UNIVERSITY OF DELHI

INCOME TAX
LAW AND PRACTICE

DSC 5.1

B.Com (Hons.) | B.Com (Prog.) — Third Year, Semester V

UNIT 1
INTRODUCTION

Basic Concepts • Residential Status and Scope of Total Income
Exempted Incomes under Section 11 • Lessons from Kautilya's Taxation Policy

Governed by the INCOME-TAX ACT, 2025

(Act No. 30 of 2025, as amended by the Finance Act, 2026)

read with the INCOME-TAX RULES, 2026

TAX YEAR 2026-27

1 April 2026 to 31 March 2027
Academic Year 2026-27

Compiled by

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The Prescribed Syllabus

THE AUTHORITY FOR THIS SYLLABUS

Resolution No. 4-1-15 — "Resolved that the Amendment to Income tax related papers for B.Com (H), B.Com (Prog), and B.A. (Commerce) papers (In the light of the Income Tax Act 2025 duly approved by the Govt of India) be accepted." — **Appendix-103**

Placed before the Executive Council of the University of Delhi, **EC (1282) dated 29.04.2026**. The amended syllabus takes effect from the Academic Year 2026-27.

The amendment is what makes this paper a paper on the **Income-tax Act, 2025**. Every section reference in the amended syllabus is in the numbering of the new Act — sections 11, 22, 58, 62, 63, 202 and 332 onwards, and Forms 121, 128, 130, 138, 140 and 168. Those provisions have no application to FY 2025-26.

B.Com (Hons.) — Discipline Specific Core Course 5.1 (DSC-5.1)

Credit distribution, eligibility and pre-requisites of the course

Course title & Code	Credits	Lecture	Tutorial	Practical / Practice	Eligibility criteria	Pre-requisite
Income Tax Law and Practice: DSC-5.1	4	3	0	1	Pass in Class XII with Mathematics / Accountancy	NIL

Income Tax Law and Practice — BCH: DSC-5.1

Learning Objectives

The course aims to impart knowledge of law pertaining to levy of income tax in India.

Learning Outcomes

After completion of the course, learners will be able to:

1. Analyse the basic concepts of income tax and determine the residential status of different persons.
2. Compute income under the heads 'salaries' and 'income from house property'.
3. Compute income under the heads 'profits and gains of business or profession' and 'capital gains'.
4. Compute income under the head 'income from other sources' and understand the provisions relating to clubbing of income and set-off losses.
5. Analyse various deductions and computation of total income and tax liability of individuals.

Syllabus

Unit 1: Introduction (9 hours)

Basic concepts: Income; Agricultural income, Person, Assessee, Tax year, Gross Total Income, Total income, Maximum marginal rate of tax and Permanent Account Number (PAN); Residential status: Scope of total income on the basis of residential status; Exempted incomes under section 11; Learning lessons from Kautilya's Taxation Policy.

Unit 2: Computation of Income from Salaries and House Property (11 hours)

Income from Salaries; Income from House Property.

Unit 3: Computation of Income from Business or Profession and Capital Gains (11 hours)

Profits and gains of business or profession; Capital gains.

Unit 4: Income from Other Sources, Clubbing of Income and Set-off (7 hours)

Income from other sources; Income of other persons included in assessee's total income; Aggregation of income and set-off and carry forward of losses.

Unit 5: Deductions and Computation of Total Income and Tax Liability (7 hours)

Deductions from gross total income; Rebates and reliefs; Computation of total income and tax liability of individuals (On-line filing of Returns of Income & TDS).

Practical Exercises

The learners are required to:

1. Prepare a case study for a person resident but not ordinarily resident in India having income under the head other sources of income.
2. Prepare a presentation indicating the impact of alternative tax regime structure on the tax liability of an assessee.
3. Present a hypothetical case wherein the impact of change in the capital gains taxes are reflected as per the relevant Financial Act.
4. Learn about various tax services available on the official website of Government of India.
5. Prepare a list of tax deductions available in case of a senior citizen.
6. Explore and attempt on-line filing of Returns of Income & TDS on Income tax e-filing website under ITR-1 and ITR-2.

Suggested Readings

- Ahuja, G., & Gupta, R. *Simplified Approach to Income Tax.* Delhi, India: Flair Publications Pvt. Ltd.
- Mittal, N. *Concept Building Approach to Income Tax Law and Practice.* Delhi, India: Cengage Learning India Pvt.
- Singhania, V. K., & Singhania, M. *Students' Guide to Income Tax | University Edition.* Delhi, India: Taxmann Publications Private Limited.

Latest edition of books is to be followed.

Additional Readings

- Current Tax Reporter. Jodhpur, India: Current Tax Reporter.
- Income Tax Reports. Chennai, India: Company Law Institute of India Pvt. Ltd.

Note: Suggested readings will be updated by the Department of Commerce and uploaded on the Department's website.

A note on the reading list

Every title on the prescribed list was written for the Income-tax Act, 1961, and an edition printed before April 2026 necessarily carries the section numbers, the rule numbers and the figures that were in force when it went to press. These are standard works and the reasoning in them holds good.

Until their 2026 editions reach you, take the section numbers, the rule numbers and the figures from this booklet, or from the bare Income-tax Act, 2025 and the Income-tax Rules, 2026.

B.Com (Prog.) — Discipline Specific Core Course 5.1 (DSC-5.1)

Credit distribution, eligibility and pre-requisites of the course

Course title & Code	Credits	Lecture	Tutorial	Practical / Practice	Eligibility criteria	Pre-requisite
Income Tax Law and Practice: DSC-5.1	4	3	0	1	Pass in Class XII	NIL

Income Tax Law and Practice — BC: DSC-5.1

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After completion of the course, learners will be able to:

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3. Compute income under the heads 'profits and gains of business or profession' and 'capital gains'.
4. Compute income under the head 'income from other sources' and understand the provisions relating to clubbing of income and set-off losses.
5. Analyse various deductions and computation of total income and tax liability of individuals.

Syllabus

Unit 1: Introduction (9 hours)

Basic concepts: Income; Agricultural income, Person, Assessee, Tax year, Gross Total Income, Total income, Maximum marginal rate of tax and Permanent Account Number (PAN); Residential status: Scope of total income on the basis of residential status; Exempted incomes under section 11; Learning lessons from Kautilya's Taxation Policy.

Unit 2: Computation of Income from Salaries and House Property (11 hours)

Income from Salaries; Income from House Property.

Unit 3: Computation of Income from Business or Profession and Capital Gains (11 hours)

Profits and gains of business or profession; Capital gains.

Unit 4: Income from Other Sources, Clubbing of Income and Set-off (7 hours)

Income from other sources; Income of other persons included in assessee's total income; Aggregation of income and set-off and carry forward of losses.

Unit 5: Deductions and Computation of Total Income and Tax Liability (7 hours)

Deductions from gross total income; Rebates and reliefs; Computation of total income and tax liability of individuals (On-line filing of Returns of Income & TDS).

Practical Exercises

The learners are required to:

1. Prepare a case study for a person resident but not ordinarily resident in India having income under the head other sources of income.
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4. Learn about various tax services available on the official website of Government of India.
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Suggested Readings

- Ahuja, G., & Gupta, R. *Simplified Approach to Income Tax.* Delhi, India: Flair Publications Pvt. Ltd.
- Mittal, N. *Concept Building Approach to Income Tax Law and Practice.* Delhi, India: Cengage Learning India Pvt.
- Singhania, V. K., & Singhania, M. *Students' Guide to Income Tax | University Edition.* Delhi, India: Taxmann Publications Private Limited.

Latest edition of books is to be followed.

Additional Readings

- Current Tax Reporter. Jodhpur, India: Current Tax Reporter.
- Income Tax Reports. Chennai, India: Company Law Institute of India Pvt. Ltd.
- Corporate Professionals Today. Delhi, India: Taxmann.

Note: Suggested readings will be updated by the Department of Commerce and uploaded on the Department's website.

The two courses compared

The syllabus of the two courses is word for word the same — the same five units, the same hours, the same practical exercises. There are exactly two differences, and neither of them affects what is taught.

Point	B.Com (Hons.) — BCH: DSC-5.1	B.Com (Prog.) — BC: DSC-5.1
Eligibility criteria	Pass in Class XII with Mathematics / Accountancy	Pass in Class XII
Additional Readings	Two items — Current Tax Reporter and Income Tax Reports	Three items — the same two, and Corporate Professionals Today (Taxmann)
Credits, units, hours, practical exercises	4 credits (3 lecture + 1 practical); Units 1 to 5; six practical exercises	Identical

Students of both courses may therefore use this material without any adjustment whatever.

Where each Unit is dealt with

Unit	Prescribed content	Where dealt with
Unit 1	Introduction — basic concepts: income, agricultural income, person, assessee, tax year; residential status and scope of total income; incomes exempt from tax	Unit 1 booklet (Introduction) — this booklet
Unit 2	Computation of Income under Different Heads-1 — income from salaries; income from house property	Unit 2 Part A (Salaries); Unit 2 Part B (House Property)
Unit 3	Computation of Income under Different Heads-2 — profits and gains of business or profession; capital gains	Unit 3 Part A (Business or Profession); Unit 3 Part B (Capital Gains)
Unit 4	Income from other sources; income of other persons included in the assessee's total income; set-off and carry forward of losses	Unit 4 Part A (Other Sources); Unit 4 Part B (Clubbing and Set-off)
Unit 5 (A)	Deductions from gross total income; rebates and reliefs	Unit 5 Part A (Deductions, Rebates and Reliefs)
Unit 5 (B)	Computation of total income and tax liability of individuals; filing of returns of income on-line and TDS	Unit 5 Part B (Total Income and Tax Liability)

The teachers' meeting of 4 August 2026

At a joint meeting of the Department of Commerce, Delhi School of Economics and the Department of Commerce, Shri Ram College of Commerce, held on 4 August 2026 under the Department-College Interface, guidelines were settled for this paper "in order to have uniformity and consistency in teaching". Those that bear on this booklet are set out below.

Unit 1: Introduction (9 hours)

Agricultural income. Only concept and simple integration need to be covered. Cases of tea, rubber and coffee need not be covered.

Exempted income. Only these need to be covered — Schedule II (Table: Sl. Nos. 1, 2, 3, 4, 5, 7, 8, 9, 11, 12); Schedule III (Table: Sl. Nos. 1, 8, 9, 11, 12, 13, 17, 18); and section 19 with Schedule III (Table: Sl. No. 38). Of Sl. No. 13, only children education allowance, hostel allowance and transport allowance for disabled employees.

Kautilya's taxation policy. A brief outline.

Two points were recorded for the whole paper. First, the Income-tax Act, 2025 applies from 1 April 2026, so the academic session 2026-27 is an exceptional year and the provisions for the tax year 2026-27 are what is to be taught; it was suggested that tax year 2026-27 be taught in 2027-28 as well. Second, ITR-1 will be done in the academic session 2026-27.

Before You Begin

A word to the student

This is very probably the first time you are studying income tax. Do not be nervous. Income tax looks difficult only because it uses unfamiliar words — "assessee", "tax year", "gross total income", "residential status". Once these words become familiar, the subject becomes one of the most logical and useful papers in your whole degree. Every one of you will file a return of income one day. What you learn here, you will use for the rest of your life.

You are also the **first batch in the country** to study this paper under a brand-new law — the **Income-tax Act, 2025**, which replaced the sixty-four-year-old Income-tax Act, 1961 with effect from **1 April 2026**. Almost every section number you may have heard from a senior student, a coaching class or an old book has changed. This material is written entirely on the new Act, for **Tax Year 2026-27**.

> **THE MOST IMPORTANT POINT IN THIS ENTIRE UNIT — PLEASE READ TWICE**
>
> **Our syllabus for Academic Year 2026-27 is Tax Year 2026-27, that is, income of 1 April 2026 to 31 March 2027, under the Income-tax Act, 2025.**
>
> It is **not** FY 2025-26 / AY 2026-27. Income of FY 2025-26 continues to be governed by the **old** Income-tax Act, 1961, and is assessed in Assessment Year 2026-27. If you study FY 2025-26, you are studying the old Act — which is exactly what the amended syllabus (Appendix-103, Resolution No. 4-1-15) has replaced.
>
> A second point follows from this. Under the 2025 Act the expression **"assessment year" no longer exists**. Unit 1 of our syllabus lists "Tax year" among the basic concepts; "previous year" and "assessment year" have both been dropped. So "AY 2026-27" is **not a valid expression** in the new framework at all.

The Unit 1 syllabus, exactly as prescribed

Unit 1: Introduction (9 hours). Basic concepts: Income; Agricultural income, Person, Assessee, Tax year, Gross Total Income, Total income, Maximum marginal rate of tax and Permanent Account Number (PAN); Residential status: Scope of total income on the basis of residential status; Exempted incomes under section 11; Learning lessons from Kautilya's Taxation Policy.

How this material is arranged

- **Chapter 1** places income tax in its constitutional and legal framework — where the Government gets the power to tax you, and what the five sources of income-tax law are.
- **Chapter 2** takes the basic concepts one by one, with the new section numbers, plain-language explanations and solved illustrations.
- **Chapter 3** gives the rates of tax for Tax Year 2026-27 and explains the maximum marginal rate.
- **Chapter 4** deals with residential status (section 6) and scope of total income (section 5) — the heart of this Unit and a certain examination question.
- **Chapter 5** covers exempted incomes under section 11 read with Schedules II to VIII.
- **Chapter 6** is on Kautilya's taxation policy and the lessons it holds for a modern tax system.
- **Chapter 7** is for revision — an old-section-to-new-section ready reckoner, a glossary, objective questions with answers, and practical problems with solutions.

A note on the symbol ₹ and on rounding. All amounts are in Indian rupees. Under **section 516** of the Act, the amount of total income computed, and any amount payable or refundable, is rounded off to the nearest multiple of ₹10, ignoring paise. Follow this in the examination — it earns marks.

> **A STUDY TIP THAT WORKS**
>
> Do not try to memorise section numbers on day one. First understand the idea; the number will stick by itself when you have used it four or five times. In the examination, a correct answer without a section number gets most of the marks; a section number without understanding gets none.

The sources from which this material has been written

Source	What it settles in this Unit
Income-tax Act, 2025 (Act No. 30 of 2025) — assent 21 August 2025, in force 1 April 2026	Sections 2, 3, 4, 5, 6, 11, 12, 13, 122, 156, 202, 262, 467, 516 and Schedules II, III, VII and VIII
Finance Act, 2026 — assent 30 March 2026 (Finance Bill No. 3 of 2026, introduced 1 February 2026)	Rates of income-tax for Tax Year 2026-27 in Part I-B of the First Schedule; surcharge; marginal relief; the aggregation of agricultural income
Income-tax Rules, 2026 — G.S.R. 198(E) dated 20 March 2026, in force 1 April 2026	Rule 159 (transactions in which PAN is to be quoted)
Memorandum explaining the provisions of the Finance Bill, 2026	The reason for, and effect of, the amendment to section 262(10)(c)
CBDT Circular No. 28/2016 dated 27 July 2016, following *Prabhu Dayal Sesma v. State of Rajasthan*	The date on which a person attains the age of 60 or 80 years

What the Finance Act, 2026 changed for this Unit

Very little. Compared with the Income-tax Act, 2025 as it was passed last year, almost nothing in this Unit has moved — so the figures you learn this year are the figures the Act carried when it was first enacted.

