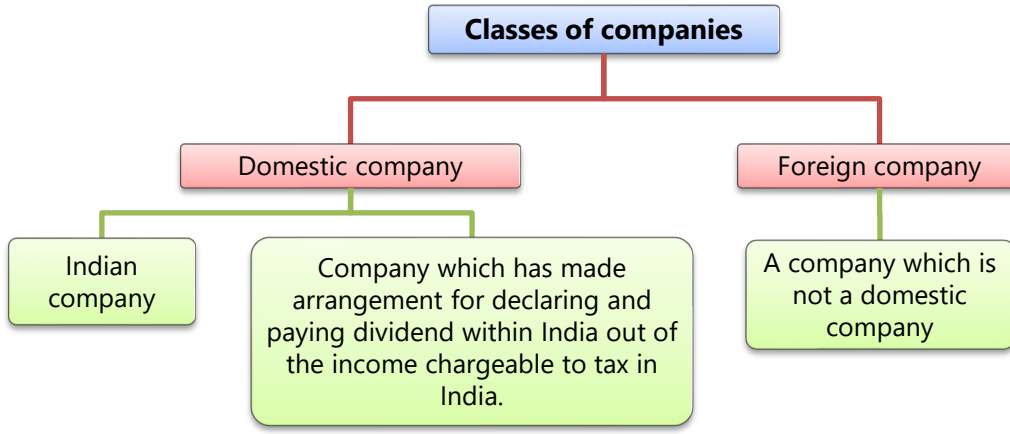
- Corporation established by or under a Central, State, or Provincial Act, such as Financial Corporation or State Road Transport Corporation.

  Institution, association, or body declared by the Board to be a company under section 2(28) of the Income-tax Act, 2025.

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

[1] The Companies Act, 1956
[2] The Companies Act, 2013

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

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

(a) Government or RBI Ownership or participation: A company owned by the Central or State Government or the Reserve Bank of India (RBI), or where at least 40% of the shares are held (whether singly or taken together) by the Government or the RBI or a corporation owned by the RBI.

(b) Company registered under section 8 of the Companies Act, 2013: A company registered under section 8 of the Companies Act, 2013, which is formed to promote commerce, art, science, education, research, social welfare, charity, environmental protection, etc., and does not distribute dividends to their members.

(c) Companies with No Share Capital and declared by the CBDT: A company which does not have share capital and is declared by the CBDT to be a company in which the public are substantially interested in specified period considering the objects, the nature and composition of its membership and other relevant considerations.

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

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

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

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

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

[Refer Chapter 9: Assessment of various entities in Module 2 for detail discussion of companies]

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

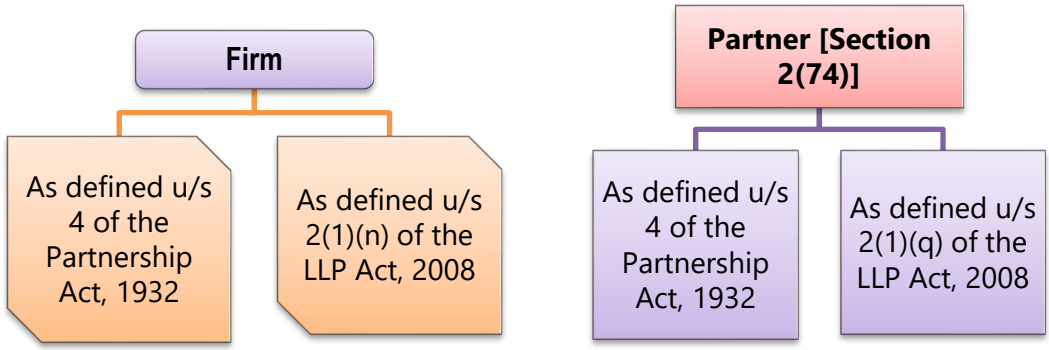


The terms 'firm', 'partner' and 'partnership' have the same meanings as assigned to them in the Indian Partnership Act, 1932.

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

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

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





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

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Association of Persons (AOP)

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



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

Body of Individuals (BOI)

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

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



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

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

Difference between AOP and BOI

In case of a BOI, only individuals can be the members, whereas in case of AOP, any person can be its member i.e., entities like company, firm etc. can be the

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member of AOP but not of BOI.

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

Local Authority

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



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

Artificial Juridical Persons

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

Income [Section 2(49)]

(i) Definition of Income



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

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Section 2(49) of the Act gives a statutory definition of income. At present, the following items of receipts are specifically included in income -

(1) Profits and gains;

(2) Dividends;

(3) Voluntary contributions received by

- a registered non-profit organisation or
- an association referred to in Schedule III (Table: Sl. No. 23) or
- any University or other educational institution or any hospital or other institution referred to in Schedule VII (Table: Sl. No. 19); or
- an electoral trust

(4) The value of any **perquisite or profit in lieu of salary** taxable under section 17 and 18 ;

(5) Any **special allowance or benefit**, other than the perquisite included above, specifically granted to the assessee to meet expenses wholly, necessarily and exclusively for the performance of the duties of an office or employment of profit;

(6) Any **allowance granted to the assessee** to meet his personal expenses at the place where the duties of his office or employment of profit are ordinarily performed by him or at a place where he ordinarily resides or to compensate him for the increased cost of living;

(7) The value of **any benefit or perquisite**, whether convertible into money or not, obtained from a company either by a director or by a person who has a substantial interest in the company, or by a relative of the director or such person, and any sum paid by any such company in respect of any obligation which, but for such payment, would have been payable by the director or other person aforesaid;

(8) The value of **any benefit or perquisite**, whether convertible into money or not, which is obtained by any representative assessee mentioned under section 303(1)(c) or (d), or by any beneficiary or any amount paid by the representative assessee for the benefit of the beneficiary which the beneficiary would have ordinarily been required to pay;

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(9) **Deemed profits** chargeable to tax under **section 38 or section 95**;

(10) **Profits and gains** of business or profession chargeable to tax under section 26(2)(b)/(c)/(d)/(e) or (g); or the value of any benefit or perquisite taxable under section 26(2)(f);

(11) Any **capital gains** chargeable under section 67;

(12) The **profits and gains of any insurance business carried on by Mutual Insurance Company or by a cooperative society**, computed as per section 55 or any surplus taken to be such profits and gains as per Schedule XIV to the Act;

(13) The **profits and gains of any business of banking** (including providing credit facilities) carried on by a co-operative society with its members;

(14) Any **winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling, or betting** of any form or nature whatsoever. For this purpose,

i. "Lottery" includes winnings from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever, under any scheme or arrangement by whatever name called;

ii. "Card game and other game of any sort" includes any game show, an entertainment programme on television or electronic mode, in which people compete to win prizes or any other similar game.

(15) Any sum received by the assessee from his employees as **contributions to any provident fund (PF) or superannuation fund or Employees State Insurance Fund (ESI) or any other fund for the welfare of such employees**;

(16) Any sum received under a **Keyman insurance policy** including the sum allocated by way of bonus on such policy will constitute income;

"Keyman insurance policy" means[3] a life insurance policy -

- taken by a person on the life of another person

[3] Schedule II (Note 1)

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- where such person is or was an employee of first mentioned person or is or was connected in any manner whatsoever with the first mentioned person's business and
- includes such policy which has been assigned to a person with or without any consideration, at any time during the term of the policy.

(17) Any sum received or receivable under an agreement **for not carrying out any activity or not sharing any know-how, patent, copyright etc**. as referred to in section 26(2)(h) shall be chargeable to income tax under the head "profits and gains of business or profession";

(18) **Fair market value of inventory** as on the date on which it is **converted into, or treated as, a capital asset** [Section 26(2)(j)];

(19) Any **sum of money received as advance**, if such sum is forfeited consequent to failure of negotiation for transfer of a capital asset [Section 92(2)(h)];

(20) Any **sum of money or value of property received without consideration or for inadequate consideration** by any person [Section 92(2)(m)];

(21) Any **compensation or other payment**, due to or received by any person, by whatever name called, in **connection with termination of his employment** or the modification of the terms and conditions relating thereto [Section 92(2)(j)];

(22) Any specified **sum received by a unit holder from a business trust** during the tax year, with respect to a unit held by him at any time during the tax year [Section 92(2)(k)];

(23) **Sum received**, including the amount allocated by way of bonus, **under a LIP other than under a ULIP and keyman insurance policy, which is not exempt as per Schedule II (Table: Sl. No. 2),** to the extent the same exceeds the aggregate of the premium paid during the term of the policy, and not claimed as deduction under any other provision of the Act [Section 92(2)(l)];

[For details, refer to Chapter 5 "Income from Other Sources"].