Point	Position for Tax Year 2026-27
Slab rates under section 202 (the default regime)	**No change.** The Memorandum states in terms that there is no change proposed in the rates in section 202 or in the First Schedule.
Rates under Part I-B of the First Schedule (the optional regime)	**No change** — ₹2,50,000 / ₹3,00,000 / ₹5,00,000 exemption limits and the 5%, 20% and 30% slabs continue.
Surcharge, marginal relief, health and education cess	**No change.** Cess remains 4%; no marginal relief is available against cess.
Rebate under section 156	**No change** — ₹60,000 and ₹12,500.
Section 262(10)(c) — PAN	Amended. The Board's power to prescribe documents in which PAN must be quoted was confined to documents "pertaining to business or profession". The words "or other transactions" have been added, so that the power now extends to documents having nothing to do with a business — which is what Rule 159 in fact prescribes. Effective 1 April 2026.
Section 202(2)(a)(iii)	Omitted, so that the deduction under section 144 (a unit newly established in a Special Economic Zone) is no longer among the deductions withdrawn by the default regime. Of no consequence to an ordinary individual assessee, but part of the section as it now stands.

About this booklet

This booklet has been prepared by Artificial Intelligence — Claude Opus 5.0 (Anthropic) — under the guidance and supervision of Advocate Dr. S. B. Rathore in the first week of August 2026, from the bare text of the Income-tax Act, 2025 and the Income-tax Rules, 2026 as downloaded from incometaxindia.gov.in.

Date: 05-08-26 (Original)   Updated on: 06-08-26

SUGGESTIONS AND CORRECTIONS ARE WELCOME

This is the first year in which this paper is being taught under the Income-tax Act, 2025, and the first edition of any material is bound to be capable of improvement. If you notice a discrepancy — a section number, a figure, a rate, a date — or if you have a suggestion on the presentation, the arrangement of topics, the illustrations, or anything else that would make the material easier for a student, please write to me. Teachers of other colleges are equally welcome to send their comments.

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Corrections received will be carried into the next revision, and the corrected file will be uploaded on the website.

CONTENTS

Contents

Page numbers refer to this booklet. Chapter headings are shown in bold.

CHAPTER 1

The Framework of Income Tax Law in India

Before we look at any definition, it helps to know three things: why the Government can tax your income at all, where the law comes from, and how the new Act is built. Ten minutes spent here will save you many hours later.

1.1 Direct tax and indirect tax

A **direct tax** is one where the person who pays the tax to the Government is also the person who really bears its burden. You earn a salary, you pay income tax on it, and you cannot pass that burden on to anybody else. Income tax is therefore the most important direct tax in India.

An **indirect tax** is one where the burden is shifted. When a shopkeeper collects GST from you and deposits it with the Government, the shopkeeper pays it but you bear it. GST and customs duty are indirect taxes.

1.2 The constitutional foundation

India is a Union of States, so the Constitution has to say clearly who may tax what. Four provisions matter to us.

Provision	What it says	Why it matters to us
Article 265	No tax shall be levied or collected except by authority of law.	The Income Tax Department cannot demand even one rupee unless a law passed by Parliament allows it. This is the taxpayer's basic protection.
Article 246 read with the Seventh Schedule	Divides subjects into the Union List, the State List and the Concurrent List.	It tells us whether Parliament or a State Legislature can tax a particular thing.
Entry 82, Union List	Taxes on income other than agricultural income.	Parliament can tax your salary, business profits, capital gains and so on — but not agricultural income.
Entry 46, State List	Taxes on agricultural income.	Only a State Legislature can tax agricultural income. This single line is the whole reason agricultural income is exempt from central income tax.

REMEMBER THIS LOGIC CHAIN

Agricultural income is not exempt because the Government is being kind to farmers. It is exempt from **central** income tax because the Constitution never gave Parliament the power to tax it in the first place.

1.3 A very short history

- **1860 —** Income tax was introduced in India by Sir James Wilson, the first Finance Member, to make good the losses suffered by the Government after the events of 1857. It was meant to be temporary.
- **1886 —** A more permanent Indian Income-tax Act was passed, and the tax has been with us ever since.
- **1918 and 1922 —** Fresh Acts. The Act of 1922 was important because it set the pattern of a permanent Act with the rates fixed every year by a separate Finance Act — a pattern we still follow.
- **1961 —** On the recommendations of the Law Commission and the Direct Taxes Administration Enquiry Committee (Mahavir Tyagi Committee), the Income-tax Act, 1961 was passed. It came into force on 1 April 1962 and served the country for sixty-four years.

- **2025 —** The Income-tax Act, 2025 was passed by the Lok Sabha on 11 August 2025 and by the Rajya Sabha on 12 August 2025, and received the assent of the President on **21 August 2025** as Act No. 30 of 2025. Section 1(3) brought it into force on **1 April 2026**, and section 536(1) repealed the 1961 Act.

1.4 Why a new Act was needed

The 1961 Act had been amended thousands of times over six decades. Sections had been inserted, deleted and re-inserted until the numbering itself became a maze — 80-IA, 80-IAB, 80-IAC, 80-IB, 80-IBA; 44AD, 44ADA, 44AE, 44B, 44BB, 44BBA, 44BBB. Sentences ran to hundreds of words with provisos inside provisos. The result was uncertainty and, inevitably, litigation.

The Income-tax Act, 2025 does not change tax policy very much. Rates, slabs and deduction limits are broadly the same. What it changes is the drafting and the architecture:

- Shorter sentences, arranged in numbered sub-sections instead of long provisos.
- Tables and formulae in place of dense prose.
- A clean, continuous numbering scheme with no letter-suffixed sections.
- Long lists — exemptions, deductions, presumptive rates, TDS rates — moved out of the sections and into Schedules, so that the operative section stays short and readable.
- The definitions in section 2 arranged in alphabetical order, so that a term can be found without an index.
- One single concept of "tax year" in place of "previous year" and "assessment year".

	Income-tax Act, 1961	Income-tax Act, 2025
Sections	About 819, many with letter-suffixes (80-IAC, 44ADA, 115BAC ...)	**536**, continuously numbered, no letter-suffixes
Chapters	Chapters I to XXIII, but with letter-suffixed chapters added over the years the working count reaches about 47	**23**, with no letter-suffixed chapters
Schedules	14	**16**
Year concept	Previous year **and** assessment year	**Tax year** — one concept
Rules	Income-tax Rules, 1962	**Income-tax Rules, 2026** (G.S.R. 198(E) dated 20 March 2026)
In force	1 April 1962 to 31 March 2026	From **1 April 2026**

1.5 The five sources of income tax law

When you are asked "what is the law on this point?", the answer may lie in any of five places. Learn all five — this is a favourite short-answer question.

1. **The Income-tax Act, 2025.** The parent law, passed by Parliament. It contains 536 sections in 23 chapters and 16 Schedules, and extends to the whole of India.
2. **The annual Finance Act.** Passed every year after the Union Budget. It fixes the rates of tax, surcharge and cess for the year and makes amendments to the Act. For our Tax Year 2026-27 the relevant one is the **Finance Act, 2026**. The Act tells us *what* is taxable; the Finance Act tells us *at what rate*.
3. **The Income-tax Rules, 2026.** Made by the Central Board of Direct Taxes (CBDT) under section 533, the rule-making power given by the Act. Rules fill in procedure and detail — forms, valuation methods, time limits. A Rule cannot go beyond the Act.

4. **Circulars and Notifications.** Issued by the CBDT. A **circular** explains how the Department will apply a provision; it binds the income-tax authorities but not the assessee and not the courts, and a circular favourable to the assessee can always be relied upon. A **notification** is published in the Official Gazette and has the force of law where the Act permits it.
5. **Judicial decisions.** Where the language of the Act is doubtful, the courts interpret it. A decision of the **Supreme Court** is the law of the land and binds everybody (Article 141). A **High Court** decision binds the authorities and Tribunals within its jurisdiction. Decisions of the Income Tax Appellate Tribunal have persuasive value.

1.6 How to read a section

The Act is written in a fixed structure. Once you know the vocabulary, references such as "section 6(13)(a)(ii)" stop looking frightening.

Term	Meaning	Example from our Unit
Chapter	A group of sections dealing with one broad subject.	Chapter II — Basis of Charge (sections 4 to 10).
Section	The basic unit of the Act.	Section 6 — Residence in India.
Sub-section	A numbered part of a section, shown in round brackets. Read together with the other sub-sections.	Section 6(2) — when an individual is resident.
Clause / sub-clause	A lettered or small-roman part, each independent of the other.	Section 6(2)(a) — the 182-day test; 6(2)(b) — the 60-day plus 365-day test.
Schedule	A list attached at the end of the Act, given effect by a section.	Schedule II, listing incomes exempt under section 11.
Proviso	An exception or a condition; it carves something out of the main provision.	Under the 2025 Act most provisos have been rewritten as separate sub-sections.
Explanation	Clarifies or extends the meaning of the main provision.	Section 6(14) explains "income from foreign sources".
"Means"	An exhaustive definition — nothing else can be added.	"Tax year" **means** the twelve months period of the financial year commencing on 1 April [section 3(1)].
"Includes"	An inclusive definition — the list is illustrative and the ordinary meaning also survives.	"Income" **includes** profits and gains, dividend, capital gains, winnings from lotteries, and so on [section 2(49)].
"Irrespective of anything contained in…"	A non-obstante clause. The provision overrides whatever the other provision says.	Section 6(7) begins "Irrespective of the provisions of sub-sections (2) to (6)…".

"MEANS" OR "INCLUDES" — WHY EXAMINERS LOVE THIS

If a definition says **means**, the door is shut: only what is listed is covered. If it says **includes**, the door stays open: what is listed is covered, and so is anything that would ordinarily fall within the word. This is why the courts have been able to hold, over the years, that receipts not named in section 2(49) are still "income".

1.7 The road map of a tax computation

Everything you will study in the five Units of this paper fits into a single ladder. Keep this page in front of you the whole semester.

Step	What you do	Where you learn it
1	Find out who the assessee is and what his residential status is [sections 2(11), 6].	Unit 1
2	Apply the scope of total income to decide which receipts enter the Indian tax net at all [section 5].	Unit 1
3	Throw out the incomes that are exempt [section 11 with Schedules II to VII; section 12 with Schedule VIII].	Unit 1
4	Classify the remaining income under the five heads [section 13] and compute income under each head.	Units 2, 3 and 4
5	Club the income of certain other persons where the law requires it [sections 96 to 100].	Unit 4
6	Set off losses and carry forward what cannot be set off [sections 108 to 121].	Unit 4
7	Add up. The total so arrived at is the **gross total income** [section 122(10)].	Unit 1 (concept); Unit 5
8	Subtract the deductions of Chapter VIII [sections 122 to 154]. The result is the **total income**.	Unit 5
9	Round off total income to the nearest ₹10 [section 516] and apply the rates of tax.	Unit 1 (rates); Unit 5
10	Add surcharge if applicable; allow marginal relief; subtract rebate under section 156; add health and education cess at 4%.	Unit 1 (concept); Unit 5
11	Subtract TDS, TCS, advance tax and self-assessment tax already paid. Pay the balance, or claim the refund.	Unit 5

Notice the direction of travel. We move from the widest circle — every receipt of the person — to the narrowest, the rupees actually payable. Each step throws something out. If at any point you cannot say *which step am I on*, stop and come back to this table.

CHAPTER 2

Basic Concepts

The syllabus names eight basic concepts. We take them in the order in which they are actually used when a computation is made: first what is taxed (income, agricultural income), then who is taxed (person, assessee), then for which period (tax year), then under which authority (charge of tax), and finally the two figures every computation ends with — gross total income and total income — together with the taxpayer's identity number, the PAN.

2.1 Income [Section 2(49)]

The Act does not define "income" in the ordinary dictionary sense. Section 2(49) says that income **"includes"** a long list of items. Because the word used is "includes" and not "means", the definition is **inclusive and not exhaustive** — the listed items are certainly income, and anything which would in ordinary commercial usage be regarded as income is also income.

What section 2(49) expressly includes

#	Item included in "income"	Example
1	Profits and gains [cl. (a)]	Profit of a trader from selling goods.
2	Dividend [cl. (b)]	Dividend declared by an Indian company to its shareholders.
3	Voluntary contributions received by a registered non-profit organisation, an electoral trust, or a specified university, hospital or institution [cl. (c)]	Donation received by a registered charitable institution.
4	The value of any perquisite or profit in lieu of salary taxable under sections 17 and 18 [cl. (d)]	Rent-free accommodation given by an employer.
5	Special allowances granted to meet the duties of an office, and allowances granted to meet personal expenses at the place of duty or to compensate for an increased cost of living [cll. (e), (f)]	Travelling allowance; dearness allowance.
6	The value of a benefit or perquisite obtained from a company by a director, by a person having a substantial interest, or by their relative [cl. (g)]	Interest-free loan given by a company to its director.
7	Sums chargeable under the business or profession provisions and under section 95 [cl. (i)]	Recovery of a bad debt earlier allowed as a deduction.
8	Any capital gains chargeable under section 67 [cl. (k)]	Gain on sale of a plot of land or of listed shares.
9	Profits of an insurance business carried on by a mutual insurance company or a co-operative society, and profits of banking carried on by a co-operative society with its members [cll. (l), (m)]	Surplus of a co-operative bank.

#	Item included in "income"	Example
10	Winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort, gambling or betting of any form [cl. (n)]	Prize money won on a television game show.
11	Employees' contributions to provident, superannuation or ESI funds received by the employer [cl. (o)]	The employee's share of PF deducted from salary and held by the employer.
12	Any sum received under a Keyman insurance policy, including bonus [cl. (p)]	Maturity proceeds of a Keyman policy taken by a firm on its working partner.
13	Sums of money and the value of property referred to in section 92(2) — gifts above the prescribed limit [cll. (t), (u)]	A gift of ₹1,00,000 in cash received from a friend.
14	Assistance in the form of a subsidy, grant, cash incentive, duty drawback, waiver, concession or reimbursement by the Government or any authority, in cash or kind [cl. (w)]	An export incentive received by an exporter.

The characteristics of income — the tests you should apply

1. **Regular or casual, income is income.** A monthly salary and a once-in-a-lifetime lottery prize are both income. Regularity is not essential.
2. **Legal or illegal, income is income.** The Act taxes income; it does not sit in judgment on how it was earned. Profits of smuggling are as taxable as profits of a grocery shop. The courts settled this long ago.
3. **Cash or kind.** Income received in kind is valued at its money worth and taxed. A free flat given by an employer is income.
4. **Received or accrued.** Income is taxable when it accrues or arises, or when it is received, whichever is earlier. It is not taxed twice — section 5(4) says so in terms.
5. **It must come in from outside.** You cannot make a profit by dealing with yourself. This is the principle of mutuality — the surplus of a members' club collected from its own members is not income.
6. **It must be real, not notional.** The Act taxes real income. If rent has become irrecoverable, there is no income to tax.
7. **Temporary or permanent, lump sum or instalments.** The manner and duration of receipt make no difference.
8. **Even a loss is "income".** A negative figure is treated as income for the purpose of set-off and carry forward. This is why the definition of "assessee" in section 2(11) speaks of "the assessment of his income or of the loss sustained by him".

Capital receipt and revenue receipt

This distinction runs right through the paper. The general rule is simple:

- **A revenue receipt is taxable** unless it is specifically exempted.
- **A capital receipt is not taxable** unless it is specifically made taxable — the biggest example being capital gains, which are capital receipts that the Act deliberately brings to charge under section 67.

The classical test is the **tree and fruit** test. The tree is the source; the fruit is what the source yields. Sell the fruit and you have a revenue receipt. Sell the tree and you have a capital receipt. Rent from a shop is revenue; the price got on selling the shop is capital.

Receipt	Nature	Why
Salary of ₹8,00,000 for the year	Revenue	The fruit of the employment; the employment continues.
Retrenchment compensation on losing the job	Capital in nature (specifically dealt with by the Act)	The source of income itself is destroyed.
Rent received from a house	Revenue	Yield from the asset.
Sale price of the house	Capital (charged as capital gains)	The asset itself is parted with.
Compensation for loss of trading stock	Revenue	Stock-in-trade is circulating capital.
Compensation for the compulsory acquisition of a factory building	Capital	A fixed asset is taken away.
Amount received for agreeing not to compete in a business	Capital in nature (but specifically taxable under the Act)	A source of earning is given up.

Application of income and diversion by overriding title

Students confuse these two constantly, and examiners know it.

- **Application of income.** The income first reaches you, and then you spend it on somebody. It is your income and it is fully taxable. If A earns ₹5,00,000 and, out of affection, gives ₹1,00,000 to his brother every year, the whole ₹5,00,000 is A's income.
- **Diversion by overriding title.** Somebody else has a legal right to the amount *before* it reaches you, so it never becomes your income at all. If under a decree of court or the terms of a partnership deed a fixed share must go to a third party at source, only the balance is your income.

> **THE ONE-LINE TEST**
>
> Ask: was the amount diverted **before** it became my income, or did I part with it **after** it became my income? Before — not taxable in my hands. After — taxable in my hands, however noble my purpose.

2.2 Agricultural Income [Section 2(5)]

Agricultural income is defined in section 2(5) of the Income-tax Act, 2025 — the old section 2(1A) of the 1961 Act. It is exempt from central income tax under section 11 read with Schedule II (Table: Sl. No. 1) — but, as we shall see, it may still push up the rate of tax on your other income.

The definition — four limbs

(a) Rent or revenue from land. Any rent or revenue derived from land which is situated in India and is used for agricultural purposes.

(b) Income derived from such land by —

- agriculture; or
- the performance, by a cultivator or a receiver of rent-in-kind, of a process ordinarily employed to render the produce fit to be taken to market; or
- the sale, by a cultivator or a receiver of rent-in-kind, of the produce raised or received by him, on which no process other than the ordinary process mentioned above has been performed.

(c) Income from a farm building owned and occupied by the receiver of the rent or revenue of such land, or occupied by the cultivator or receiver of rent-in-kind, provided that —

- the building is on or in the immediate vicinity of the land; and the land is assessed to land revenue in India or is subject to a local rate — or, if it is not so assessed, the land is not situated in an urban area of the kind described in section 2(22)(iii)(A) or (B); and
- the building is required as a dwelling house, or a store-house, or another out-building, by reason of the occupier's connection with the land.

(d) Nursery income. Any income derived from saplings or seedlings grown in a nursery. This is agricultural income whether or not the basic operations of agriculture were carried out on land.

What the definition expressly leaves out

- Income from a farm building or the land under limb (c) where the building or land is used for any purpose other than agriculture — for example, letting it out as a residence or for a business.
- Any income arising from the transfer of urban agricultural land of the kind described in section 2(22)(iii)(A) or (B). Such a gain is a capital gain, not agricultural income.

The three essential conditions

Whenever a problem asks you whether a receipt is agricultural income, test it against three conditions. All three must be satisfied.

1. **The income must be derived from land.** There must be a direct, and not a remote, connection with the land.
2. **The land must be situated in India.** Agricultural income from land in Nepal or Sri Lanka is **not** exempt. It is taxable under the head "income from other sources" for a resident and ordinarily resident.
3. **The land must be used for agricultural purposes.** This is where the Supreme Court's decision in *CIT v. Raja Benoy Kumar Sahas Roy* comes in. The Court distinguished —
   - **Basic operations** — tilling of the land, sowing of seeds, planting, and similar operations that require human skill and labour *on the land itself*. These are essential.
   - **Subsequent operations** — weeding, digging the soil around the growth, removal of undesirable undergrowth, tending, pruning, cutting, harvesting and rendering the produce fit for market. Subsequent operations alone are **not** enough; they must follow basic operations.

This is why income from the sale of trees of spontaneous growth — where nobody sowed or planted anything — is not agricultural income.

Is it agricultural income? A ready table

Agricultural income	NOT agricultural income
Rent received from a tenant for agricultural land in India.	Income from land situated outside India.
Income from the sale of crops raised by the cultivator.	Income from the sale of trees of spontaneous growth.
Income from growing flowers and creepers.	Income from a dairy farm, poultry farming or fish breeding.
Income from saplings or seedlings grown in a nursery.	Income from breeding of livestock, bee-keeping or silkworm rearing.
Income from a farm house satisfying the conditions of limb (c).	Rent for a farm house let out for residential or business purposes.
Profit on the sale of standing crop.	Profit on the sale of urban agricultural land — this is a capital gain.
Compensation from an insurance company for damage to a crop.	Interest received on arrears of rent from agricultural land.

Agricultural income	NOT agricultural income
Share of a partner in the agricultural income of a firm.	Salary paid to a manager for looking after a farm — this is salary income.
Income from a process ordinarily employed to make the produce marketable, e.g. threshing, winnowing, drying.	Income from a process not ordinarily employed, e.g. converting sugarcane into sugar in a factory.
Rent-in-kind received by the landlord and sold as received.	Dividend received from a company whose income is agricultural.

Two traps that catch students every year

Trap 1 — land outside India. Read the definition again: "land which is situated in India". Foreign agricultural income enjoys no exemption. For a resident and ordinarily resident it is taxable in India under "income from other sources".

Trap 2 — dividend. A tea company may earn agricultural income, but when it distributes a dividend, that dividend is not agricultural income in the shareholder's hands. Exemption does not travel down the chain.

Income that is partly agricultural and partly business

Some businesses grow the raw material themselves and then manufacture from it. Where that happens the receipt has to be split: the part attributable to the growing of the produce is agricultural income and exempt, and the part attributable to the manufacture is business income and taxable.

In every other case where an assessee uses his own agricultural produce as the raw material of a business, the **market value** of that produce on the date it was taken to the factory is the dividing line. The market value less the cost of cultivation is agricultural income; the excess of the sale proceeds of the finished goods over that market value plus the manufacturing costs is business income.

Illustration 2.1 — the market value method

Shri Mohan grows sugarcane on his own field and manufactures gur from it. During Tax Year 2026-27 — cost of cultivating the sugarcane ₹3,00,000; market value of the sugarcane when taken to his gur unit ₹5,00,000; manufacturing expenses ₹1,20,000; sale proceeds of gur ₹8,00,000.

Agricultural income = ₹5,00,000 – ₹3,00,000 = **₹2,00,000** (exempt).

Business income = ₹8,00,000 – ₹5,00,000 – ₹1,20,000 = **₹1,80,000** (taxable).

Partial integration — how exempt income still raises your tax

Agricultural income is exempt, and it will never itself be taxed. But **section 3(2) of the Finance Act, 2026** provides that in certain cases it must be added to the other income for the limited purpose of finding the rate at which the other income will be taxed. This is called partial integration, or the aggregation of agricultural income.

It applies only when BOTH the following conditions are satisfied —

- net agricultural income for the tax year exceeds **₹5,000**; and
- the total income (excluding agricultural income) exceeds the maximum amount not chargeable to income-tax applicable to the assessee.

And it applies only to an individual, a Hindu undivided family, an association of persons or body of individuals, and an artificial juridical person referred to in section 2(77)(g). It does **not** apply to a firm, a limited liability partnership, a company, a co-operative society or a local authority — their income is taxed at a flat rate, so the slab makes no difference.

The maximum amount not chargeable to income-tax, for this purpose

Assessee	Maximum amount not chargeable to income-tax
Any assessee whose income is chargeable to tax under **section 202** (the default regime)	**₹4,00,000**
Resident individual aged 80 years or more at any time during the tax year (optional regime)	₹5,00,000
Resident individual aged 60 years or more but less than 80 years at any time during the tax year (optional regime)	₹3,00,000
Every other individual, HUF, AOP or BOI, and artificial juridical person under section 2(77)(g) (optional regime)	₹2,50,000

The three steps

1. Compute tax on (non-agricultural total income **+** net agricultural income), as though the whole were taxable.
2. Compute tax on (net agricultural income **+** the maximum amount not chargeable to income-tax applicable to the assessee).
3. Step 1 **minus** Step 2 is the tax on the non-agricultural income. Then apply the rebate under section 156 if eligible, add surcharge if applicable, and add health and education cess at 4%.

Illustration 2.2 — partial integration (default regime, Tax Year 2026-27)

Shri Anil, aged 45 years, has non-agricultural total income of ₹14,00,000 and net agricultural income of ₹2,00,000 for Tax Year 2026-27. He is taxed under the default regime of section 202. Compute his tax liability.

Step 1 — tax on ₹14,00,000 + ₹2,00,000 = ₹16,00,000. Up to ₹4,00,000 — Nil; ₹4,00,001 to ₹8,00,000 @ 5% = ₹20,000; ₹8,00,001 to ₹12,00,000 @ 10% = ₹40,000; ₹12,00,001 to ₹16,00,000 @ 15% = ₹60,000. **Total = ₹1,20,000**

Step 2 — tax on ₹2,00,000 + ₹4,00,000 = ₹6,00,000. Up to ₹4,00,000 — Nil; ₹4,00,001 to ₹6,00,000 @ 5% = ₹10,000. **Total = ₹10,000**

Step 3 — ₹1,20,000 – ₹10,000 = ₹1,10,000. Rebate under section 156 is not available, because total income of ₹14,00,000 exceeds ₹12,00,000. Surcharge does not apply. Add health and education cess @ 4% = ₹4,400.

Tax payable = ₹1,14,400

Observe: had there been no agricultural income, the tax on ₹14,00,000 alone would have been ₹90,000 plus cess, that is ₹93,600. The exempt agricultural income of ₹2,00,000 has therefore cost him ₹20,800 more in tax, without itself being taxed. That is precisely what "partial integration" means.

A drafting point worth knowing

Net agricultural income for this purpose is computed under the rules given in the Finance Act itself, and a loss from agriculture cannot be set off against non-agricultural income. Note also that an assessee with agricultural income above ₹5,000 cannot use ITR-1 or ITR-4; he must file ITR-2 or ITR-3.

2.3 Person [Section 2(77)]

Income tax is charged on the total income of every "person". The word has a technical meaning far wider than its ordinary one. Section 2(77) says that "person" **includes** seven categories.

	Category	**What it means**	**Examples**
(a)	Individual	A natural human being — male or female, major or minor, of sound mind or not. A minor's income is normally clubbed with a parent's income under section 99; a deceased person is assessed through the legal representative.	Shri Ram Kumar; Ms. Priya, aged 14.
(b)	Hindu undivided family (HUF)	A family consisting of all persons lineally descended from a common ancestor, including their wives and unmarried daughters. It is not created by agreement; it comes into existence by status. Its manager is the Karta. Jain, Sikh and Buddhist families are also assessed as HUFs.	Shri Ram Kumar & Sons (HUF).
(c)	Company	Defined in section 2(28) — an Indian company, or a body corporate incorporated under the laws of a country outside India, or an institution assessed as a company under the 1961 Act, or a body declared by the Board to be a company.	Reliance Industries Ltd.; a foreign company.
(d)	Firm	As defined in the Indian Partnership Act, 1932 [section 2(45)], and expressly including a limited liability partnership.	M/s Sharma & Verma; ABC LLP.
(e)	Association of persons (AOP) or body of individuals (BOI), whether incorporated or not	An AOP is two or more persons — who may themselves be individuals, companies or firms — joining together for a common purpose of producing income. A BOI can have only individuals as its members.	A joint venture of two companies for one project; a group of individuals pooling money to buy and let out property.
(f)	Local authority	A municipal committee, district board, panchayat, cantonment board, port trust or other authority legally entitled to the control or management of a municipal or local fund.	Municipal Corporation of Delhi; a Zila Parishad.
(g)	Every artificial juridical person not falling within any of the above	An entity which the law treats as a person though it is neither a natural person nor covered above.	A deity or an idol; a university created by statute; a Bar Council.

THE RIDER AT THE END OF SECTION 2(77) — DO NOT MISS IT

The clause closes by saying that an association of persons, a body of individuals, a local authority or an artificial juridical person is a "person" **whether or not** it was formed or established or incorporated with the object of deriving income, profits or gains. So a club or a society formed purely for social purposes is still a "person", and if it does earn income, that income is chargeable.

AOP and BOI — the difference

Point	Association of Persons (AOP)	Body of Individuals (BOI)
Who can be a member	Any person — an individual, a company, a firm, an HUF.	Only individuals.
How it comes into being	By the volition of the members, who join for a common purpose.	It may exist without any common design; the members need only be a body.
Common object	There must be a common object of producing income.	A common object is not essential.
Example	Two companies forming a consortium to execute a contract.	Three brothers who inherit a property jointly and receive rent from it.

2.4 Assessee [Section 2(11)]

"Assessee" means a **person** by whom any tax **or any other sum of money** is payable under the Act — the words in bold matter, because interest, penalty and fine are also "any other sum of money". The definition then **includes** three further categories:

1. every person in respect of whom any proceeding under the Act has been taken — (i) for the assessment of his income, or of the loss sustained by him, or of a refund due to him; or (ii) for the assessment of the income of any other person in respect of which he is assessable, or of the loss or refund of such other person;
2. every person who is deemed to be an assessee under the Act;
3. every person who is deemed to be an assessee in default under the Act.

The four kinds of assessee

Kind	Who he is	Example
Ordinary or normal assessee	A person liable to pay tax, interest or penalty on his own income; or a person who has sustained a loss and filed a return of that loss; or a person entitled to a refund.	A salaried employee filing his return of income for Tax Year 2026-27.
Representative assessee	A person assessed in respect of the income of another person — the agent of a non-resident, the guardian of a minor, the trustee of a trust, the legal representative of a deceased person [section 303].	The guardian of a minor who has income from a fixed deposit made in the minor's name.
Deemed assessee	A person whom the Act deems to be an assessee, though the income is not his own in the ordinary sense.	The executor of a will, in respect of the income of the estate of the deceased.

Kind	Who he is	Example
Assessee in default	A person who has failed to fulfil a statutory obligation cast on him — most commonly, an employer who has deducted tax at source but not deposited it with the Government.	A company that deducted TDS from salaries and failed to pay it to the credit of the Central Government.

Two points that fetch marks

One — every assessee is a person, but every person is not an assessee. A person becomes an assessee only when something is payable by him under the Act, or a proceeding is taken in respect of him.

Two — a person who has only a **loss**, and pays no tax at all, is still an assessee, because a proceeding has been taken for the assessment of the loss sustained by him. Similarly a person claiming only a refund is an assessee.

2.5 Tax Year [Section 3]

This is the single most visible change made by the Income-tax Act, 2025, and the syllabus lists it deliberately.

The definition

Section 3(1) — “Tax year” means the twelve months period of the financial year commencing on the 1st April.

Section 3(2) — 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 is the period beginning with the date of setting up of that business or profession, or the date on which that source of income comes into existence, and ending with that financial year.

So a tax year is normally 1 April to 31 March. It can be **shorter** than twelve months in the first year of a new business or a new source of income, but it can **never be longer** than twelve months.

What has been abolished

Under the Income-tax Act, 1961, two years had to be kept in mind at the same time:

- **Previous year** — the financial year in which the income was earned;
- **Assessment year** — the next financial year, in which that income was assessed and the return was filed.

Both expressions are **gone**. The 2025 Act has one label only. Income earned between 1 April 2026 and 31 March 2027 belongs to **Tax Year 2026-27**, is taxed at Tax Year 2026-27 rates, and the return relating to it is the Tax Year 2026-27 return. There is no “Assessment Year 2027-28”.