(24) Assistance in the form of a **subsidy or grant or cash incentive or duty drawback or waiver or concession or reimbursement**, by whatever name

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called, by the Central Government or a State Government or any authority or body or agency in cash or kind to the assessee is included in the definition of income.

Subsidy or Grant which are not included in the definition of income u/s 2(49)

- Subsidy or grant or reimbursement taken into account for determination of actual cost of depreciable asset section 39(1)(d) and (3)
- Subsidy or grant by the Central Government for the purpose of the corpus of a trust or institution established by a Central Govt. or State Govt., as the case may be.

(ii) Concept of Income

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

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

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

(iii) Concept of revenue and capital receipts

Students should carefully study the various items of receipts included in the definition of income. Some of them like capital gains are not revenue receipts. However, since they have been included in the definition, they are chargeable as income under the Act. The concept of revenue and capital receipts is discussed hereunder –

The Act contemplates a levy of tax on income and not on capital and hence it is very essential to distinguish between capital and revenue receipts. Capital receipts cannot be taxed, unless they fall within the scope of the definition of "income" and so the distinction between capital and revenue receipts is material for tax purposes.

Certain capital receipts which have been specifically included in the definition of income are compensation for modification or termination of services, income by way of capital gains etc.

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

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

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

Fixed capital or Circulating capital: A receipt referable to fixed capital would be a capital receipt whereas a receipt referable to circulating capital would be a revenue receipt. Tangible and intangible assets which the owner keeps in his possession for making profits are in the nature of fixed capital. The circulating capital is one which is turned over and yields income or loss in the process.

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

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

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



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

(b) Profit arising from sale of shares and securities: In the case of profit arising from the sale of shares and securities the nature of the profit has to be ascertained from the motive, intention or purpose



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



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



Bank of Rajasthan Ltd. vs CIT [2024] 469 ITR 280 (SC)

Issue: Whether the interest paid by the banks for broken period on purchase of securities can be claimed as revenue expenditure?

Facts of the case: In the present case, the assessee (a Scheduled Bank) involves in purchase and sale of government securities. It classified these securities as stock-in-trade in its books of account. The assessee consistently followed the method of setting off and netting the amount of interest paid by it on the purchase of securities [i.e., interest for the broken period ***(refer note below for the meaning of broken period)]*** against the interest recovered by it on the sale of securities and offering the net interest income to tax. This method was accepted in earlier assessments. However, the Commissioner of Income Tax (CIT) exercised revisional jurisdiction under section 377, holding that the broken period interest forms part of cost of acquisition and is not allowed as deduction.

Analysis and Decision: The Apex Court noted that the banks are required to purchase Government securities to maintain the Statutory Liquidity Ratio. As per RBI's guidelines, there are three categories of securities: HTM (Held to Maturity), AFS (Available for Sale) and HFT (Held for Trading). As far as AFS and HFT are concerned, banks held such securities as stock-in-

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trade. Therefore, in these two categories of securities, the benefit of deduction of interest for the broken period will be available. The securities of the HTM category are usually held for a long term till their maturity. If it is found that HTM security is held as an investment, the benefit of broken period interest will not be available.

Accordingly, the Apex Court held that as the securities were treated as stock-in-trade, the interest on the broken period cannot be considered as capital expenditure and will have to be treated as revenue expenditure, and thus, allowed as deduction.

Note - *When a Bank purchases a security on a date which falls between the dates on which the interest is payable on the security, the purchaser Bank, in addition to the price of the security, has to pay an amount equivalent to the interest accrued for the period from the last interest payment till the date of purchase. This interest is termed as the interest for the broken period.*

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

(i) the conduct of the assessee,

(ii) the nature and quantity of the article purchased,

(iii) the nature of the operations involved,

(iv) whether the venture is on capital or revenue account, and

(v) other related circumstances of the case.

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



CIT v. Saurashtra Cement Ltd. (2010) 325 ITR 422 (SC)

Issue: What is the nature of liquidated damages received by a company from the supplier of plant for failure to supply machinery to the company within the stipulated time – a capital receipt or a revenue receipt?

Analysis & Decision

The damages are directly and intimately linked with the procurement of a capital asset i.e., the cement plant, which lead to delay in coming into existence of the profit-making apparatus. It was not a receipt in the course of profit earning process.

Therefore, the amount received by the assessee towards compensation for sterilization of the profit earning source, is not in the ordinary course of business, hence it is a capital receipt in the hands of the assessee.

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

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

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

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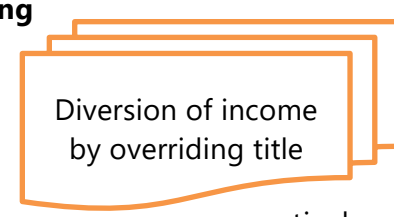
Compensation received or receivable in connection with the termination or the modification of the terms and conditions of any contract relating to its business shall be taxable as business income.

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

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

(v) Diversion of income by overriding title and application of income

The concept of **'diversion of income by overriding title'** signifies diversion of income at source by an overriding title before it reaches an assessee. Such a diversion can take place either under a legal compulsion or under a contractual obligation or otherwise. An obligation to apply the income in a particular way before it has accrued or arisen to the assessee results in the diversion of the income.



When income or a portion of income is diverted at the source by an overriding title before it started flowing into the channel which was to reach the assessee concerned it could be excluded from his assessable income. Wherever there is such diversion of income, such diverted income, cannot be included in the total income of the assessee who claims that there has been a diversion.

On the other hand, an obligation to apply income which has accrued or arisen or has been received amounts merely to the apportionment or application of the income and not to its diversion. Sometimes the dividing line between diversion by overriding title and the application of income after it has accrued is somewhat thin.



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Thus, where income has accrued or arisen in the hands of the assessee, its subsequent application in any way will not affect the tax liability.

In order to decide whether a particular disbursement amounts to diversion or application of income, the true test is to probe into and decide whether the amount sought to be deducted, in truth, did not reach the assessee as his own income. It is the nature of the obligation that is the decisive fact. There is a difference between an amount which a person is obliged to apply out of his income and an amount which by the nature of the obligation cannot be said to be a part of his income. **It is the nature of the obligation that is the decisive fact.** Where, by obligation, income is diverted before it reaches the assessee, it is deductible; but where the income is required to be applied to discharge an obligation after such income reaches the assessee, the same consequence, in law, does not follow. In order that there is diversion at source of the income, the obligation is to attach to the source which yields income and not to the income only. This was so held in *CIT vs. Sitaldas Tirathdas [1961] 41 ITR 367 (SC), M.K. Brothers Pvt. Ltd. vs. CIT [1972] 86 ITR 38 (SC)*. In many cases, it would really be a matter of proper drafting of the document creating the obligation, though, in substance, the result in both the situations may appear similar.

For the purpose of tax planning, the concept of 'diversion by overriding title' would have better scope for exploitation than the concept of 'application of income'. This is because, as pointed out above, where income is diverted by overriding title such diverted income is not taxed in the hands of the person who claims such diversion. On the other hand, the concept of application of income envisages first the accruing or arising of income and when once it has come within the grasp of the Income-tax Act, 2025 it is liable to income-tax whatever may be its destination or whomever it may be applied for. Therefore, if an overriding charge is created by the assessee either voluntarily or in pursuance of an obligation, whether pre-existing or not, the assessee may be able to invoke the principle of diversion of income by overriding charge. This is, of course, subject to the clubbing provisions contained in sections 96 to 99 (dealt with in Chapter 6: Income of other persons included in assessee's total income), which have the effect of getting over this principle in some situations.

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Application of Income

Mr. A is liable to pay ₹ 10,000 per month to Ms. B (his ex-wife) as alimony. Mr. A, being an employee of ABC Pvt. Ltd., instructs the HR department to pay ₹ 10,000 per month out of his salary to Ms. B directly and remit the remaining salary in his account.

In this case, the amount of ₹ 10,000 per month is an obligation of Mr. A to pay to Ms. B out of his income and not an income in which Ms. B had overriding entitlement.

In other words, this is the income of Mr. A, which is applied by him to fulfill an obligation and hence, includible in his total income and a mere arrangement to pay a sum directly to Ms. B would not make it a case of diversion of income.



Diversion of Income

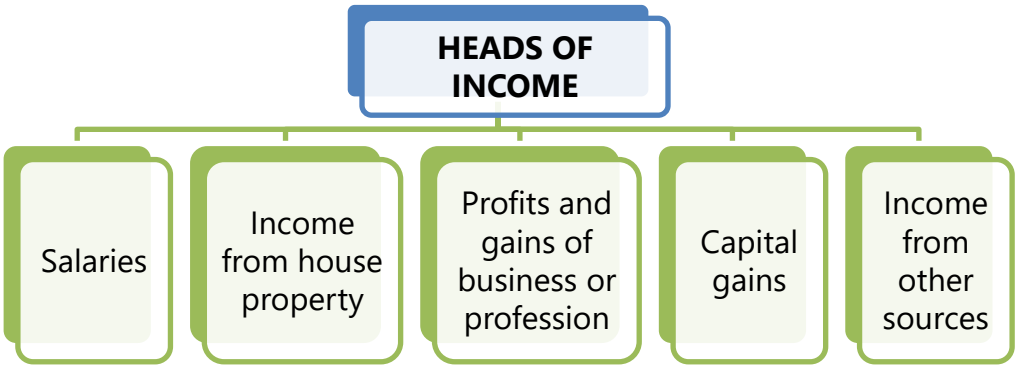
M/s ABC is a partnership firm in which Mr. A and his two sons, Mr. B & Mr. C are partners. The partnership deed provides that after the death of Mr. A, Mr. B & Mr. C shall continue the business of the firm subject to a condition that 20% of profit of the firm shall be given to Mrs. D (wife of Mr. A).

In the instant case, after the death of Mr. A, 20% of profits of the firm payable to Mrs. D gets diverted at source by the charge created in her favour as per the terms of the partnership deed. Such income does not reach the assessee-firm. Rather, such income stands diverted to the other person as such other person has a better title on such income than the title of the assessee. The firm might have received the said amount, but it so received for and on behalf of Mrs. D, who possesses the overriding title. Therefore, the amount payable to Mrs. D after the death of Mr. A would be excluded from the income of M/s ABC.

(vi) Classification of income under five heads of income

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

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The provisions relating to "Profits and gains of business or profession", "Capital Gains" and "Income from other sources" are discussed in Chapter 3: Profits and gains of business or profession, Chapter 4: Capital Gains and Chapter 5: Income from Other Sources, respectively, in this Module. The provisions relating to "Salaries" and "Income from house property" had been dealt with in detail at Intermediate level itself. The ensuing paragraphs contain an overview of Income under the head "Salaries" and "Income from house property".

Income under the head "Salaries"

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

The terms "Salary", "Perquisite" and "Profit in lieu of salary" are defined under section 16, 17 and 18, respectively. Salary includes monetary as well as non-monetary items. The following deductions are allowable to an individual from the gross salary:

Deductions allowable from Gross Salary [Section 19]

(i)	**Standard deduction u/s 19(1)**	
	Assessee exercises the option u/s 202(4) of shifting out of the default tax regime	₹ 50,000 or the amount of salary, whichever is lower

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	Assessee is paying tax under default tax regime	₹ 75,000 or the amount of salary, whichever is lower
(ii)	**Professional Tax/Tax on employment (paid by employer/ employee) u/s 19(1):** If professional tax is reimbursed or directly paid by the employer on behalf of the employee, the amount so paid is first included as salary income and then allowed as a deduction u/s 19. [Deduction in respect of professional tax would be available to an assessee only if he exercises the option under section 202(4) of shifting out of the default tax regime].	
(iii)	**Deduction in respect of Gratuity, Leave Encashment, Commuted pension, retrenchment compensation and Voluntary Retirement Compensation.** Deduction in respect of above receipts is allowable under both default tax regime and optional tax regime.	

Income from house property

(I) Annual Value - The process of computation of income under the head "Income from house property" starts with the determination of annual value of the property. The concept of annual value and the method of determination is laid down in section 21.

The annual value of any property comprising of buildings or lands appurtenant thereto of which the assessee is the owner is chargeable to tax under the head "Income from house property".

Exceptions: Annual value of the following properties are chargeable under the head "Profits and gains of business or profession" -

(i) Portions of property occupied by the assessee for the purpose of any business or profession carried on by him.

(ii) Commercial Properties of an assessee engaged in the business of letting out of properties.

It is pertinent to note that that any income from letting out of a residential house or part thereof by the assessee, being owner shall always be chargeable under the head "Income from house property.

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Determination of Annual Value



GAV would be higher of expected rent and actual rent received or receivable during the tax year. The Expected Rent (ER) is the higher of fair rent (FR) and municipal value (MV) but restricted to standard rent (SR). In the absence of any information relating to Municipal value, fair rent and standard rent, actual rent would be considered as GAV.

(II) Annual value of self-occupied property: Where the property is self-occupied for own residence or unoccupied throughout the tax year due to any reason, its Annual Value will be Nil, provided no other benefit is derived by the owner from such property.

The benefit of "Nil" Annual Value is available only for upto two self-occupied or unoccupied house properties i.e., for either one house property or two-house properties owned by the assessee.

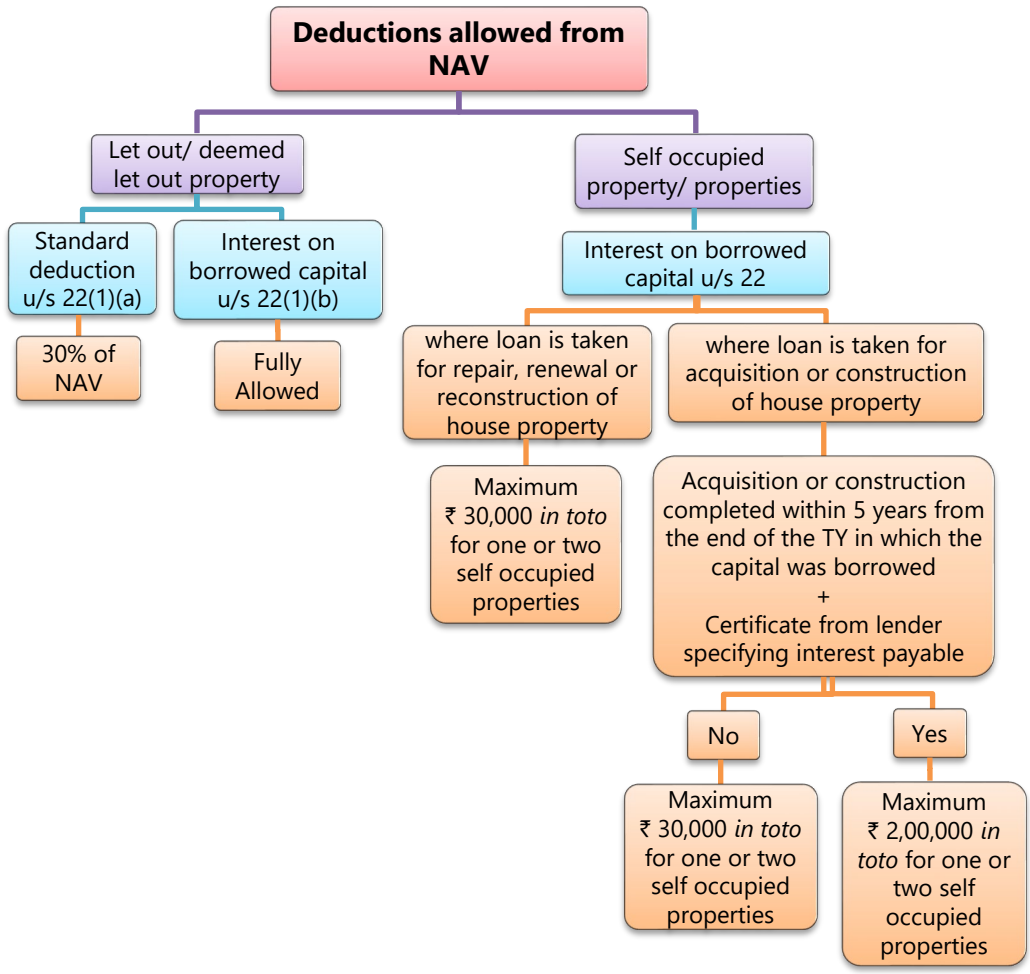
No deduction for municipal taxes is allowed in respect of such property/properties as annual value means value determined after deduction of municipal taxes.

(III) Annual value of property held as stock-in-trade: In some cases, property consisting of any building or land appurtenant thereto may be held as stock-in-trade, and the whole or any part of the property may not be let out during the whole or any part of the tax year. In such cases, the annual value of such property or part of the property shall be **NIL.**

This benefit would be available for the period upto **two** years from the end of the financial year in which certificate of completion of construction of the property is obtained from the competent authority.