	Under the 1961 Act	Under the 2025 Act
Income earned 1.4.2026 – 31.3.2027 would have been called	Previous Year 2026-27	**Tax Year 2026-27**
The year of assessment / filing would have been called	Assessment Year 2027-28	No separate name; it is simply the Tax Year 2026-27 return
Number of year-labels to remember	Two	**One**
Section	Section 3 (previous year) and section 2(9) (assessment year)	Section 3 (tax year)

Illustration 2.3 — the first tax year of a new business

Smt. Kavita opened a boutique on 1 October 2026. She also joined a company as a consultant on 1 January 2027. What is her first tax year for each source?

Boutique: the business was newly set up on 1 October 2026, so under section 3(2) the tax year runs from 1 October 2026 to 31 March 2027 — a period of six months.

Consultancy: the source of income newly came into existence on 1 January 2027, so the tax year for that source runs from 1 January 2027 to 31 March 2027 — three months.

From Tax Year 2027-28 onwards, both will follow the ordinary twelve-month period, 1 April to 31 March.

Why "financial year" has not disappeared

You will still see the words "financial year" in the Act, in the Rules and on the e-filing portal — for example in due dates, in the payment of advance tax and in TDS statements. "Financial year" takes its meaning from the General Clauses Act, 1897 and runs from 1 April to 31 March. The tax year is the twelve-month period *of* that financial year. In substance the two describe the same window; "tax year" is the label used for charging income to tax.

2.6 Charge of income-tax [Section 4]

Section 4 is the charging section. Everything else in the Act is machinery to give effect to it. In the 1961 Act it was one dense sub-section with a proviso; the 2025 Act breaks the same idea into short sub-sections.

The essential features

1. **Income-tax is charged for a tax year.** Every tax year is a separate, self-contained unit of assessment.
2. **The rate is fixed by a Central Act.** The Act creates the charge; the annual Finance Act supplies the rate. For us it is the Finance Act, 2026 together with section 202 of the Act.
3. **The charge is on total income.** Not on gross receipts, not on turnover, but on the total income computed in the manner laid down in the Act [section 4(2)].
4. **The charge is on every person.** All seven categories of section 2(77).
5. **It is the total income of the tax year that is charged.** Income of Tax Year 2026-27 is charged in and for Tax Year 2026-27 — the great simplification of the new Act.
6. **Income-tax includes any additional income-tax, by whatever name called** [section 4(3)]. So a specially named levy on income is still income-tax.
7. **Tax is collected in advance and at source** [section 4(5)]. You do not wait until the year ends.
8. **Where the Act provides that income-tax is to be charged in respect of the income of a period other than the tax year, it shall be charged accordingly** [section 4(4)].

The relation between the Act and the Finance Act

Think of the Act as the **pipe** and the Finance Act as the **tap**. The Act decides what flows and from where; the Finance Act decides how much flows this year. Without a Finance Act fixing the rates, the charge under section 4 cannot be given effect for that year.

2.7 The five heads of income [Section 13]

All income, from whatever source, must be classified under one — and only one — of five heads. The head under which an item falls decides the rules by which it is computed. This is the skeleton of Units 2, 3 and 4.

	Head of income	Sections in the 2025 Act	Studied in
A	Salaries	15 to 19	Unit 2
B	Income from house property	20 to 25	Unit 2
C	Profits and gains of business or profession	26 to 66	Unit 3
D	Capital gains	67 to 91	Unit 3
E	Income from other sources	92 to 95	Unit 4

"Income from other sources" is the residuary head. Any income that is chargeable to tax but does not fall under the first four heads lands here — interest on bank deposits, family pension, winnings from lotteries, gifts above the prescribed limit, and agricultural income from land outside India.

2.8 Gross Total Income and Total Income

These two figures appear at the foot of every computation, and students routinely mix them up. The difference between them is exactly one thing: the deductions of Chapter VIII.

Gross Total Income (GTI) [Section 122(10)]

The Act says that for the purposes of Chapter VIII, "gross total income" means the total income computed as per the provisions of the Act, **before** making any deduction under that Chapter. In working terms:

	Particulars	₹
A	Income from Salaries	xxx
B	Income from House Property	xxx
C	Profits and Gains of Business or Profession	xxx
D	Capital Gains	xxx
E	Income from Other Sources	xxx
	Add: income of other persons includible under the clubbing provisions	xxx
	Less: set-off of losses of the current year and brought-forward losses	(xxx)
	GROSS TOTAL INCOME	**XXX**
	Less: deductions under Chapter VIII (sections 122 to 154)	(xxx)
	TOTAL INCOME (rounded off to the nearest ₹10 under section 516)	**XXX**

Total Income

"Total income" is the total amount of income computed in the manner laid down in the Act. Two further points follow:

- **Its scope is fixed by residential status.** Section 5 decides which incomes of a person enter his total income at all. This is the subject of Chapter 4 of this material.

- **It is the base of the charge.** Tax is levied on total income, not on gross total income. The rebate under section 156, the applicability of surcharge, and the requirement to obtain a PAN are all tested against total income.

> **THREE LIMITS ON CHAPTER VIII DEDUCTIONS WORTH REMEMBERING NOW**
>
> The total of all deductions under Chapter VIII can never exceed the gross total income — deductions cannot create or increase a loss [**section 122(2)**].
>
> The deduction must be claimed in the return of income, and the return must be filed by the due date under section 263(1); a belated return forfeits these deductions.
>
> Under the default regime of section 202, most Chapter VIII deductions are not available. This is the single biggest practical difference between the two regimes, and you will work on it in Unit 5.

2.9 Permanent Account Number (PAN) [Sections 2(76) and 262, with Rule 159]

Section 2(76) defines PAN as a unique number consisting of **ten alphanumeric characters**, allotted by the Assessing Officer to a person for the purpose of identification under the Act, and includes a Permanent Account Number allotted under the new series. Section 262 contains the operative provisions, and **Rule 159 of the Income-tax Rules, 2026** prescribes the transactions in which PAN must be quoted.

How a PAN is built — AAAPR1234C

Position	Character	What it stands for
1 to 3	Letters	A running alphabetic series allotted by the Department.
4	Letter	The **status** of the holder — P = individual (person), C = company, H = HUF, F = firm, A = association of persons, B = body of individuals, T = trust, L = local authority, J = artificial juridical person, G = Government.
5	Letter	The first letter of the holder's **surname** (for an individual) or of the **name** (for a non-individual).
6 to 9	Digits	A running numeric series from 0001 to 9999.
10	Letter	A check digit, generated by a formula, which detects a wrongly quoted PAN.

So for Shri Rakesh Sharma, an individual, the fourth character will be P and the fifth will be S. If you see the PAN of an individual whose fourth character is not P, it is wrong — and you have just learned a check that professional accountants use every day.

Who must apply for a PAN [section 262(1)]

Every person who has not been allotted a PAN must apply to the Assessing Officer within the prescribed time if he fulfils **any one** of the following conditions:

Clause	Condition
262(1)(a)	His total income, or the total income of any other person in respect of which he is assessable, exceeded the maximum amount not chargeable to income-tax during any tax year.

Clause	Condition
262(1)(b)	He is carrying on a business or profession whose total sales, turnover or gross receipts are, or are likely to exceed, **₹5,00,000** in any tax year.
262(1)(c)	He is required to furnish a return of income under section 263 for any tax year.
262(1)(d)	He is a **resident, other than an individual**, which enters into a financial transaction aggregating to **₹2,50,000** or more in a tax year.
262(1)(e)	He is the managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer of a person referred to in clause (d), or any person competent to act on behalf of such a person.
262(1)(f)	He intends to enter into such transaction as may be prescribed by the Board in the interest of revenue — these are the transactions listed in **Rule 159(3)** below.

Under **section 262(2)** any other person may apply voluntarily, and the Assessing Officer shall then allot him a PAN. Under **section 262(11)** the Central Government may by notification require further classes of persons to apply — including importers and exporters, even where no tax is payable by them.

The obligations that follow

1. **Quoting in returns and challans [section 262(3)].** PAN must be quoted in all returns to, and correspondence with, any income-tax authority, and in all challans for the payment of any sum due under the Act.
2. **Quoting in prescribed transactions [section 262(9) with Rule 159].** Every person entering into a prescribed transaction must quote and authenticate his PAN (or Aadhaar number) in the documents relating to it; and the person receiving the document must make sure that this has been done.
3. **Intimating changes [section 262(4)].** Any change of address, or of the name and nature of the business on the basis of which the PAN was allotted, must be intimated to the Assessing Officer.
4. **One PAN only [section 262(8)].** A person who has already been allotted a PAN cannot apply for, obtain or possess another one.
5. **Aadhaar [section 262(5), (6) and (7)].** Every person eligible to obtain an Aadhaar number must quote it in the application for allotment of PAN and in the return of income, and must intimate his Aadhaar number to the prescribed authority. If he fails to do so, **the PAN is made inoperative**. A person who has no PAN but has an Aadhaar number may quote the Aadhaar number in lieu of PAN, and will then be allotted a PAN.

Where PAN must be quoted — Rule 159(1) of the Income-tax Rules, 2026

This table replaces the old Rule 114B of the 1962 Rules. The thresholds have moved, and this is the single most examinable practical change in this paragraph. Where the value is shown as “all such transactions”, there is no monetary floor at all.

Sl.	Nature of transaction	Value at which PAN must be quoted
1	Application to a banking company, a co-operative bank or any other company or institution for the issue of a **credit card**	All such transactions

Sl.	Nature of transaction	Value at which PAN must be quoted
2	Opening an account with a **depository, participant or custodian of securities**, or any other person registered under section 12(1A) of the SEBI Act, 1992	All such transactions
3	Payment to the **Reserve Bank of India** for acquiring bonds issued by it	Exceeding **₹50,000**
4	Payment to a **Mutual Fund** for purchase of its units	Exceeding **₹50,000**
5	A contract for sale or purchase of **securities** (other than shares) as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956	Exceeding **₹1,00,000** per transaction
6	**Cash deposits** with a banking company, a co-operative bank or a post office	Aggregating to **₹10,00,000 or more** in a financial year, in one or more accounts of a person
7	**Cash withdrawals** from a banking company, a co-operative bank or a post office	Aggregating to **₹10,00,000 or more** in a financial year, in one or more accounts of a person
8	Sale or purchase of a **motor vehicle or motor cycle** requiring registration under the Motor Vehicles Act, 1988 (a tractor excepted)	Exceeding **₹5,00,000**
9	Sale or purchase of **shares of an unlisted company**	Exceeding **₹1,00,000** per transaction
10	Payment to a company or institution for acquiring its **debentures or bonds**	Exceeding **₹50,000**
11	Purchase, sale, gift or joint development agreement in respect of any **immovable property**	Exceeding **₹20,00,000**, or valued by the stamp valuation authority at more than ₹20,00,000
12	**Opening a bank account** — other than a time deposit at Sl. No. 13 and a Basic Savings Bank Deposit Account	All such transactions
13	A **time deposit** with a bank, a co-operative bank, a post office, a Nidhi, or an NBFC registered to accept deposits	Exceeding **₹50,000**, or aggregating to more than **₹5,00,000** during a financial year
14	Commencement of an **account-based relationship with an insurer**	Where the premium exceeds **₹50,000** during a financial year
15	Payment against a bill to a **hotel or restaurant, a convention centre, a banquet hall or an event manager**, at any one time	Payment **in cash** exceeding **₹1,00,000**
16	Sale or purchase of **goods or services of any nature** other than those at Sl. Nos. 1 to 15	Exceeding **₹2,00,000** per transaction

The four rules that go with the table

Rule 159(2)(a) — a minor. A minor with no income chargeable to tax quotes the PAN of his father, mother or guardian in the document.

Rule 159(2)(b) — no PAN. A person, not being a company or a firm, who has no PAN and enters into a transaction at Sl. Nos. 11 to 16 makes a declaration in **Form No. 97** — the successor of the old Form 60. Under **Rule 160** the recipient reports these declarations in **Form No. 98** (the old Form 61) and keeps Form 97 for six years from the end of the financial year of the transaction.

Rule 159(3) — when PAN must actually be applied for. A person, not being a company or a firm, who has no PAN and enters into any transaction at Sl. Nos. 1 to 10, or a transaction in immovable property at Sl. No. 11 **exceeding ₹45,00,000** (or of that stamp value), **must apply for a PAN**. Note the two different figures for immovable property: **₹20 lakh to quote, ₹45 lakh to apply.**

Rule 159(6) — who is outside the table. The Central Government, State Governments and consular offices; and non-residents in respect of the transactions at Sl. Nos. 1, 3, 15 and 16.

Consequences of default

Default	Provision	Consequence
Failure to comply with section 262 (for example, not applying for a PAN when required to)	Section 467(1)	Penalty of **₹10,000**
Quoting or intimating a PAN or Aadhaar number which is false, knowing or believing it to be false	Section 467(2)	Penalty of **₹10,000 for each such default**
Failure to quote or authenticate PAN or Aadhaar in a document relating to a prescribed transaction	Section 467(3)	Penalty of **₹10,000 for each such default**
Failure by the person receiving the document to ensure correct quoting or authentication	Section 467(4)	Penalty of **₹10,000 for each such default**
Failure to intimate the Aadhaar number by the prescribed date	Section 430	A prescribed **fee not exceeding ₹1,000**, payable at the time of intimation
PAN not linked with Aadhaar	Section 262(6)(b)	The PAN is made **inoperative**. In practice this means a higher rate of TDS and TCS, and refunds withheld without interest for that period. The PAN can be made operative again on linking and paying the fee.

What the Finance Act, 2026 did to section 262

Section 262(10)(c) allowed the Board to make rules for "categories of documents **pertaining to business or profession** in which Permanent Account Number shall be quoted". As the Memorandum explaining the Finance Bill, 2026 pointed out, the corresponding provision of the 1961 Act — section 139A(5)(c) — was not so confined, and the Board in fact prescribes many transactions having nothing to do with a business at all: opening a bank account, buying a car, paying a hotel bill in cash.

The Finance Act, 2026 therefore substituted the words "pertaining to, business or profession, **or other transactions**,". The amendment takes effect from **1 April 2026**, so it governs the whole of Tax Year 2026-27, and it puts Rule 159 beyond argument.

Why PAN matters more than students think

PAN is the thread on which the whole Department's information system hangs. Your Form 168 (the old Form 26AS), your Annual Information Statement, your TDS credits, your high-value transactions reported by banks and registrars — all of them come together only because they carry the same ten characters. Get the PAN wrong and the credit does not reach you.

CHAPTER 3

Rates of Tax for Tax Year 2026-27, and the Maximum Marginal Rate

The syllabus places the "maximum marginal rate of tax" among the basic concepts of Unit 1. You cannot understand it without first seeing the rate structure, so this short chapter puts the two together. The detailed computation of tax liability belongs to Unit 5; here we only lay the foundation.

A WORD OF CAUTION BEFORE YOU USE THESE TABLES

Rates are fixed afresh every year. The tables below are for **Tax Year 2026-27** as they stand under section 202 of the Income-tax Act, 2025 and Part I-B of the First Schedule to the Finance Act, 2026. The Memorandum explaining the Finance Bill, 2026 records in terms that **there is no change** in the rates in section 202 or in the First Schedule. Before an examination, always confirm the current year's rates from the Finance Act itself or from incometaxindia.gov.in.

3.1 Two regimes — the default and the optional

An individual, HUF, AOP, BOI or artificial juridical person referred to in section 2(77)(g) may be taxed under either of two rate structures.

- **The default regime — section 202 of the Act.** This applies automatically, "unless the person exercises the option in the manner provided under sub-section (4)". It offers wider slabs and lower rates, but almost all exemptions and Chapter VIII deductions are withdrawn. The standard deduction from salary of **₹75,000** is, however, available under section 19(1) (Table: Sl. No. 2)(a).
- **The optional (regular) regime — the rates in Part I-B of the First Schedule to the Finance Act, 2026.** The assessee must consciously opt out of section 202 to come here. The slabs are narrower and the rates higher, but the full range of exemptions and Chapter VIII deductions — sections 123 (the old 80C), 126 (80D), 134 (80GG) and the rest — remains available. The standard deduction from salary here is **₹50,000**.

Who may switch, and when [section 202(4)]

The assessee	When the option must be exercised	How often it may be changed
A person having income from business or profession	On or before the due date under section 263(1) for furnishing the return for that tax year	The option, once exercised, applies to subsequent tax years and **may be withdrawn only once**. After withdrawal he can never opt out again, unless he ceases to have any business or professional income.
A person not having income from business or profession	Along with the return of income furnished under section 263(1)	Freely, **every tax year**.

This is a favourite examination point, and it is the reason a salaried employee is told he may "choose every year" while a businessman is told to think hard before opting out.

3.2 The default regime — section 202

These slabs apply to every individual **regardless of age** — there is no higher exemption limit for a senior or super senior citizen under this regime — and also to an HUF, AOP, BOI and artificial juridical person.

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

A cumulative tax table you may find useful. Tax at the top of each slab, before rebate and cess: ₹4,00,000 → Nil; ₹8,00,000 → ₹20,000; ₹12,00,000 → ₹60,000; ₹16,00,000 → ₹1,20,000; ₹20,00,000 → ₹2,00,000; ₹24,00,000 → ₹3,00,000. Above ₹24,00,000, add 30% of the excess.

3.3 The optional regime — Part I-B of the First Schedule

Here age matters, and the benefit of the higher exemption limit is available only to a **resident**.

Total income	Individual below 60 years, HUF, AOP, BOI, AJP	Resident senior citizen (60 years or more but below 80 years)	Resident super senior citizen (80 years or more)
Up to ₹2,50,000	Nil	Nil	Nil
₹2,50,001 to ₹3,00,000	5%	Nil	Nil
₹3,00,001 to ₹5,00,000	5%	5%	Nil
₹5,00,001 to ₹10,00,000	20%	20%	20%
Above ₹10,00,000	30%	30%	30%

A **non-resident** of any age gets only the ₹2,50,000 limit, however old he may be. The higher limits are conferred on "every individual, **being a resident in India**".

On what date is the age to be seen?

This is a point on which students, and a good many books, go wrong. Two things must be held together.

1. **What the Finance Act says.** Items (II) and (III) of Paragraph A of Part I-B apply to an individual "who is of the age of sixty years or more … **at any time during the tax year**". So on the face of the statute the age must be attained by 31 March 2027.
2. **How the law counts a person's age.** In *Prabhu Dayal Sesma v. State of Rajasthan* the Supreme Court held that a specified age is attained on the day **preceding** the anniversary of the birthday, because a fraction of a day is reckoned as a whole day. Following that judgment, the Central Board of Direct Taxes clarified by **Circular No. 28/2016 dated 27 July 2016** that a person born on 1 April is to be treated as having attained the relevant age on 31 March, the day before his birthday.

Put the two together and the cut-off moves by exactly one day in the taxpayer's favour. A person born on **1 April 1967** does not turn 60 until 1 April 2027, which is *after* the tax year has closed; but by the rule above he is deemed to have attained 60 on **31 March 2027**, which falls *within* Tax Year 2026-27. He is therefore a senior citizen for our year. The working cut-off dates are these:

Status for Tax Year 2026-27	Deemed to attain the age on or before	Date of birth on or before
Senior citizen (60 years or more)	31 March 2027	**1 April 1967**
Super senior citizen (80 years or more)	31 March 2027	**1 April 1947**

HOW TO STATE IT IN THE EXAMINATION

Write: *the individual must be of the age of 60 (or 80) years or more at any time during the tax year; and by CBDT Circular No. 28/2016, following Prabhu Dayal Sesma, a person born on 1 April is treated as having attained that age on 31 March. For Tax Year 2026-27, therefore, the date of birth must be on or before 1 April 1967 (or 1 April 1947).* Stating both limbs earns the mark; stating only "at any time during the year" loses the 1-April case, which is exactly the case an examiner will set.

And remember that the higher exemption limits are available only under the **optional** regime, and only to a **resident**. Under the default regime of section 202 every individual, of whatever age, gets the same ₹4,00,000.

3.4 Surcharge

Surcharge is an additional tax computed as a percentage **of the income-tax** — not of the income. It applies only when total income crosses ₹50,00,000.

Total income	Optional regime (Paragraph F, Table 1)	Default regime (section 202)
Exceeds ₹50,00,000 but not ₹1,00,00,000	10%	10%
Exceeds ₹1,00,00,000 but not ₹2,00,00,000	15%	15%
Exceeds ₹2,00,00,000 but not ₹5,00,00,000	25%	**25%**
Exceeds ₹5,00,00,000	**37%**	**25%** — there is no 37% band under section 202

TWO RIDERS ON THE SURCHARGE TABLE

The 25% and 37% bands look only at income other than dividend and capital gains. The 25% and 37% rates apply to total income **excluding** dividend income and the capital gains charged under sections 196, 197 and 198. Where the ₹2 crore line is crossed only because of dividend or capital gains, the rate is **15%**.

A hard cap of 15% on dividend and capital gains. On the income-tax computed on that part of the total income which consists of dividend, or of capital gains under sections 196, 197 and 198, the surcharge can never exceed **15%**, however high the total income.

An association of persons consisting only of companies has its surcharge capped at 15% as well.

Marginal relief from surcharge

Surcharge can create an absurdity: a person earning ₹1 more than ₹50,00,000 could pay far more than ₹1 extra in tax. Marginal relief prevents this. The Finance Act, 2026 states it as a formula — the total of income-tax and surcharge shall not exceed

$$\mathbf{W = U + V}$$

where **U** is the income-tax and surcharge payable on the threshold amount (₹50 lakh, ₹1 crore, ₹2 crore or ₹5 crore as the case may be), and **V** is the excess of the total income over that threshold. In plain words: *the tax on the threshold, plus every rupee of the excess, and not a rupee more.*

ILLUSTRATION 3.1 — SURCHARGE AND MARGINAL RELIEF (DEFAULT REGIME)

Shri Naresh has a total income of ₹51,00,000 for Tax Year 2026-27 under the default regime. Compute his tax liability.

Step 1 — income-tax on ₹51,00,000. Nil on the first ₹4,00,000; then ₹20,000 + ₹40,000 + ₹60,000 + ₹80,000 + ₹1,00,000 on the next five slabs; and ₹27,00,000 × 30% = ₹8,10,000 above ₹24,00,000. **Total = ₹11,10,000**

Step 2 — surcharge @ 10% (total income exceeds ₹50,00,000) = ₹1,11,000. Tax plus surcharge = **₹12,21,000**

Step 3 — test for marginal relief. Income-tax on ₹50,00,000 (no surcharge) = ₹10,80,000, so U = ₹10,80,000. Excess over ₹50,00,000 = ₹1,00,000, so V = ₹1,00,000. Permissible maximum W = ₹11,80,000. Actual = ₹12,21,000.

Marginal relief = ₹12,21,000 – ₹11,80,000 = ₹41,000

Step 4 — tax plus surcharge after relief = ₹11,80,000. Add health and education cess @ 4% = ₹47,200.

Tax payable = ₹12,27,200

3.5 Health and Education Cess

Health and education cess is levied at **4%** on the amount of income-tax plus surcharge, after marginal relief. It applies to every assessee, at every level of income, and **no marginal relief is available in respect of the cess**. It is always the last addition in the computation.

3.6 Rebate under section 156

Section 156 of the 2025 Act carries forward the rebate that everybody knew as section 87A of the 1961 Act. It is available only to an **individual resident in India** — not to an HUF, a firm, a company, or a non-resident.

Provision	Regime	Total income must not exceed	Maximum rebate
Section 156(2)(a)	Default regime (section 202)	₹12,00,000	**₹60,000**
Section 156(1)	Optional regime	₹5,00,000	**₹12,500**

- The rebate is 100% of the income-tax payable or the ceiling figure, **whichever is less**. It can never exceed the tax actually payable before cess, and it cannot create a refund.
- By **section 156(3)** the rebate under sub-section (2) cannot exceed the income-tax payable at the rates in section 202(1). So it is allowed against tax on income charged at the slab rates, and not against income taxed at the special rates — for example long-term capital gains on listed equity shares.
- Under the default regime **section 156(2)(b)** gives marginal relief on the rebate itself, so that a person whose income slightly exceeds ₹12,00,000 does not lose the whole benefit at one stroke. Where the tax payable exceeds the amount by which the total income exceeds ₹12,00,000, the rebate is the difference between the two.

ILLUSTRATION 3.2 — REBATE, AND MARGINAL RELIEF ON THE REBATE

Case A. Mrs. Sunita Gupta, a resident individual, has a total income of ₹12,00,000 under the default regime.

Tax = ₹20,000 (₹4–8 lakh @ 5%) + ₹40,000 (₹8–12 lakh @ 10%) = ₹60,000. Rebate under section 156(2)(a) = ₹60,000. **Tax payable = NIL.**

Case B. Her income is ₹12,10,000.

Tax = ₹20,000 + ₹40,000 + (₹10,000 @ 15% = ₹1,500) = ₹61,500. Income in excess of ₹12,00,000 = ₹10,000.

Because the tax (₹61,500) exceeds the excess income (₹10,000), section 156(2)(b) gives a rebate of ₹61,500 − ₹10,000 = ₹51,500.

Tax after rebate = ₹10,000. Add cess @ 4% = ₹400. **Tax payable = ₹10,400.**

Without marginal relief she would have paid ₹63,960 on an income only ₹10,000 higher than Mrs. Gupta's in Case A. That is the mischief the relief prevents.

ILLUSTRATION 3.3 — COMPARING THE TWO REGIMES

Shri Vikas, aged 38, has a gross salary of ₹18,75,000 for Tax Year 2026-27 and is eligible for Chapter VIII deductions of ₹2,00,000 (life insurance premium, PPF and health insurance). Which regime should he choose?

Under the default regime (section 202). Gross salary ₹18,75,000 − standard deduction ₹75,000 = total income ₹18,00,000.

Tax = ₹20,000 + ₹40,000 + ₹60,000 + (₹2,00,000 @ 20% = ₹40,000) = ₹1,60,000. Add cess @ 4% ₹6,400. **= ₹1,66,400**

Under the optional regime. Gross salary ₹18,75,000 − standard deduction ₹50,000 = ₹18,25,000; less Chapter VIII deductions ₹2,00,000 = total income ₹16,25,000.

Tax = ₹12,500 + ₹1,00,000 + (₹6,25,000 @ 30% = ₹1,87,500) = ₹3,00,000. Add cess @ 4% ₹12,000. **= ₹3,12,000**

Conclusion: the default regime saves him ₹1,45,600. For most salaried taxpayers at this level of income the default regime is now clearly better, and the deductions of the old regime no longer bridge the gap.

3.7 Rates for other persons — a summary

Person	Rate of income-tax	Surcharge
Firm, including an LLP	30% flat	12% where total income exceeds ₹1 crore
Local authority	30% flat	12% where total income exceeds ₹1 crore
Co-operative society	Slabs of 10% (up to ₹10,000), 20% (₹10,001 to ₹20,000) and 30% (above ₹20,000); concessional flat rates of 22% under section 203 and 15% under section 204 for eligible societies that opt in	7% above ₹1 crore up to ₹10 crore; 12% above ₹10 crore. A society taxed under section 203 or 204 pays a flat 10%
Domestic company	25% where total turnover or gross receipts in **Tax Year 2024-25** did not exceed ₹400 crore, otherwise 30%; concessional flat rates of 22% under section 200 and 15% under section 201 for eligible companies that opt in	7% above ₹1 crore up to ₹10 crore; 12% above ₹10 crore. A company taxed under section 200 or 201 pays a flat 10%
Foreign company	35% flat (50% on certain pre-1976 royalties and technical fees approved by the Central Government)	2% above ₹1 crore up to ₹10 crore; 5% above ₹10 crore

Health and education cess at 4% applies to all of the above, and marginal relief from surcharge is available in every case on the same W = U + V principle.

3.8 Maximum Marginal Rate [Section 2(70)]

Section 2(70) defines the maximum marginal rate to mean the rate of income-tax **(including surcharge on income-tax)** applicable in relation to the **highest slab of income** for an individual, association of persons or, as the case may be, body of individuals, **as specified in the Finance Act of the relevant year**.

How it is worked out

Step	Particulars	Rate
1	Rate of income-tax on the highest slab of income for an individual / AOP / BOI under Paragraph A of Part I-B	30%
2	*Add:* surcharge at the highest rate — 37% of the income-tax (37% of 30)	11.10%
3	**Maximum marginal rate as defined by section 2(70)**	**41.10%**
4	*Add:* health and education cess @ 4% of (30 + 11.10)	1.644%
5	**Effective maximum marginal rate, cess included**	**42.744%**

Read the definition carefully

Section 2(70) speaks of income-tax “including surcharge” — it says nothing about cess. Strictly, therefore, the maximum marginal rate is **41.10%**. Because health and education cess is in practice always added, some books describe the effective maximum marginal rate as **42.744%**. In an examination, state which of the two you are giving and say whether you have added cess.

Note also that under the **default** regime of section 202 the surcharge is capped at 25%, which gives a top rate of 37.5% before cess and 39% with cess. The 37% surcharge, and therefore the 42.744% figure, belongs to the **optional** regime — which is exactly what section 2(70) refers to when it says “as specified in the Finance Act”.

Where the maximum marginal rate is applied

- Where an association of persons or body of individuals has members whose individual shares in the income are indeterminate or unknown, the whole income is taxed at the maximum marginal rate.
- Where any member of an AOP or BOI has a total income exceeding the maximum amount not chargeable to tax, the AOP or BOI is taxed at the maximum marginal rate.
- The income of a private discretionary trust, where the shares of the beneficiaries are unknown.
- Anonymous donations received by a registered non-profit organisation, and certain other specified receipts of such organisations.
- Certain excess payments and disallowances that the Act specifically directs to be charged at that rate.

3.9 Two smaller rate concepts

Average rate of income-tax [section 2(16)]. The rate arrived at by dividing the amount of income-tax calculated on the total income by that total income. It is used, among other things, when an employer deducts tax at source from salary, and when relief has to be computed. If a person’s total income is ₹10,00,000 and his income-tax is ₹60,000, the average rate is 6%.

Rounding off [section 516]. The amount of total income computed, and any amount payable or refundable under the Act, is rounded off to the nearest multiple of ₹10, ignoring paise. Do this in every problem you solve — it is part of the answer.

CHAPTER 4

Residential Status and Scope of Total Income

This is the heart of Unit 1 and the likeliest examination question. Two sections do all the work. Section 6 tells us what a person's residential status is. Section 5 then tells us how much of his world income India may tax. Study them together — separately they make little sense.

4.1 Why residential status is decided first

India, like most countries, taxes a resident on his world income and a non-resident only on income connected with India. So before we can compute anything, we must know where the taxpayer stands. The very same income can be taxable for one person and wholly outside the Indian tax net for another, purely because their residential status differs.

FOUR THINGS TO FIX IN YOUR MIND AT THE OUTSET

One — residential status has **nothing** to do with citizenship, domicile, nationality or the place of birth. An Indian citizen can be a non-resident; a foreign citizen can be a resident and ordinarily resident.

Two — residential status is decided **afresh for every tax year**. A person may be resident in one year and non-resident in the next.

Three — it is decided **separately for each person**. The status of a firm does not decide the status of its partners.

Four — for an individual the test is essentially arithmetic: **count the days**.

4.2 The categories

Under section 6 a person may be a resident or a non-resident. A resident may further be ordinarily resident or not ordinarily resident.