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(IV) Deductions from Net Annual Value under optional tax regime (normal provisions of the Act)



(V) Taxability of arrears of rent & unrealised rent: As per section 23, the amount of rent received in arrears from a tenant or the amount of unrealised rent realised subsequently from a tenant by an assessee shall be deemed to be income from house property in the financial year in which such rent is received or realised, and shall be included in the total income of the assessee under the head "Income from house property", whether the assessee is the owner of the property or not in that financial year.

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Section 23(3) provides a deduction of 30% of arrears of rent or unrealised rent realised subsequently by the assessee.

(VI) Annual value of co-owned property: Where the house property owned by co-owners is self-occupied by each of the co-owners, the annual value of the property of each co-owner will be Nil and each co-owner shall be entitled to a deduction of ₹ 30,000 / ₹ 2,00,000, as the case may be, under section 22 on account of interest on borrowed capital if they exercise the option of shifting out of the default tax regime.

However, the aggregate deduction of interest to each co-owner in respect of interest payable on loan taken for co-owned house property and interest, if any, payable on loan taken for another self-occupied property owned by him cannot exceed ₹ 30,000/ ₹ 2,00,000, as the case may be.

Where the house property owned by co-owners is let out, the income from such property shall be computed as if the property is owned by one owner and thereafter the income so computed shall be apportioned amongst each co-owner as per their specific share.

(VII) Deemed ownership: As per section 25, the following persons, though not legal owners of a property, are deemed to be the owners for the purposes of sections 20 to 24.

- An individual who transfers without adequate consideration any property to the spouse (except under an agreement to live apart), or to a minor child (other than a minor married daughter), such individual is deemed to be the owner of the transferred property.



Where cash is transferred to spouse/minor child and the transferee acquires property out of such cash, then the transferor shall not be treated as deemed owner of the house property. However, clubbing provisions will be attracted.

- The holder of an impartible estate shall be deemed to be the individual owner of all properties comprised in the estate.
- A member of a co-operative society, company or other association of persons to whom a building or part thereof is allotted or leased under a House Building Scheme of a society/ company/ association, shall be

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deemed to be owner of that building or part thereof allotted to him although the co-operative society/company/ association is the legal owner of that building.

- A person who is allowed to take or retain the possession of any building or part thereof in part performance of a contract of the nature referred to in section 53A of the Transfer of Property Act shall be the deemed owner of that house property.
- A person who acquires any rights (excluding any rights by way of lease from month to month or for a period not exceeding one year) in or with respect to any building or part –
  - by virtue of transfer by way of sale or exchange or original or extendible lease for a term not less than 12 years,
  - accruing or arising from any transaction (whether by way of becoming a member of, or acquiring shares in, a co-operative society, company or other association of persons or by way of any agreement or any arrangement of whatever nature), not being a transaction by way of sale, exchange or lease which has the effect of enabling the enjoyment of such property.

shall be deemed to be the owner of that building or part thereof.

(vii) Unexplained sources of income

There are many occasions when the Assessing Officer detects unexplained cash credits, unexplained investments, unexplained expenditure etc., the source for which is not satisfactorily explained by the assessee to the Assessing Officer. The Act contains a series of provisions to provide for these contingencies:

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

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(a) Unexplained Credits [Section 102]

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

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

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

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

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

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

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

Non-applicability to Venture Capital Fund or Venture Capital Company[4]
These additional conditions (relating to unexplained loan or borrowing or unexplained share capital/ premium etc., above) would not apply if the

[4] *As referred to in Schedule V (Table: Sl. No. 6).*

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person, in whose name the sum is recorded, is a Venture Capital Fund or Venture Capital Company registered with SEBI.

(b) Unexplained Investments [Section 103]

Where in any tax year, any investment has been made by the assessee which is not recorded in the books of account, if any, maintained by such assessee for any source of income, or, the Assessing Officer finds that the amount of such investment exceeds the amount recorded in such books of account and

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

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

(c) Unexplained Asset [Section 104]

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

- the assessee offers no explanation about the nature and source of acquisition of such asset, or such excess amount, as the case may be; or
- the explanation offered about the nature and source of acquisition of such asset by the assessee, is not satisfactory in the opinion of the Assessing Officer,

then, the value of such asset, or such excess amount, as the case may be, shall be deemed to be the income of the assessee of the tax year in which such asset has been found to be owned by, or belonging to, the assessee.

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

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

(d) Unexplained expenditure [Section 105]

Where any expenditure has been incurred by the assessee in any tax year, and -

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

then, the amount covered by such expenditure or part thereof, shall be deemed to be the income of the assessee for that tax year.

Note *- Irrespective of any other provision of the Act, the amount deemed as income as above shall not be allowed as a deduction under this Act.*

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

Where any amount (including interest) is borrowed or repaid through a negotiable instrument or on a *hundi*, otherwise than an account payee cheque, or through any mode as specified by the Board in this behalf, the amount so borrowed or repaid (including interest paid on the borrowed amount) shall be deemed to be the income of the person borrowing or repaying, for the tax year in which the amount was borrowed or repaid.

However, where any amount borrowed as above has been deemed to be the income of any person, he will not be again liable to be assessed in respect of such amount on repayment of such amount.

As per Section 107 the above income referred to in section 102, 103, 104, 105 and 106 shall be charged @30% as per section 195.

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India [Section 2(52)]

The term 'India' means –

(i) the territory of India as per Article 1 of the Constitution,

(ii) its territorial waters, seabed and subsoil underlying such waters,

(iii) continental shelf,

(iv) exclusive economic zone

(v) any other maritime zone as referred to in the Territorial Waters, Continental Shelf, Exclusive Economic Zone and Other Maritime Zones Act, 1976, and

(vi) the air space above its territory and territorial waters.

Tax Year (Section 3)

For the purposes of Income Tax, all income is to be computed with refrence to the year called "Tax Year".

"Tax Year" has been defined in Section 3. It means twelve months period of the financial year commencing on the 1st April. The income earned during the tax year is taxable after the end of that tax year.

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

(a) the date of setting up of such business or profession; or

(b) the date on which such source of income newly comes into existence

and ending with the said financial year i.e., 31st March.

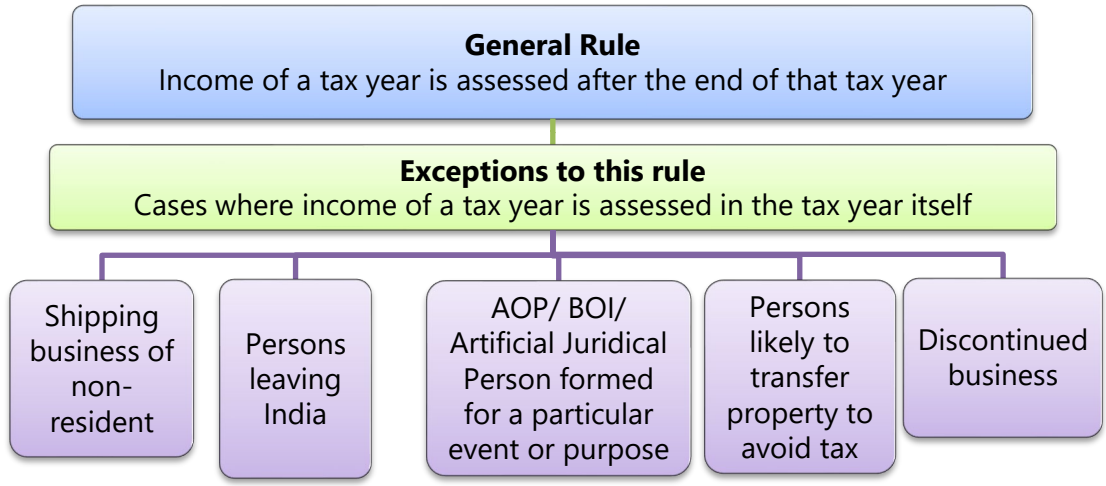


A chartered accountant sets up his profession on 1st July, 2026. Determine the tax year.

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

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



The income of an assessee for a tax year is assessed after the end of that tax year[5]. For instance, income of tax year 2026-27 is assessed after the end of the tax year 2026-27.