Person	Possible statuses
Individual	Resident and ordinarily resident (ROR) · Resident but not ordinarily resident (RNOR) · Non-resident (NR)
Hindu undivided family	Resident and ordinarily resident (ROR) · Resident but not ordinarily resident (RNOR) · Non-resident (NR)
Firm, LLP, AOP, BOI, company, local authority, artificial juridical person	Resident · Non-resident — these persons can **never** be "not ordinarily resident"

4.3 An individual — the basic conditions [Section 6(2)]

An individual is resident in India in a tax year if he satisfies **any one** of the following two conditions:

Condition	Test
6(2)(a)	He is in India for a total period of **182 days or more** in that tax year.
6(2)(b)	He is in India cumulatively for **60 days or more** during that tax year, **and** has been in India cumulatively for **365 days or more** in the four years preceding that tax year.

If he satisfies **neither** condition, he is a **non-resident**. The conditions are alternative, not cumulative — one is enough.

Rules for counting the days

- The stay need not be continuous. Add up all the separate periods of presence in India during the tax year.
- The stay need not be at one place, and the purpose of the stay is irrelevant — business, employment, study, medical treatment or a holiday all count alike.
- Both the day of arrival in India and the day of departure from India are counted as days in India. Presence in India for part of a day is treated as presence for a whole day.
- Presence in the territorial waters of India counts as presence in India — “India” in section 2(52) includes its territorial waters, seabed and sub-soil, the continental shelf and the exclusive economic zone.
- For a citizen of India who is a member of the crew of a foreign-bound ship leaving India, the number of days in India in respect of that voyage is determined in the manner prescribed by the Rules [**section 6(6)**] — broadly, the period from the date of joining the ship to the date of signing off, as entered in the Continuous Discharge Certificate, is excluded.

4.4 Three relaxations from the 60-day test

Condition 6(2)(b) is a harsh one — sixty days is a short holiday. The Act therefore switches it off, or softens it, in three situations.

(i) Indian citizen leaving India as a crew member [Section 6(3)(a)]

Where an individual who is a citizen of India leaves India in any tax year as a member of the crew of an Indian ship, as defined in section 3(18) of the Merchant Shipping Act, 1958, condition 6(2)(b) does not apply to him. Only the 182-day test survives.

(ii) Indian citizen leaving India for employment abroad [Section 6(3)(b)]

Where an individual who is a citizen of India leaves India in any tax year for the purposes of **employment outside India**, condition 6(2)(b) again does not apply. Only the 182-day test survives. Note that he must leave *for the purpose of* employment; it is enough that the purpose of leaving is to take up employment abroad, and the employment need not already have been secured before departure.

(iii) Indian citizen or person of Indian origin coming on a visit [Sections 6(4) and 6(5)]

Where an individual who is a citizen of India or a **person of Indian origin**, being outside India, comes on a **visit** to India in any tax year, condition 6(2)(b) does not apply — subject to one important qualification:

- **If his total income during that tax year, other than income from foreign sources, exceeds ₹15,00,000,** then instead of switching the condition off altogether, section 6(5) substitutes **“one hundred and twenty days” for “sixty days”** in condition 6(2)(b).

Person of Indian origin [section 2(78)] means an individual who, or either of whose parents, or any of whose grand-parents, was born in undivided India.

4.5 The deemed resident [Sections 6(7) and 6(8)]

Some Indian citizens with large Indian earnings arranged their travel so as to be resident nowhere in the world, and so to be taxed nowhere. Section 6(7) closes that door. Irrespective of sub-sections (2) to (6), an individual is **deemed** to be resident in India for a tax year if he satisfies **all three** of the following:

1. he is a citizen of India;
2. he is not liable to tax in any other country or territory due to his domicile, residence, or similar criteria; and
3. his total income during that tax year, other than income from foreign sources, exceeds ₹15,00,000.

Section 6(8) makes it clear that this deeming provision is a last resort: it does not apply to an individual who is already resident in India under sub-sections (2) to (6).

Do not read "deemed resident" as "fully taxable on world income"

A person who becomes resident only by force of section 6(7) is expressly declared to be **not ordinarily resident** by section 6(13)(c). So his foreign income remains outside the Indian net unless it is derived from a business controlled in, or a profession set up in, India. The provision was designed to catch stateless-for-tax-purposes Indians, not to punish genuine expatriates.

4.6 Ordinarily resident or not ordinarily resident [Section 6(13)]

Once a person is found to be resident, we must place him in one of the two sub-categories. Section 6(13) tells us when a person is **not** ordinarily resident. A person is not ordinarily resident in India in any tax year if he is —

Clause	Who is "not ordinarily resident"
6(13)(a)	An individual who has been, or a Hindu undivided family whose manager has been — (i) a **non-resident** in India in **nine out of the ten** tax years preceding that year; **or** (ii) in India cumulatively for **729 days or less** in the **seven** tax years preceding that year.
6(13)(b)	A citizen of India or a person of Indian origin — (i) whose total income excluding income from foreign sources exceeds **₹15,00,000** during the tax year, as mentioned in sub-section (5); **and** (ii) who has been in India cumulatively for **120 days or more but less than 182 days** during the tax year.
6(13)(c)	A citizen of India who is deemed to be resident in India under section 6(7).

The same test, stated the other way round — the "additional conditions"

A resident individual is **ordinarily resident** only if he satisfies **both** the following additional conditions:

- he has been resident in India in at least **2 out of the 10** tax years immediately preceding that year; **and**
- he has been in India for **730 days or more** during the **7** tax years immediately preceding that year.

If he fails either one, he is not ordinarily resident. This is exactly the mirror image of section 6(13)(a).

4.7 The complete decision path for an individual

Step	Ask yourself	If YES	If NO
1	Was he in India for **182 days or more** in the tax year? [6(2)(a)]	He is **RESIDENT**. Go to Step 5.	Go to Step 2.
2	Is he an Indian citizen who left India during the year as crew of an Indian ship or for employment abroad? [6(3)]	The 60-day test does not apply. He is a **NON-RESIDENT**. But check Step 4A.	Go to Step 3.

Step	Ask yourself	If YES	If NO
3	Is he an Indian citizen or a person of Indian origin who came to India on a visit? [6(4), 6(5)]	If his income other than foreign-source income is ₹15 lakh or less → the 60-day test does not apply → **NON-RESIDENT**. If it exceeds ₹15 lakh → go to Step 4 reading “60 days” as “120 days”.	Go to Step 4.
4	Was he in India for **60 days or more** in the tax year **and 365 days or more** in the preceding four years? [6(2)(b)]	He is **RESIDENT**. Go to Step 5.	Go to Step 4A.
4A	Is he an Indian citizen, not liable to tax anywhere else, with income other than foreign-source income above ₹15 lakh? [6(7)]	He is a **DEEMED RESIDENT** — and by 6(13)(c) he is **RNOR**. Stop.	He is a **NON-RESIDENT**. Stop.
5	Was he a non-resident in 9 out of the 10 preceding tax years, **or** in India for 729 days or less in the 7 preceding tax years? [6(13)(a)]	He is **RESIDENT BUT NOT ORDINARILY RESIDENT**.	Go to Step 6.
6	Is he an Indian citizen or PIO with income other than foreign-source income above ₹15 lakh, who stayed in India for 120 days or more but less than 182 days? [6(13)(b)]	He is **RESIDENT BUT NOT ORDINARILY RESIDENT**.	He is **RESIDENT AND ORDINARILY RESIDENT**.

4.8 Solved illustrations on residential status

ILLUSTRATION 4.1 — THE PLAIN 182-DAY TEST

Shri Siddharth Rathore, a citizen of India, left India for the first time on 20 September 2026 to take up employment with a company in Dubai. He did not return during the year. Determine his residential status for Tax Year 2026-27.

Days in India: April 30 + May 31 + June 30 + July 31 + August 31 + September 20 = **173 days**.

Condition 6(2)(a): 173 days is less than 182 days — not satisfied.

Condition 6(2)(b): he is a citizen of India who left India during the tax year for the purposes of employment outside India, so section 6(3)(b) provides that condition 6(2)(b) shall not apply to him at all.

Conclusion: Shri Siddharth Rathore is a NON-RESIDENT for Tax Year 2026-27.

Note how close it was. Had he left on 30 September 2026 he would have been in India for 183 days and would have been a resident, taxable on his Dubai salary as well. Planning the date of departure is a real and perfectly legitimate exercise.

Illustration 4.2 — a person of Indian origin on a visit; the ₹15 lakh line

Dr Usha Rathore, a person of Indian origin settled in Canada, came to India on 3 October 2026 and left on 31 March 2027. During the four years preceding Tax Year 2026-27 she had been in India for 400 days in all. Determine her residential status if her total income, other than income from foreign sources, is (i) ₹12,00,000 and (ii) ₹20,00,000.

Days in India: October 29 + November 30 + December 31 + January 31 + February 28 + March 31 = **180 days**.

Condition 6(2)(a) fails — 180 days is less than 182.

Case (i) — income ₹12,00,000. She is a PIO who, being outside India, came on a visit to India. As her income other than foreign-source income does not exceed ₹15,00,000, section 6(4) applies and condition 6(2)(b) does not apply at all. She is a **NON-RESIDENT**.

Case (ii) — income ₹20,00,000. Section 6(5) now operates: "sixty days" in condition 6(2)(b) is read as "one hundred and twenty days". She was in India for 180 days (which is 120 days or more) and for 400 days (which is 365 days or more) in the preceding four years. Both limbs are satisfied, so she is a **RESIDENT**.

Applying section 6(13)(b): she is a PIO, her income excluding foreign sources exceeds ₹15,00,000, and her stay was 120 days or more but less than 182 days.

Conclusion for Case (ii): RESIDENT BUT NOT ORDINARILY RESIDENT.

Illustration 4.3 — the deemed resident

Shri Varun, a citizen of India, works as a consultant from a Gulf country which levies no personal income tax, and he is not liable to tax there. During Tax Year 2026-27 he was in India for 70 days, and in the four preceding years for 150 days in all. His income from Indian clients was ₹35,00,000 and his foreign income ₹40,00,000.

Condition 6(2)(a) fails — 70 days. Condition 6(2)(b) fails — only 150 days in the preceding four years, far short of 365. So he is not resident under section 6(2).

Now test section 6(7): (a) he is a citizen of India — yes; (b) he is not liable to tax in any other country by reason of domicile or residence — yes; (c) his total income other than income from foreign sources is ₹35,00,000, which exceeds ₹15,00,000 — yes.

He is therefore a DEEMED RESIDENT under section 6(7). And under section 6(13)(c), a citizen of India who is deemed to be resident under section 6(7) is not ordinarily resident.

Conclusion: RESIDENT BUT NOT ORDINARILY RESIDENT. Consequently his foreign income of ₹40,00,000 is not taxable in India unless it is derived from a business controlled in, or a profession set up in, India.

Illustration 4.4 — ROR or RNOR?

Shri Rabi returned to India for good on 1 April 2026 after living and working in Germany continuously for the previous twelve years, during which he visited India for about 20 days a year. He stayed in India for the whole of Tax Year 2026-27.

He was in India for 365 days, so condition 6(2)(a) is satisfied and he is a **RESIDENT**.

Now section 6(13)(a). During the ten tax years preceding 2026-27 he visited India for only about 20 days each year, so he was a non-resident in each of those years — certainly in 9 out of 10. Limb (i) is satisfied.

Independently, limb (ii) is also satisfied: in the seven preceding tax years his stay was roughly 140 days in all, which is 729 days or less.

Conclusion: RESIDENT BUT NOT ORDINARILY RESIDENT for Tax Year 2026-27.

Practical point: a returning Indian normally enjoys RNOR status for two, sometimes three, tax years after his return. During those years his foreign income and foreign bank interest stay outside Indian tax. This is one of the few genuinely valuable planning windows in the Act.

4.9 Residential status of persons other than individuals

Hindu undivided family, firm or other association of persons [Section 6(9)]

An HUF, firm or other association of persons is **resident in India** in a tax year **unless** the control and management of its affairs is situated **wholly outside India** during that year. Read that carefully: even a small part of the control and management being in India makes it resident. Only if control and management is *wholly* outside India is it a non-resident.

"Control and management" mean the head and brain of the concern — where the policy decisions are taken — not where the day-to-day operations are carried out.

For an HUF only, there is a second step. A resident HUF is **not ordinarily resident** if its manager (the Karta) satisfies either limb of section 6(13)(a) — that is, if the Karta has been a non-resident in nine out of the ten preceding tax years, or has been in India for 729 days or less in the seven preceding tax years. A firm, LLP or AOP can only be resident or non-resident; it is never "not ordinarily resident".

Company [Section 6(10)]

A company is resident in India in a tax year if —

- it is an **Indian company**; or
- its **place of effective management** is in India in that tax year.

"Place of effective management" (POEM) is defined in section 6(10)(b) itself to mean a place where key management and commercial decisions necessary for the conduct of business of the company **as a whole** are, in substance, made.

So an Indian company is always resident in India — always, without exception, even if it does all its business abroad. A foreign company is resident only if its POEM is in India in that year.

Every other person [Section 6(11)]

Every other person — a local authority, an artificial juridical person, a BOI — is resident in India in any tax year unless during that year the control and management of the affairs of such person is situated wholly outside India.

One status for all sources [Section 6(12)]

If a person is resident in India in a tax year for any source of income, he is deemed to be resident in India in that tax year for each of his other sources of income as well. A person cannot be resident for one income and non-resident for another in the same year.

"Income from foreign sources" [Section 6(14)]

For the purposes of section 6, income from foreign sources means income which accrues or arises outside India — except income derived from a business controlled in, or a profession set up in, India — and which is not deemed to accrue or arise in India. This is the expression used in the ₹15 lakh tests of sections 6(5), 6(7) and 6(13)(b).

4.10 Scope of Total Income [Section 5]

Having fixed the status, section 5 tells us what goes into the total income.

Section 5(1) — a resident

The total income of a tax year of a person who is a resident includes all income, from whatever source derived, which —

- **(a)** is received or is deemed to be received in India in that year by him or on his behalf; or
- **(b)** accrues or arises, or is deemed to accrue or arise, to him in India in that year; or
- **(c)** accrues or arises to him outside India in that year — but where the person is **not ordinarily resident** under section 6(13), such income is included **only** where it is derived from a business controlled in, or a profession set up in, India.

Section 5(2) — a non-resident

The total income of a tax year of a non-resident includes all income, from whatever source derived, which —

- **(a)** is received or is deemed to be received in India in that year by him or on his behalf; or
- **(b)** accrues or arises, or is deemed to accrue or arise, to him in India in that year.

Foreign income of a non-resident is simply outside the Indian tax net.

Two clarifications that section 5 itself supplies

- **Section 5(3).** Income accruing or arising outside India is not deemed to be received in India by reason only of the fact that it has been taken into account in a balance sheet prepared in India.
- **Section 5(4).** Income once included in total income on the basis of accrual shall not be included again when it is actually received. There is no double taxation of the same income in the hands of the same person.

4.11 Received, accrued, deemed — the vocabulary

Expression	What it means
Received in India	The **first** receipt is what counts. If income is first received abroad and then remitted to India, it is not "received in India"; the remittance of money already received is not a fresh receipt of income.
Accrues or arises	The right to receive the income comes into existence — the taxpayer acquires an enforceable claim, even though payment may come later. Salary for March accrues in March even if paid in April.
Deemed to be received [section 7]	Certain amounts are treated as received even though no money has come to hand — the annual accretion to a recognised provident fund to the extent provided in paragraph 6 of Part A of Schedule XI, the transferred balance in such a fund, and the contribution made by the Central Government or an employer to an employee's account under the pension scheme referred to in section 124. Dividend is also deemed to be income of the tax year in which it is declared, distributed or paid.
Deemed to accrue or arise in India [section 9, read with Schedule I]	Certain incomes are treated as arising in India even though the transaction took place abroad — income from a business connection in India, from property, an asset or a source of income in India, or from the transfer of a capital asset situated in India; salary earned in India; salary payable by the Government to a citizen of India for services rendered outside India; dividend paid by an Indian company; and interest, royalty or fees for technical services payable by the Government or by a resident, or by a non-resident where the money is used for a business carried on in India. You will meet section 9 in detail at a later stage.

4.12 Indian income and foreign income

Reduce the whole of section 5 to two buckets and it becomes easy.

Where the income accrues or arises	Where it is received	It is —
In India	In India	**INDIAN** income
Outside India	In India	**INDIAN** income

Where the income accrues or arises	Where it is received	It is —
In India	Outside India	**INDIAN** income
Outside India	Outside India	**FOREIGN** income

So income is foreign income only when **both** tests point outside India. Everything else is Indian income. Now apply the rule:

Nature of income	ROR	RNOR	NR
INDIAN INCOME — received or deemed to be received in India	Taxable	Taxable	Taxable
INDIAN INCOME — accruing or deemed to accrue or arise in India	Taxable	Taxable	Taxable
FOREIGN INCOME from a business **controlled in India** or a profession **set up in India**	Taxable	Taxable	Not taxable
FOREIGN INCOME from a business controlled outside India or a profession set up outside India	Taxable	Not taxable	Not taxable
FOREIGN INCOME of any other kind — foreign rent, foreign bank interest, foreign salary for services rendered abroad	Taxable	Not taxable	Not taxable
Income which accrued outside India in an **earlier year** and is merely remitted to India in this year	Not taxable	Not taxable	Not taxable

THE SINGLE SENTENCE THAT CARRIES THE WHOLE CHAPTER

A **resident and ordinarily resident** is taxed on his world income. A **non-resident** is taxed only on his Indian income. A **resident but not ordinarily resident** is taxed on his Indian income plus one narrow slice of foreign income — that derived from a business controlled in India or a profession set up in India.

THE LAST ROW OF THE TABLE DESERVES SPECIAL ATTENTION

A remittance is not income. If Shri X earned rent in London in Tax Year 2025-26 and brings that money into his Indian bank account in Tax Year 2026-27, nothing is taxable in 2026-27 — the income arose in an earlier year, and money once received abroad is not "received in India" when it is later transferred.

4.13 A comprehensive illustration

ILLUSTRATION 4.5 — SCOPE OF TOTAL INCOME

Dr Nirmal furnishes the following particulars of his income for Tax Year 2026-27. Compute his total income if he is (a) resident and ordinarily resident, (b) resident but not ordinarily resident, and (c) non-resident.

#	Particulars	₹	ROR	RNOR	NR
1	Salary received in Delhi for services rendered in India	6,00,000	6,00,000	6,00,000	6,00,000
2	Rent from a house property situated in Jaipur, received in London	2,40,000	2,40,000	2,40,000	2,40,000
3	Interest on savings bank account with a bank in Mumbai	30,000	30,000	30,000	30,000
4	Profit from a business in Dubai, controlled from Delhi	5,00,000	5,00,000	5,00,000	Nil
5	Profit from a business in Singapore, controlled from Singapore, received there	4,00,000	4,00,000	Nil	Nil
6	Fees for professional services rendered in New York, from a profession set up in India, received in New York	1,50,000	1,50,000	1,50,000	Nil
7	Rent from a house property in Nepal, received in Nepal	1,20,000	1,20,000	Nil	Nil
8	Agricultural income from land situated in Sri Lanka, received there	80,000	80,000	Nil	Nil
9	Dividend from a foreign company, received in Paris	60,000	60,000	Nil	Nil
10	Income earned in Canada in Tax Year 2024-25, remitted to India during Tax Year 2026-27	3,00,000	Nil	Nil	Nil
	TOTAL INCOME		**21,80,000**	**15,20,000**	**8,70,000**

Notes to the illustration

- **Item 2** — the rent accrues in India because the property is in India; the place of receipt is irrelevant. It is Indian income and taxable for everyone.
- **Item 4** — foreign income, but from a business controlled from India, so it is taxable for both ROR and RNOR.
- **Item 5** — foreign income from a business controlled outside India: taxable only for ROR.

- **Item 6** — foreign income from a profession set up in India, so taxable for ROR and RNOR alike.
- **Item 8** — agricultural income from land outside India is **not** exempt. Section 2(5) requires the land to be situated in India. It is taxable for an ROR under the head "income from other sources".
- **Item 10** — a remittance of income of an earlier year is not income of this year for anybody.

CHAPTER 5

Exempted Incomes under Section 11

Chapter III of the Income-tax Act, 2025 is headed "Incomes which do not form part of total income". It contains just two operative sections — section 11 for everybody, and section 12 for political parties and electoral trusts — and pushes all the detail into Schedules. This is the new Act's drafting style at its clearest, and it replaces the enormously long section 10 of the 1961 Act.

A WARNING THAT MUST COME FIRST — OLD SECTION 11 AND NEW SECTION 11 ARE COMPLETELY DIFFERENT

Under the Income-tax Act, 1961, section 11 dealt with the income of charitable and religious trusts. Under the Income-tax Act, 2025, section 11 deals with **exempt incomes generally**, and corresponds to the old section 10.

Charitable and religious trusts, societies, NGOs, and educational and medical institutions are now called **registered non-profit organisations**, and the whole law relating to them is gathered in Part B of Chapter XVII, sections 332 to 355.

If an internet search tells you that "section 11 is about charitable trusts", it is speaking of the old Act. In our syllabus, "Exempted incomes under section 11" means the general exemption provision of the 2025 Act.

5.1 What section 11 says

1. **Section 11(1)** — In computing the total income of any person for a tax year, any income enumerated in **Schedules II, III, IV, V and VI** shall not be included, subject to fulfilment of the conditions specified therein.
2. **Section 11(2)** — Wherever those conditions are not satisfied in any tax year in respect of any such income, that income shall be charged to tax on the total income for that tax year.
3. **Section 11(3)** — The persons enumerated in **Schedule VII** shall, subject to fulfilment of the conditions specified therein, not be chargeable to tax on the total income for a tax year.
4. **Section 11(4)** — Wherever those conditions are not satisfied, the income of such person shall be charged to tax.
5. **Section 11(5)** — The Central Government may make rules or issue notifications for the purposes of this section as specified in Schedules II, III, IV, V, VI and VII.

Two ideas run through all five sub-sections. First, some *incomes* are exempt (Schedules II to VI); some *persons* are altogether outside the charge (Schedule VII). Second, every exemption is **conditional**. If the condition attached to it fails in a year, the exemption goes and the amount becomes taxable in that year. An exemption is not a permanent gift; it is a promise kept only so long as its terms are kept.

5.2 The Schedules at a glance

Schedule	What it contains	Given effect by
Schedule II	General exempt incomes — available to **any person** who satisfies the conditions. Seventeen entries: agricultural income, life insurance proceeds, provident fund and PPF payments, Sukanya Samriddhi, NPS and Agniveer Corpus receipts, scholarships, gallantry-award pensions, and so on.	Section 11(1)

Schedule	What it contains	Given effect by
Schedule III	Exemptions available to **specified or eligible persons** — a member of an HUF, a partner of a firm, an employee receiving allowances and travel concession, a member of a Scheduled Tribe in a specified area, a Sikkimese individual, a research association, a trade union. Thirty-nine entries.	Section 11(1)
Schedule IV	Exemptions for **non-residents and foreign companies** — interest on Non-Resident (External) accounts, remuneration of foreign diplomats and trade commissioners, and similar items.	Section 11(1)
Schedule V	Exemptions relating to **investment funds, business trusts and securitisation trusts** and their unit holders.	Section 11(1)
Schedule VI	Exemptions relating to an **International Financial Services Centre** (IFSC) and specified funds located there.	Section 11(1)
Schedule VII	**Persons** whose total income is not chargeable to tax at all — forty-eight entries, including specified funds, universities and hospitals substantially financed by Government, regulatory bodies, mutual funds, recognised provident funds, commodity boards and credit guarantee funds.	Section 11(3)
Schedule VIII	Income of **political parties and electoral trusts**.	Section 12

5.3 Exemption and deduction — do not confuse them

	EXEMPTION	DEDUCTION
Where in the Act	Section 11 read with Schedules II to VII (and section 12 with Schedule VIII).	Chapter VIII — sections 122 to 154.
At what stage	The income never enters the computation at all. It is left out before the five heads are computed.	The income first enters, is taken to gross total income, and is then subtracted from it.
Effect on gross total income	It never forms part of gross total income.	It forms part of gross total income and is then deducted.
Under the default regime of section 202	Exemptions under section 11 continue to be available.	Most Chapter VIII deductions are **not** available.
Can it create a loss?	The question does not arise — the income is simply excluded.	No. The total of the deductions can never exceed gross total income [section 122(2)].
Example	Agricultural income of ₹2,00,000 — excluded outright.	Life insurance premium of ₹1,50,000 under section 123 (the old section 80C) — deducted from gross total income.

THE POINT THAT DECIDES MANY MARKS

Because exemptions under section 11 sit **outside** the total income altogether, they survive the choice of regime. Deductions under Chapter VIII, which operate **inside** the computation, largely do not. This is why a taxpayer under the default regime still keeps his agricultural income, his PPF maturity and his gratuity, but loses his section 123 (old 80C) benefit.

5.4 Important exempt incomes — Schedule II

Schedule II has seventeen entries and applies to every person. The entries prescribed for this Unit are Serial numbers 1 to 5, 7, 8, 9, 11 and 12, and those are the ones set out here.

Sl.	Income	Key conditions and points
1	Agricultural income	Must fall within section 2(5); the land must be situated in India. Subject to partial integration for rate purposes where net agricultural income exceeds ₹5,000 and the other income exceeds the maximum amount not chargeable to tax. See paragraph 2.2.
2	Any sum received under a life insurance policy, including the sum allocated by way of bonus	Exempt only if the annual premium does not exceed the prescribed percentage of the actual capital sum assured — 20%, 10% or 15% depending on the date of issue of the policy. For unit linked insurance policies issued on or after 1 February 2021 the aggregate annual premium must not exceed ₹2,50,000, and for other policies issued on or after 1 April 2023 the aggregate annual premium must not exceed ₹5,00,000. Any sum received **on the death** of the insured is exempt without these limits. A Keyman insurance policy is outside the exemption altogether.
3	Any payment from a Provident Fund to which the Provident Funds Act, 1925 applies, or from the Public Provident Fund	Fully exempt — interest as well as the maturity amount, subject to the conditions in the Schedule as to interest accrued during the year.
4	The accumulated balance due and becoming payable to an employee participating in a recognised provident fund	Exempt to the extent provided — broadly where the employee has rendered continuous service of five years or more, or where the service was terminated by reason of ill health or by the employer's discontinuance of business.
5	Any payment from an account opened under the Sukanya Samriddhi Account Scheme	Fully exempt.
7	Any payment from the Agniveer Corpus Fund to an Agniveer or his nominee	Fully exempt.
8	Any payment from an approved gratuity fund or similar fund	Exempt on the conditions specified in the Schedule.

Sl.	Income	Key conditions and points
9	Scholarships	Exempt where granted to meet the cost of education — whether by the Government, a private trust or an employer, and **whether or not** the whole amount is actually spent on education.
11 and 12	Interest, premium on redemption or other payment on notified securities, bonds, certificates and deposits; interest on Gold Deposit Bonds; interest on bonds issued by a local authority	As notified by the Central Government.

5.5 Important exempt incomes — Schedule III

Schedule III is the Schedule of exemptions for eligible persons. Column C of the Schedule names the eligible person in every case; read it, because the exemption is given to that person and to no one else. The entries prescribed for this Unit are Serial numbers 1, 8, 9, 11, 12, 13, 17, 18 and 38.

Sl.	Income	Eligible person and key points
1	Any sum received by a member from a Hindu undivided family	An individual who is a member of the HUF. The income has already been taxed in the hands of the HUF, which is a separate person; taxing it again in the member's hands would be double taxation.
8	The value of travel concession or assistance received from an employer for proceeding on leave to any place in India (LTC / LTA)	Any individual. Exempt to the extent actually spent, subject to the limits prescribed by the Rules. Computed in detail in Unit 2.
9	Any allowance or perquisite paid or allowed as such outside India by the Government	A citizen of India, where it is paid for rendering service outside India. Fully exempt.
11	Any special allowance from an employer granted to meet expenses wholly, necessarily and exclusively incurred in the performance of duties	Exempt to the extent actually spent — for example travelling allowance, conveyance allowance, daily allowance.
12 and 13	Special allowances or benefits granted to meet personal expenses at the place of duty, or to compensate for an increased cost of living; and house rent allowance	Exempt up to the monetary limits prescribed by the Rules. Of Serial number 13 only three allowances are prescribed for this Unit — children education allowance, hostel allowance, and transport allowance for a disabled employee. Unit 2 Part A gives the limits.
17	Income of a minor child included in the parent's total income under section 99(1)(c)	The individual in whose income it is included. Exempt to the extent it does not exceed ₹1,500 for each minor child whose income is so included.

Sl.	Income	Eligible person and key points
18	Capital gains on the transfer of urban agricultural land	An individual or a Hindu undivided family. The land must have been used for agricultural purposes by the assessee, his parent or the family in the two years before the transfer; the transfer must be by compulsory acquisition, or for a consideration determined or approved by the Central Government or the Reserve Bank of India; and the compensation must have been received on or after 1 April 2004.
38	Gratuity computed under section 19(1), Table, Serial numbers 3.C to 6.C	Any widow, children or dependants, on the death of an employee. Fully exempt.

Where the retirement benefits live in the new Act

Under the 1961 Act, gratuity, commuted pension, leave encashment, retrenchment compensation and voluntary retirement compensation were exempt under sections 10(10), 10(10A), 10(10AA), 10(10B) and 10(10C). In the 2025 Act all of these have been brought into **section 19**, headed "Deductions from salaries", which also carries the standard deduction. So do not go looking for them in section 11 — they belong to the salary chapter and you will study them in Unit 2.

5.6 Persons wholly exempt — Schedule VII with section 11(3)

Schedule VII does something different. It does not exempt a particular income; it takes the whole **person** outside the charge, so long as the conditions are met. There are forty-eight entries. Among those worth knowing are:

- a regimental fund or non-public fund established by the armed forces for the welfare of their members, and funds notified by the Central Government;
- the Prime Minister's National Relief Fund, the Prime Minister's Fund (Promotion of Folk Art), the Prime Minister's Aid to Students Fund, the National Foundation for Communal Harmony, the Swachh Bharat Kosh, the Clean Ganga Fund and a Chief Minister's or Lieutenant Governor's Relief Fund;
- a University or other educational institution existing solely for educational purposes and not for purposes of profit, which is wholly or substantially financed by the Government;
- a hospital or other institution for the reception and treatment of persons suffering from illness or mental defectiveness, existing solely for philanthropic purposes and not for purposes of profit, which is wholly or substantially financed by the Government;
- regulatory bodies such as the Insurance Regulatory and Development Authority and the Central Electricity Regulatory Commission, and Prasar Bharati;
- a Mutual Fund registered under the Securities and Exchange Board of India Act, 1992;
- a recognised provident fund, an approved superannuation fund, an approved gratuity fund, the Employees' State Insurance Fund and the New Pension System Trust;
- an agricultural produce market committee or board, and the commodity boards — Coffee, Rubber, Tea, Tobacco, Spices, Coir and the Marine Products and Agricultural and Processed Food Products Export Development Authorities;
- credit guarantee funds and trusts wholly financed by the Central Government, an infrastructure debt fund and a developmental financing institution licensed by the Reserve Bank of India.