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

The exceptions are as follows:

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



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

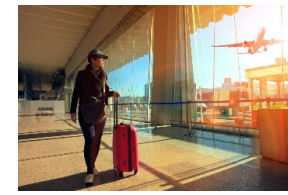
- only when the tax has been paid or satisfactory arrangement has been made for payment thereof.
- 7.5% of the amount paid or payable (including demurrage charge, handling charge or any other charge of similar nature) to the owner or the charterer or to any person on his behalf,

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

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- whether in India or outside India on account of such carriage is deemed to be his income which is charged to tax in the same year in which it is earned.

(b) Persons leaving India [Section 317]



Where it appears to the Assessing Officer that

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

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

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



Where it appears to the Assessing Officer that

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

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



Red Flakes is an AOP formed on 14.11.2026 by X and Y for a limited purpose of organizing a musical concert of a British band "Music Zone" on 14.01.2027. The AOP is likely to be dissolved after the concert. In such a case, the Assessing Officer can make the assessment for the income earned from 14.11.2026 to 14.01.2027 during the tax year 2026-27 itself.

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

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



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

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

EXAMPLE

The Assessing Officer is informed that Mr. X, a defaulter of a leading bank, is likely to sell all his flats located at Delhi on 02.10.2026 with a view to avoid payment of Income-tax. In such case, the Assessing Officer can commence proceedings to tax the income of the year commencing from 01.04.2026 to 02.10.2026 during T.Y. 2026-27 itself.

(e) Discontinued business [Section 320]

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



EXAMPLE

The Assessing Officer is informed during the course of assessment by X Pvt. Ltd. that they have discontinued their business from 31.05.2027. In such a case, the Assessing Officer may exercise his discretion and tax the income of the company from 01.04.2027 to 31.05.2027 during the T.Y. 2027-28. It may be noted that the income of the T.Y. 2026-27 will also be taxed in the year 2027-28. However, as the Assessing Officer has discretion under section 320, he could alternatively wait till the completion of the tax year and tax the income of the period commencing from 01.04.2027 to 31.05.2027 in the year 2028-29.

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Maximum marginal rate and Average Rate of tax

As per section 2(16), **"Average Rate of tax"** means the rate arrived at by dividing the amount of income-tax calculated on the total income, by such total income.



Total Income of Mr. A, who has exercised option of shifting out of default tax regime is ₹ 6,00,000 and tax payable on it including cess is ₹ 33,800, the average rate of tax works out to be 5.63%.

Section 2(70) defines *"***Maximum marginal rate"** to mean the rate of income-tax (including surcharge on the income-tax) applicable in relation to the highest slab of income in the case of an individual, AOP or BOI, as the case may be, as specified in Finance Act of the relevant year.

1.4 RATES OF TAX, SURCHARGE & CESS

Income-tax is to be charged on every person at the rates specified for the year by the Annual Finance Act or the Income-tax Act, 2025 or both.

Income-tax

Surcharge is an additional tax payable over and above the income-tax. Surcharge is levied as a percentage of income-tax. Surcharge is presently being levied beyond a particular threshold of income for different persons. Also, higher rates of surcharge are specified for higher thresholds of income. However, under the special tax regimes for domestic companies and co-operative societies, a uniform surcharge is applicable irrespective of the level of total income.

Surcharge

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 (HEC)", 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 assessees i.e. individuals, HUF, AOPs/BOIs, Artificial Juridical Persons, firms, local authorities, co-operative societies and companies.

Health and Education cess

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

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

(i) Income-tax

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

Concessional tax rates under the default tax regime under section 202

A person being an Individuals/ HUF/ AoPs/ BoIs or artificial judicial persons, other than those who exercise the option to opt out this regime under section 202(4), have to pay tax in respect of their total income (other than income chargeable to tax at special rates such as under section 193 to 198 and 207 to 218) at the following concessional rates, subject to certain conditions specified under section 202(2) like non-availability of deduction in respect of Leave Travel Concession, interest on housing loan on self-occupied property, deductions under Chapter VIII [other than section 124(1), 124(2), 125(2) and Section 146)] etc. –

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

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For detailed discussion on section 202, refer to Chapter 9 in Module 2 of the Study Material.

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

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

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

For a senior citizen (being a resident individual who is of the age of 60 years but not more than 80 years at any time during the tax year), the basic exemption limit is ₹ 3,00,000. Further, resident individuals of the age of 80 years or more at any time during the tax year, being very senior citizens, would be eligible for a higher basic exemption limit of ₹ 5,00,000. Therefore, the tax slabs for these assessee's would be as follows –

For senior citizens (being resident individuals of the age of 60 years or more but less than 80 years)

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

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(iv)	where the total income exceeds ₹ 10,00,000	₹ 1,10,000 *plus* 30% of the amount by which the total income exceeds ₹ 10,00,000

For resident individuals of the age of 80 years or more at any time during the tax year

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



Clarification regarding attaining specified age of 60 years/ 80 years on 31st March itself, in case of senior/very senior citizens whose date of birth falls on 1st April [Circular No. 28/2016, dated 27.07.2016]

An individual who is resident in India and of the age of 60 years or more (senior citizen) and 80 years or more (very senior citizen) is eligible for a higher basic exemption limit of ₹ 3,00,000 and ₹ 5,00,000, respectively.

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

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

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Special Rates of Tax

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

<table>
<tr><th>S. No.</th><th>Section</th><th>Income</th><th>Rate of Tax</th></tr>
<tr><td>(a)</td><td>197</td><td>Long term capital gains arising from transfer of capital asset</td><td>12.5%</td></tr>
<tr><td></td><td colspan="3">Note: In case of an individual or HUF, being a resident in India, the LTCG from transfer of any land or building or both acquired before 23.7.2024, the excess tax computed shall be ignored.
Excess tax = A (-) B
(A) Tax @12.5% on LTCG
(B) Tax @ 20% on LTCG computed by taking indexed cost of acquisition and indexed cost of improvement.</td></tr>
<tr><td>(b)</td><td>198</td><td>Long term capital gains on transfer of –
Equity shares in a company
Unit of an equity-oriented fund
Unit of business trust
Condition for availing the benefit of this concessional rate is that securities transaction tax (STT) should have been paid–<table><tr><th>In case of</th><th>Time of payment of STT</th></tr><tr><td>Equity shares</td><td>both at the time of acquisition and transfer</td></tr><tr><td>Unit of equity oriented fund or unit of business trust</td><td>at the time of transfer</td></tr></table></td><td>12.5% on LTCG > ₹ 1.25 lakhs</td></tr>
</table>

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(c)	196	Short-term capital gains on transfer of – • Equity shares in a company • Unit of an equity oriented fund • Unit of business trust The conditions for availing the benefit of this concessional rate is that the transaction of sale of such equity share or unit should be chargeable to securities transaction tax.	20%
(d)	194 [Table SI No. 1]	Winnings from • Lotteries; • Crossword puzzles; • Races including horse races; • Card games and other games of any sort; • Gambling or betting of any form or nature	30%
	194 [Table SI No. 4]	Income from transfer of any virtual digital asset	
	194 [Table SI No. 5]	Net winnings from online games	
(e)	194 [Table SI No. 2]	• Royalty in respect of a patent developed and registered in India.	10%
	194 [Table SI No. 3]	• Income by way of transfer of carbon credits.	
(f)	194 [Table SI No. 6]	Any profits and gains from life insurance business.	12.5%
(g)	195	Unexplained asset, investment, expenditure, etc. deemed as income under section 102 to 106	30%

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Unexplained money, investments etc. to attract tax@30% [Section 195]

(i) In order to control laundering of unaccounted money by availing the benefit of basic exemption limit, the unexplained asset, investment, expenditure, etc. deemed as income under section 102 to 106 are taxed at the rate of 30% *plus* surcharge @25% of tax. Thus, the effective rate of tax (including surcharge@25% of tax and cess@4% of tax and surcharge) is 39%.

(ii) No deduction in respect of any allowance or expenditure or set off of any loss shall be allowed to the assessee under any provision of the Income-tax Act, 2025 in computing such deemed income.

ILLUSTRATION 1

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

(a) 52 years

(b) 64 years

(c) 83 years

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

SOLUTION

(a) Computation of Tax liability of Mr. Arjun (aged 52 years)

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

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(b) Computation of Tax liability of Mr. Arjun (aged 64 years)

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

(c) Computation of Tax liability of Mr. Arjun (aged 83 years)

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

(ii) Surcharge

(A) In case the Individual/HUF/AoP[6]/BoI and Artificial Juridical Person pays tax under default tax regime under section 202(1)

Income-tax computed in accordance with the provisions of section 202 and/ or section 196, 197 or 198 would be increased by surcharge given under the following table:

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

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	Particulars	Rate of surcharge on income-tax	Examples	
			Components of total income	Applicable rate of surcharge
(i)	Where the total income (including dividend income and capital gains chargeable to tax u/s 196 to 198) > ₹ 50 lakhs but ≤ ₹ 1 crore	10%	**Example**	
			• Dividend ₹ 15 lakhs; • STCG u/s 196 ₹ 15 lakhs; • LTCG u/s 197 ₹ 25 lakhs; • LTCG u/s 198 ₹ 20 lakhs; and • Other income ₹ 25 lakhs	Surcharge would be levied @10% on income-tax computed on total income of ₹ 1 crore.
(ii)	Where total income (including dividend income and capital gains chargeable to tax u/s 196 to 198) > ₹ 1 crore but ≤ ₹ 2 crore	15%	**Example**	
			• Dividend income ₹ 10 lakhs; • STCG u/s 196 ₹ 35 lakhs; • LTCG u/s 197 ₹ 50 lakhs; • LTCG u/s 198 ₹ 35 lakhs; and • Other income ₹ 55 lakhs	Surcharge would be levied @15% on income-tax computed on total income of ₹ 1.85 crores.
(iii)	Where total income (excluding dividend income and capital gains chargeable to tax u/s 196 to 198) > ₹ 2 crore	25%	**Example**	
			• Dividend income ₹ 51 lakhs; • STCG u/s 196 ₹ 44 lakh; • LTCG u/s 197 ₹ 42 lakhs; • LTCG u/s 198 ₹ 55 lakh; and	Surcharge@15% would be levied on income-tax on: • Dividend income of ₹ 51 lakhs; • STCG of ₹ 44 lakhs chargeable

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	The rate of surcharge on the income-tax payable on the portion of dividend income and capital gains chargeable to tax u/s 196 to 198	Not exceeding 15%	• Other income ₹ 6 crores	to tax u/s 196; • LTCG of ₹ 42 lakhs chargeable to tax u/s 197; and • LTCG of ₹ 55 lakhs chargeable to tax u/s 198. Surcharge@25% would be leviable on income-tax computed on other income of ₹ 6 crores included in total income
(iv)	Where total income (including dividend income and capital gains chargeable to tax u/s 196 to 198) > ₹ 2 crore in cases not covered under (iii) above	15%	**Example**	
			• Dividend income ₹ 40 lakhs; • STCG u/s 196 ₹ 35 lakhs; • LTCG u/s 197 ₹ 42 lakhs; • LTCG u/s 198 ₹ 50 lakhs; and Other income ₹ 1.10 crore	Surcharge would be levied@15% on income-tax computed on total income of ₹ 2.77 crore.

Marginal relief

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

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

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

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

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

(B) In case the Individual/HUF/AoP[7]/BoI and Artificial Juridical Person exercises the option to shift out of the default tax regime

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

	Particulars	Rate of surcharge on income-tax	Example	
			Components of total income	Applicable rate of surcharge
(i)	Where the total income (including dividend income and capital gains chargeable to tax u/s 196, 197 and 198) > ₹ 50 lakhs but ≤ ₹ 1 crore	10%	**Example**	
			• Dividend ₹ 10 lakhs; • STCG u/s 196 ₹ 20 lakhs; • LTCG u/s 197 ₹ 15 lakhs; • LTCG u/s 198 ₹ 20 lakhs; and • Other income ₹ 25 lakhs	Surcharge would be levied@10% on income-tax computed on total income of ₹ 90 lakhs.
(ii)	Where total income (including dividend income and capital gains chargeable to	15%	**Example**	
			• Dividend income ₹ 10 lakhs;	Surcharge would be levied@15% on income-tax

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

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	tax u/s 196, 197 and 198) > ₹ 1 crore but ≤ ₹ 2 crore		• STCG u/s 196 ₹ 40 lakhs; • LTCG u/s 197 ₹ 55 lakhs; • LTCG u/s 198 ₹ 35 lakhs; and • Other income ₹ 50 lakhs	computed on total income of ₹ 1.90 crores.
(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%	**Example**	
	The rate of surcharge on the income-tax payable on the portion of dividend income and capital gains chargeable to tax u/s 196, 197 and 198	Not exceeding 15%	• Dividend income ₹ 51 lakhs; • STCG u/s 196 ₹ 44 lakh; • LTCG u/s 197 ₹ 42 lakhs; • LTCG u/s 198 ₹ 55 lakh; and • Other income ₹ 3 crores	Surcharge@15% would be levied on income-tax on: • Dividend income of ₹ 51 lakhs; • STCG of ₹ 44 lakhs chargeable to tax u/s 196; • LTCG of ₹ 42 lakhs chargeable to tax u/s 197; and • LTCG of ₹ 55 lakhs chargeable to tax u/s 198. Surcharge@25% would be leviable on income-tax computed on other income of ₹ 3 crores included in total income

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<table>
<tr><td rowspan="2">(iv)</td><td>Where total income (excluding dividend income and capital gains chargeable to tax u/s 196, 197 and 198) > ₹ 5 crore</td><td>37%</td><td colspan="2">Example</td></tr>
<tr><td>Rate of surcharge on the income-tax payable on the portion of dividend income and capital gains chargeable to tax u/s 196, 197 and 198</td><td>Not exceeding 15%</td><td>• Dividend income ₹ 60 lakhs;
• STCG u/s 196 ₹ 50 lakhs;
• LTCG u/s 197 ₹ 42 lakhs;
• LTCG u/s 198 ₹ 25 lakhs; and
• Other income ₹ 6 crore</td><td>Surcharge@15% would be levied on income-tax on:
• Dividend income of ₹ 60 lakhs;
• STCG of ₹ 50 lakhs chargeable to tax u/s 196;
• LTCG of ₹ 42 lakhs chargeable to tax u/s 197;and
• LTCG of ₹ 25 lakhs chargeable to tax u/s 198.
Surcharge@37% would be leviable on the income-tax computed on other income of ₹ 6 crores included in total income.</td></tr>
<tr><td>(v)</td><td>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</td><td>15%</td><td colspan="2">Example</td></tr>
<tr><td colspan="3"></td><td>• Dividend income ₹ 55 lakhs;
• STCG u/s 196 ₹ 60 lakhs;
• LTCG u/s 197 ₹ 42 lakhs;
• LTCG u/s 198 ₹ 35 lakhs; and
• Other income ₹ 1.10 crore</td><td>Surcharge would be levied@15% on income-tax computed on total income of ₹ 3.02 crore.</td></tr>
</table>

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Marginal relief

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

<table>
<tr><th></th><th>Particulars</th><th>Marginal relief</th></tr>
<tr><td>(i)</td><td>Where the total income > ₹ 50 lakhs but ≤ ₹ 1 crore</td><td>Marginal relief = Total amount of income-tax (together with surcharge) computed on such total income (-) Wn, being the amount determined as per the following formula:
<table>
<tr><th colspan="2">Wn = Un + Vn</th></tr>
<tr><td>Wn</td><td>Total amount beyond which the total amount payable as income-tax and surcharge thereon shall not exceed</td></tr>
<tr><td>Un</td><td>Total amount payable as income-tax on ₹ 50 lakhs</td></tr>
<tr><td>Vn</td><td>Total income (–) ₹ 50 lakhs</td></tr>
</table></td></tr>
<tr><td>(ii)</td><td>Where the total income > ₹ 1 crore but ≤ ₹ 2 crores</td><td>Marginal relief = Total amount of income-tax (together with surcharge) computed on such total income (-) Wn, being the amount determined as per the following formula:
<table>
<tr><th colspan="2">Wn = Un + Vn</th></tr>
<tr><td>Wn</td><td>Total amount beyond which the total amount payable as income-tax and surcharge thereon shall not exceed</td></tr>
<tr><td>Un</td><td>Total amount payable as income-tax and surcharge, if applicable on ₹ 1 crore</td></tr>
<tr><td>Vn</td><td>Total income (–) ₹ 1 crore</td></tr>
</table></td></tr>
<tr><td>(iii)</td><td>Where the total income > ₹ 2 crores but ≤ ₹ 5 crores</td><td>Marginal relief = Total amount of income-tax (together with surcharge) computed on such total income (-) Wn, being the amount determined as per the following formula:</td></tr>
</table>

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<table>
<tr><td></td><td></td><td>
<table>
<tr><th colspan="2">Wn = Un + Vn</th></tr>
<tr><td>Wn</td><td>Total amount beyond which the total amount payable as income-tax and surcharge thereon shall not exceed</td></tr>
<tr><td>Un</td><td>Total amount payable as income-tax and surcharge, if applicable on ₹ 2 crores</td></tr>
<tr><td>Vn</td><td>Total income (–) ₹ 2 crores</td></tr>
</table>
</td></tr>
<tr><td>(iv)</td><td>Where the total income > ₹ 5 crores</td><td>Marginal relief = Total amount of income-tax (together with surcharge) computed on such total income (-) Wn, being the amount determined as per the following formula:
<table>
<tr><th colspan="2">Wn = Un + Vn</th></tr>
<tr><td>Wn</td><td>Total amount beyond which the total amount payable as income-tax and surcharge thereon shall not exceed</td></tr>
<tr><td>Un</td><td>Total amount payable as income-tax and surcharge, if applicable on ₹ 5 crores</td></tr>
<tr><td>Vn</td><td>Total income (–) ₹ 5 crores</td></tr>
</table>
</td></tr>
</table>



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

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

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ILLUSTRATION 2

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

SOLUTION

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

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

ILLUSTRATION 3

Compute the tax liability of Mr. Veer (aged 51) under the default tax regime, having total income of ₹ 1,01,00,000 for the Tax Year 2026-27. Assume that his total

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income comprises of salary income, Income from house property and interest on fixed deposit.

SOLUTION

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

Particular	Amount in (₹)
(A) Income tax (including surcharge) computed on total income of ₹ 1,01,00,000	
₹ 4,00,000 – ₹ 8,00,000@5%	20,000
₹ 8,00,001 – ₹ 12,00,000@10%	40,000
₹ 12,00,001 – ₹ 16,00,000@15%	60,000
₹ 16,00,001 – ₹ 20,00,000@20%	80,000
₹ 20,00,001 – ₹ 24,00,000@25%	1,00,000
₹ 24,00,001 – ₹ 1,01,00,000@30%	23,10,000
Total	**26,10,000**
Add: Surcharge@15%	3,91,500
Tax liability without marginal relief	**30,01,500**
(B) Income tax plus surcharge computed in (A) cannot exceed Wn	
Wn = Un + Vn	
Un = Income tax computed on total income of ₹ 1 crore	
(₹ 3,00,000 plus ₹ 22,80,000)	25,80,000
Add: Surcharge@10%	
Vn = Total Income *Less* ₹ 1 crore	2,58,000
Wn = Un + Vn	28,38,000
	1,00,000
	29,38,000
(C) Tax liability: lower of (A) & (B)	**29,38,000**
Add: Health and education cess @4%	1,17,520
Tax liability (including cess)	**30,55,520**
(D) Marginal relief (A - B)	**63,500**

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ILLUSTRATION 4

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

SOLUTION

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

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

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ILLUSTRATION 5

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

SOLUTION

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

Particulars	Amount in (₹)
₹ 4,00,000 – ₹ 8,00,000@5%	20,000
₹ 8,00,001 – ₹ 12,00,000@10%	40,000
₹ 12,00,001 – ₹ 16,00,000@15%	60,000
₹ 16,00,001 – ₹ 20,00,000@20%	80,000
₹ 20,00,001 – ₹ 24,00,000@25%	1,00,000
₹ 24,00,001 – ₹ 5,01,00,000@30%	1,43,10,000
Total	**1,46,10,000**
Add: Surcharge@25%	36,52,500
	1,82,62,500
Add: Health and education cess @4%	7,30,500
Tax liability	**1,89,93,000**

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

Particulars	Amount in (₹)
(A) Income-tax (including surcharge) computed on total income of ₹ 5,01,00,000	
₹ 3,00,000 – ₹ 5,00,000 @ 5%	10,000
₹ 5,00,001 – ₹ 10,00,000 @ 20%	1,00,000
₹ 10,00,001 – ₹ 5,01,00,000@30%	1,47,30,000
Total	**1,48,40,000**

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Add: Surcharge @ 37%	54,90,800
	2,03,30,800
(B) Income-tax plus surcharge computed in (A) cannot exceed Wn	
Wn = Un + Vn	
Un = Income-tax computed on total income of ₹ 5 crore (₹ 10,000 plus ₹ 1,00,000 plus ₹ 1,47,00,000)	1,48,10,000
Add: Surcharge@25%	37,02,500
	1,85,12,500
Vn = Total Income *Less* ₹ 5 crore	1,00,000
Wn = Un + Vn	1,86,12,500
(C) Tax liability (A) or (B), whichever is lower	1,86,12,500
Add: Health and education cess@4%	7,44,500
Tax liability (including cess)	**1,93,57,000**
(D) Marginal Relief (A – B)	**17,18,300**

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

Firm/ LLP/ Local Authority

Income-tax

On the whole of the total income 30%

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

Surcharge

Where the total income exceeds ₹ 1 crore, surcharge is payable at the rate of 12% of income-tax computed as above.

Marginal Relief

Marginal relief is available in case of such firms having a total income exceeding ₹ 1 crore i.e., the total amount of income-tax (together with surcharge) computed

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on total income should not exceed the amount determined as per the following formula -

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

Co-operative Society

Income-tax

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



(1) A co-operative society, resident in India*, can opt on or before the due date of return of income for concessional rate of tax i.e., @22% under section 203 subject to certain conditions specified thereunder.*

(2) A manufacturing co-operative society, resident in India (set up and registered on or after 1.4.2023 and commences manufacture of article or thing before 31.3.2024) who has opted for concessional tax regime u/s 115BAE *of the repealed Income-tax Act, 1961 (now section 204 of the new Act, 2025) while filings its first return of Income, the applicable tax rate would be 15%.*

(3) Special rates for capital gains under sections 196, 197 and 198 would be applicable to Co-operative society also.

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Surcharge

(a) In case of a co-operative society (other than a co-operative society opted for section 203 or section 204), whose total income > ₹ 1 crore but ≤ ₹ 10 crore

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

Marginal Relief

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

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

(b) In case of a co-operative society (other than a co-operative society opted for section 203 or section 204), whose total income > ₹ 10 crore

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

Marginal Relief

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

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

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(c) In case of a co-operative society opted for section 203 or section 204

Surcharge @10% of income-tax computed under section 203 or section 204 would be leviable. Since there is no threshold limit for applicability of surcharge, consequently, there would be no marginal relief.

Domestic Company

Income-tax

If the total turnover or gross receipt in the **T.Y.2024-25 ≤ ₹ 400 crore**	**25% of the total income**
For a domestic company exercising option u/s 200	**22% of the total income** [Subject to certain conditions specified u/s 200]
A manufacturing domestic company (set up and registered on or after 1.4.2019 and commences manufacture of article or thing including business of generation of electricity before 31.3.2024) **who has opted for concessional tax regime u/s 115BAB of the repealed Income-tax Act, 1961** (now section 201 of the new Act, 2025) while filings its first return of Income.	**15% of income derived from or incidental to manufacturing or production of an article or thing.**
In any other case	30% of the total income
Note - Special rates for capital gains under sections 197, 198 and 196 would be applicable to domestic company also.	

Surcharge

(a) In case of a domestic company (other than a domestic company opted for section 200 or section 201), whose total income > ₹ 1 crore but ≤ ₹ 10 crore

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

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Marginal Relief

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

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

ILLUSTRATION 6

Compute the marginal relief available to X Ltd., a domestic company, assuming that the total income of X Ltd. is ₹ 1,01,00,000 for T.Y.2026-27 and the total income does not include any income in the nature of capital gains. Assume that the company has not exercised option under section 200 or 201.

***Note -** The gross receipts of X Ltd. for the T.Y.2024-25 is ₹ 402 crore]*

SOLUTION

The tax payable on total income of ₹ 1,01,00,000 of X Ltd. computed @32.1% (including surcharge @7%) is ₹ 32,42,100. However, the tax cannot exceed ₹ 31,00,000, being Wn i.e., Un + Vn.

Un	Total amount payable as income-tax on ₹ 1 crore @30%	₹ 30,00,000
Vn	Total income (–) ₹ 1 crore	₹ 1,00,000
Wn = Un + Vn		₹ 31,00,000

Therefore, the tax payable on ₹ 1,01,00,000 would be ₹ 32,24,000 (₹ 31,00,000 *plus* health and education cess @4% of ₹ 1,24,000).

(b) In case of a domestic company (other than a domestic company opted for section 200 or section 201), whose total income is > ₹ 10 crore

Where the total income exceeds ₹ 10 crore, surcharge is payable at the rate of **12%** of income-tax computed in accordance with the rates given above.

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Marginal Relief

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

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

ILLUSTRATION 7

Compute the marginal relief available to Y Ltd., a domestic company, assuming that the total income of Y Ltd. for T.Y.2026-27 is ₹ 10,01,00,000 and the total income does not include any income in the nature of capital gains. Assume that the company has not exercised option under section 200 or 201.

***Note -** The gross receipts of Y Ltd. for the T.Y.2024-25 is ₹ 410 crore]*

SOLUTION

The tax payable on total income of ₹ 10,01,00,000 of Y Ltd. computed @ 33.6% (including surcharge@12%) is ₹ 3,36,33,600. However, the tax cannot exceed ₹ 3,22,00,000, being Wn i.e. Un + Vn.

Un	Total amount payable as income-tax and surcharge on ₹ 10 crore @32.1%	₹ 3,21,00,000
Vn	Total income (–) ₹ 1 crore	₹ 1,00,000
Wn = Un + Vn		₹ 3,22,00,000

Therefore, the tax payable on ₹ 10,01,00,000 would be ₹ 3,34,88,000 (i.e., ₹ 3,22,00,000 *plus* health and education cess @4% of ₹ 12,88,000).

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

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

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Foreign Company

(i) Income-tax

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

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

(ii) Surcharge

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

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

Marginal Relief

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

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

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

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

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Marginal Relief

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

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

Rebate for resident individuals [Section 156]

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

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

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

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

- 100% of the income-tax or

- ₹ 60,000,

whichever is less, will be allowed as deduction.

ILLUSTRATION 8

Mr. Mahesh aged 32 years and a resident in India, has a total income of ₹ 10,50,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for T.Y.2026-27 under default tax regime under section 202.

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SOLUTION

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

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

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

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

would be allowed as deduction.

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

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

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

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



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

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ILLUSTRATION 9

Mr. Nitin aged 42 years and a resident in India, has a total income of ₹ 12,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for T.Y.2026-27 under default tax regime under section 202.

SOLUTION

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

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

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

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

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

whichever is less,

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



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

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ILLUSTRATION 10

Mr. Manish, aged 47 years and a resident in India, has a total income of ₹ 4,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for T.Y.2026-27 if he exercises the option to shift out of the default tax regime.

SOLUTION

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

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

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

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TEST YOUR KNOWLEDGE

Questions

1. *Mr. Bhargava, a leading advocate on corporate law, decided to reduce his practice and to accept briefs only for paying his taxes and making charities with the fees received on such briefs. In a particular case, he agreed to appear to defend one company in the Supreme Court on the condition that he would be provided with ₹ 5 lakhs for a public charitable trust that he would create. He defended the company and was paid the sum by the company. He created a trust of that sum by executing a trust deed. Decide whether the amount received by Mr. Bhargava is assessable in his hands as income from profession.*

2. *XYZ Ltd. took over the running business of a sole-proprietor by a sale deed. As per the sale deed, XYZ Ltd. undertook to pay overriding charges of ₹ 15,000 p.a. to the wife of the sole-proprietor in addition to the sale consideration. The sale deed also specifically mentioned that the amount was charged on the net profits of XYZ Ltd., who had accepted that obligation as a condition of purchase of the going concern. Is the payment of overriding charges by XYZ Ltd. to the wife of the sole-proprietor in the nature of diversion of income or application of income? Discuss.*

3. *MKG Agency is a partnership firm consisting of Mr. Mohan and his three major sons. The partnership deed provided that after the death of Mr. Mohan, the business shall be continued by the sons, subject to the condition that the firm shall pay 20% of the profits to their mother, Lakshmi. Mr. Mohan died in March, 2026. In the tax year 2026-27, the reconstituted firm paid ₹ 1 lakh (equivalent to 20% of the profits) to Lakshmi and claimed the amount as deduction from its income. Examine the correctness of the claim of the firm.*

4. *Anand was the Karta of HUF. He died leaving behind his major son Prem, his widow, his grandmother and brother's wife. Can the HUF retain its status as such or the surviving persons would become co-owners?*

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5. *Mr. C borrowed on Hundi, a sum of ₹ 25,000 by way of bearer cheque on 11.09.2026 and repaid the same with interest amounting to ₹ 30,000 by account payee cheque on 12.10.2026.*

   The Assessing Officer (AO) wants to treat the amount borrowed as income during the tax year. Is the action of the Assessing Officer valid?

6. *The Assessing Officer found, during the course of assessment of a firm, that it had paid rent in respect of its business premises amounting to ₹ 60,000, which was not debited in the books of account for the year ending 31.3.2027. The firm did not explain the source for payment of rent. The Assessing Officer proposes to make an addition of ₹ 60,000 in the hands of the firm for the tax year 2026-27. The firm claims that even if the addition is made, the sum of ₹ 60,000 should be allowed as deduction while computing its business income since it has been expended for purposes of its business. Examine the claim of the firm.*

Answers

1. In the instant case, the trust was created by Mr. Bhargava himself out of his professional income. The client did not create the trust. The client did not impose any obligation in the nature of a trust binding on Mr. Bhargava. Thus, there is no diversion of the money to the trust before it became professional income in the hands of Mr. Bhargava. This case is one of application of professional income and not of diversion of income by overriding title. Therefore, the amount received by Mr. Bhargava is chargeable to tax under the head "Profits and gains of business or profession".

2. This issue came up for consideration before the Allahabad High Court in *Jit & Pal X-Rays (P.) Ltd. v. CIT (2004) 267 ITR 370 (All)***.** The Allahabad High Court observed that the overriding charge which had been created in favour of the wife of the sole-proprietor was an integral part of the sale deed by which the going concern was transferred to the assessee. The obligation, therefore, was attached to the very source of income i.e., the going concern transferred to the assessee by the sale deed. The sale deed also specifically mentioned that the amount in question was charged on the net profits of the assessee-company and the assessee-company had accepted that

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obligation as a condition of purchase of the going concern. Hence, it is clearly a case of diversion of income by an overriding charge and not a mere application of income.

3. The issue raised in the problem is based on the concept of diversion of income by overriding title, which is well recognised in the income-tax law. In the instant case, the amount of ₹ 1 lakh, being 20% of profits of the firm, paid to Lakshmi gets diverted at source by the charge created in her favour as per the terms of the partnership deed. Such income does not reach the assessee-firm.

Rather, such income stands diverted to the other person as such other person has a better title on such income than the title of the assessee. The firm might have received the said amount but it so received for and on behalf of Lakshmi, who possesses the overriding title. Therefore, the amount paid to Lakshmi should be excluded from the income of the firm. This view has been confirmed in *CIT vs. Nariman B. Bharucha & Sons (1981) 130 ITR 863 (Bom)*.

4. In the case of *Gowli Buddanna v. CIT (1966) 60 ITR 293*, the Supreme Court has made it clear that there need not be more than one male member to form a HUF as a taxable entity under the Income-tax Act, 2025. The expression "Hindu Undivided Family" in the Act is used in the sense in which it is understood under the personal law of the Hindus.

Under the Hindu system of law, a joint family may consist of a single male member and the widows of the deceased male members and the Income-tax Act, 2025 does not mandate that it should consist of at least two male members. Therefore, the property of a joint Hindu family does not cease to belong to the family merely because the family is represented by a single co-parcener who possesses the right which an owner of property may possess.

Therefore, the HUF would retain its status as such.

5. Section 106 provides that where any amount is borrowed on a hundi or any amount due thereon is repaid otherwise than by way of an account-payee cheque drawn on a bank, the amount so borrowed or repaid shall be

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deemed to be the income of the person borrowing or repaying the amount for the tax year in which the amount was so borrowed or repaid.

In this case, Mr. C has borrowed ₹ 25,000 on Hundi by way of bearer cheque. Therefore, it shall be deemed to be income of Mr. C for the tax year 2026-27. Since the repayment of the same along with interest was made by way of account payee cheque, the same would not be hit by the provisions of section 106. Therefore, the action of the Assessing Officer treating the amount borrowed as income during the tax year is valid in law.

6. The claim of the firm for deduction of the sum of ₹ 60,000 in computing its business income is not tenable. The action of the Assessing Officer in making the addition of ₹ 60,000, being the payment of rent not debited in the books of account (for which the firm failed to explain the source of payment) is correct in law since the same is an unexplained expenditure under section 105. Section 105(2) states that irrespective of any other provision of this Act, such unexplained expenditure, which is deemed to be the income of the assessee, shall not be allowed as a deduction under the Act. Therefore, the claim of the firm is not tenable.

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