5.7 Political parties and electoral trusts [Section 12 with Schedule VIII]

Section 12 keeps political parties and electoral trusts in a separate compartment. A political party's income by way of voluntary contributions, income from house property, capital gains and income from other sources does not form part of its total income, provided it satisfies the conditions in Schedule VIII — chiefly, that it is registered, that it keeps books of account and other documents from which the Assessing Officer can properly deduce its income, that donations above the prescribed limit are received otherwise than in cash, that the accounts are audited, and that the prescribed report is furnished. An electoral trust is exempt on similar terms.

5.8 Registered non-profit organisations [Sections 332 to 355]

For completeness — and because of the confusion with the old section 11 — note that charitable and religious institutions are now governed by Part B of Chapter XVII, sections 332 to 355, under the single label **"registered non-profit organisation"**. Registration is granted under section 332 and replaces the old registrations under sections 12A, 12AA and 12AB and approval under section 10(23C) of the 1961 Act; existing valid registrations continue until they expire. The organisation must apply at least 85% of its regular income to its charitable or religious objects, and may invest only in the modes permitted by Schedule XVI. This subject belongs to a later paper; for Unit 1 you need only know that it exists and that it is **not** what section 11 of the 2025 Act deals with.

5.9 A quick self-test

Receipt	Exempt or taxable?	Why
Agricultural income of ₹4,00,000 from land in Punjab	**Exempt**	Section 11 read with Schedule II (Sl. No. 1); the land is in India.
Agricultural income of ₹4,00,000 from land in Nepal	**Taxable**	Section 2(5) requires the land to be situated in India. Taxable under "income from other sources" for an ROR.
₹5,00,000 received by Shri A as a member of his HUF	**Exempt**	Schedule III (Sl. No. 1) — the HUF has already been taxed on it.
Maturity proceeds of ₹8,00,000 of a PPF account	**Exempt**	Schedule II (Sl. No. 3) — payment from the Public Provident Fund.
₹10,00,000 received on a life insurance policy taken in 2024 with an annual premium of ₹1,50,000 and a sum assured of ₹8,00,000	**Taxable**	The premium of ₹1,50,000 exceeds 10% of the capital sum assured of ₹8,00,000; the condition in Schedule II (Sl. No. 2) fails.
Scholarship of ₹60,000 received by a student, of which ₹45,000 was actually spent on fees	**Exempt in full**	A scholarship granted to meet the cost of education is exempt; there is no requirement to spend the whole of it.
Dividend of ₹50,000 from an Indian company	**Taxable**	Dividend is income under section 2(49)(b). It is chargeable in the shareholder's hands whatever the company does.
A payment of ₹4,00,000 from the Agniveer Corpus Fund	**Exempt**	Schedule II (Sl. No. 7) — fully exempt, with no condition attached.

CHAPTER 6

Learning Lessons from Kautilya's Taxation Policy

The syllabus asks you to draw lessons from Kautilya's taxation policy. This is not decoration. Long before Adam Smith wrote down his canons of taxation in 1776, an Indian teacher had set out an entire, workable system of public finance — with rates, exemptions, an administrative hierarchy, audit, penalties and a philosophy of restraint. Reading him is a useful corrective to the idea that tax thinking began in the West.

6.1 Kautilya and the Arthashastra

Kautilya — also known as Chanakya and as Vishnu Gupta — is traditionally placed in the fourth century BCE. He is said to have taught at Takshashila and to have been the mentor and minister of Chandragupta Maurya, the founder of the Mauryan empire. His work, the **Arthashastra**, is a treatise on *artha* — material well-being and the science of governing a state so as to secure it.

The text is arranged in fifteen books (*adhikaranas*) and some hundred and fifty chapters. It ranges over the duties of the king, the organisation of the administration, law and justice, the army, foreign policy, agriculture, mining, trade and — for our purposes most importantly — **revenue**. The second book, on the superintendents of departments, contains much of the fiscal material. The manuscript was lost for centuries and was rediscovered and published in the early twentieth century by R. Shamasastry.

For a student of income tax, three things about the Arthashastra are striking. It treats taxation as a normal and legitimate function of the state rather than as plunder. It insists that the tax must be measured against the taxpayer's capacity to bear it. And it worries at least as much about the honesty of the tax collector as about the honesty of the taxpayer.

6.2 The revenue heads

Kautilya did not have a single tax on income. He had many levies, each attached to a particular activity. The main ones were these.

Levy	What it was
Bhaga	The king's share of agricultural produce — the central land revenue. It was usually one-sixth of the produce, which is why the king is described in the older literature as *shadbhagin*, the taker of one-sixth. On specially irrigated or fertile land it could be higher, and on poor or newly broken land lower.
Bali	An additional levy on land, older than Bhaga and originally in the nature of a religious offering or tribute.
Kara	A periodical tax in cash, payable chiefly by fruit and flower gardens.
Shulka	Customs duty and tolls on goods entering and leaving the country and on goods sold within it, at differing rates according to the commodity — luxuries were taxed heavily, necessities lightly, and seed, food for cattle and articles for marriages or religious rites were often exempt.
Vyaji	A small premium taken on transactions to allow for differences in weights and measures.
Vartani	A road cess for the use and maintenance of roads.
Pranaya	Literally "a gift of affection" — an emergency levy that the king might ask for once, and only once, when the treasury was in genuine distress, such as during a war or a famine.

Levy	What it was
Fines and forfeitures	Danda, atyaya and similar levies imposed as penalties, which were also a source of revenue but were expressly not to be imposed for the purpose of raising revenue.

6.3 The principles — and the famous images

Kautilya's fiscal principles are usually remembered through his images, and they lose nothing by being remembered that way.

1. **Collect without destroying the source.** The state should gather its revenue as a bee gathers nectar from a flower — taking what it needs while leaving the flower unharmed and able to bloom again. Tax the yield, not the capacity to yield.
2. **Take only when the taxpayer is ready.** Fruit should be plucked when it is ripe; an unripe fruit picked early yields nothing and damages the tree. Revenue should be collected at harvest, when the cultivator actually has the produce in hand.
3. **Do not milk the calf.** The cow may be milked when the udder is full; a calf drained of milk grows weak and never becomes a cow. A new or struggling enterprise should be left to grow.
4. **Measure the tax to the capacity to bear it.** Rates differed by the quality of the land, the availability of irrigation, and the nature of the commodity. Luxuries bore more; necessities bore less. This is the ability-to-pay principle, and it is the ancestor of our progressive slab system.
5. **Certainty and convenience.** Rates were announced, the time and place of payment were fixed, and records were kept. The taxpayer was to know in advance what he owed.
6. **Economy in collection.** The cost of collecting a levy should not swallow the levy. Kautilya was frank about the temptations of office: he compared a revenue official handling money to a man with honey on his tongue, who can hardly be expected not to taste it. His remedy was continuous audit, cross-checking of records, frequent transfer of officers, rewards for informers and severe punishment for embezzlement.
7. **Relief and exemption where they are deserved.** Remission — *parihara* — was granted to those who settled new land, dug tanks or built irrigation works, and to villages in distress. Students, ascetics, the aged, the disabled, women without support and children were spared. Some remissions ran for years, on the sound reasoning that a farm brought into production pays revenue for a century.
8. **Emergency taxation is exceptional, not routine.** The *pranaya* could be asked for once in a crisis. It was not to become a habit, and it was not to be repeated.
9. **Punish evasion — and punish over-assessment.** False declarations and smuggling attracted heavy penalties. But so did an officer who assessed a subject beyond what was due, or who harassed him. Both sides of the counter were held to account.
10. **Revenue exists for the welfare of the people.** The most quoted sentiment in the whole treatise is that the king's happiness lies in the happiness of his subjects and his welfare in theirs; what pleases him personally is not the good, and what pleases his subjects is. Public revenue is raised to be spent on the public.

6.4 Kautilya and Adam Smith

Adam Smith's four canons of taxation, set out in *The Wealth of Nations* in 1776, are equity, certainty, convenience and economy. Every one of them can be found, in substance, in the Arthashastra roughly two thousand years earlier.

Adam Smith's canon	The Arthashastra's equivalent
Equity — subjects should contribute in proportion to their ability.	Graded rates according to the quality of land, the availability of irrigation and the nature of the commodity; exemptions for the poor, the aged and the disabled.
Certainty — the tax must be certain and not arbitrary.	Published rates, fixed times of collection, and detailed registers maintained by the Gopa and the Sthanika.
Convenience — the tax should be levied at the time and in the manner most convenient to the contributor.	Collection at harvest, and payment in kind where the taxpayer's wealth was in kind.
Economy — the cost of collection should be small.	Insistence that collection costs be kept low, with audit and rotation of officers to check leakage.

To these Kautilya adds two of his own that Smith did not stress: **elasticity** — the system must be able to yield more in an emergency without breaking — and **productivity**, in the sense that revenue policy should encourage the expansion of the tax base rather than squeeze the existing one.

6.5 The lessons, stated plainly

- A tax system succeeds when it is moderate. A rate so high that it destroys the activity being taxed yields less, not more.
- Fairness is not sentiment; it is good administration. A tax believed to be fair is a tax that is paid.
- Information is the foundation of assessment. Without reliable records, honest assessment is impossible and dishonest assessment is inevitable.
- The integrity of the administration is part of the tax system, not an external matter. Kautilya spent as much thought on his officers as on his rates.
- Exemptions should be purposive — given to encourage something worth encouraging, or to relieve genuine hardship — and not scattered.
- Certainty and simplicity are themselves virtues. This is, in the end, precisely the reasoning behind replacing the much-amended Act of 1961 with the Income-tax Act, 2025.

CHAPTER 7

Revision, Ready Reckoner and Question Bank

7.1 Old section to new section — a ready reckoner for Unit 1

Every book, every question paper and every note older than 2026 uses the numbering of the 1961 Act. Keep this table beside you while reading anything old.

Concept or provision	Income-tax Act, 2025	Income-tax Act, 1961
Short title, extent and commencement	Section 1	Section 1
Definitions	Section 2	Section 2
Agricultural income	Section 2(5)	Section 2(1A)
Assessee	Section 2(11)	Section 2(7)
Assessing Officer	Section 2(12)	Section 2(7A)
Average rate of income-tax	Section 2(16)	Section 2(10)
Business	Section 2(20)	Section 2(13)
Capital asset	Section 2(22)	Section 2(14)
Company	Section 2(28)	Section 2(17)
Firm (includes an LLP)	Section 2(45)	Section 2(23)
Income	Section 2(49)	Section 2(24)
India	Section 2(52)	Section 2(25A)
Maximum marginal rate	Section 2(70)	Section 2(29C)
Non-resident	Section 2(72)	Section 2(30)
Permanent Account Number	Section 2(76)	Section 2(39A)
Person	Section 2(77)	Section 2(31)
Person of Indian origin	Section 2(78)	Explanation to section 6(1)
Tax year	Section 3	Section 3 (previous year) and section 2(9) (assessment year) — both now abolished
Charge of income-tax	Section 4	Section 4
Scope of total income	Section 5	Section 5
Residence in India	Section 6	Section 6
Income deemed to be received	Section 7	Sections 7 and 8
Income deemed to accrue or arise in India	Section 9 with Schedule I	Sections 9 and 9A
Incomes not included in total income (exemptions)	Section 11 with Schedules II to VII	Section 10
Political parties and electoral trusts	Section 12 with Schedule VIII	Sections 13A and 13B
Heads of income	Section 13	Section 14
Deductions from salaries — gratuity, commuted pension, leave encashment, standard deduction	Section 19	Sections 16, 10(10), 10(10A), 10(10AA), 10(10B), 10(10C)

Concept or provision	Income-tax Act, 2025	Income-tax Act, 1961
Deductions from annual value of house property	Section 22	Section 24
Presumptive taxation for certain residents	Section 58	Sections 44AD, 44ADA, 44AE
Maintenance of books of account	Section 62	Section 44AA
Tax audit	Section 63	Section 44AB
Clubbing of income of spouse, minor child, etc.	Sections 96 to 100	Section 64
Set-off and carry forward of losses	Sections 108 to 121	Sections 70 to 80
Deductions in computing total income; gross total income defined	Sections 122 to 154; GTI in section 122(10)	Chapter VI-A, sections 80A to 80U; GTI in section 80B(5)
Deduction for life insurance premia, provident fund, etc.	Section 123 with Schedule XV	Section 80C
Deduction for health insurance premia	Section 126	Section 80D
Rebate for certain individuals	Section 156	Section 87A
Relief when salary is paid in arrears or in advance	Section 157	Section 89
The default (new) tax regime	Section 202	Section 115BAC
Permanent Account Number — operative provisions	Section 262 with Rule 159	Sections 139A and 139AA with Rules 114B to 114D
Return of income	Section 263	Section 139
Registered non-profit organisations (charitable trusts)	Sections 332 to 355	Sections 11, 12, 12A, 12AA, 12AB, 13 and 10(23C)
Fee for default in intimating Aadhaar	Section 430	Section 234H
Penalty for failure to comply with the PAN provisions	Section 467	Sections 272B and 272BB
Rounding off of income and of tax	Section 516	Sections 288A and 288B
Power to make rules	Section 533	Section 295

AND THE FORMS HAVE BEEN RENUMBERED TOO

Form 130 replaces Form 16 (TDS certificate for salary); Form 131 replaces Form 16A; Form 168 replaces Form 26AS; Form 121 replaces Forms 15G and 15H; Form 128 replaces Form 13; Form 138 replaces Form 24Q and Form 140 replaces Form 26Q. In this Unit, note also **Form 97** (the old Form 60 — declaration by a person who has no PAN) and **Form 98** (the old Form 61 — the statement in which those declarations are reported).

7.2 Glossary of Unit 1

Term	Meaning in one line
Assessee	A person by whom tax or any other sum is payable under the Act, or in respect of whom a proceeding has been taken [section 2(11)].

Term	Meaning in one line
Assessee in default	A person who has failed to discharge a statutory obligation, typically an employer who deducted tax at source but did not deposit it.
Average rate of income-tax	Income-tax on total income, divided by that total income [section 2(16)].
Basic exemption limit	The maximum amount of total income on which no tax is payable — ₹4,00,000 under the default regime of section 202.
Deemed resident	An Indian citizen not liable to tax anywhere else, whose income other than foreign-source income exceeds ₹15 lakh; resident by force of section 6(7) and always RNOR by section 6(13)(c).
Gross total income	The aggregate of income under the five heads, after clubbing and set-off, but before Chapter VIII deductions [section 122(10)].
Health and education cess	4% of income-tax plus surcharge, charged on every assessee, with no marginal relief.
Indian income	Income received or deemed to be received in India, or accruing or deemed to accrue or arise in India. Taxable for every status.
Marginal relief	A concession ensuring that the extra tax caused by crossing a threshold does not exceed the extra income — W = U + V.
Maximum marginal rate	The rate of income-tax including surcharge applicable to the highest slab for an individual, AOP or BOI — 41.10%, or 42.744% with cess [section 2(70)].
Not ordinarily resident	A resident who satisfies any limb of section 6(13); taxed on Indian income plus foreign income from a business controlled in, or a profession set up in, India.
Partial integration	Adding net agricultural income to non-agricultural income for the limited purpose of determining the rate of tax.
Permanent Account Number	A unique ten-character alphanumeric identifier allotted under section 262; defined in section 2(76).
Person	The seven categories in section 2(77) — individual, HUF, company, firm, AOP or BOI, local authority, artificial juridical person.
Place of effective management	The place where the key management and commercial decisions necessary for the conduct of the business of the company as a whole are in substance made [section 6(10)(b)].
Rebate under section 156	A reduction from tax payable for a resident individual — up to ₹60,000 where total income does not exceed ₹12,00,000 under the default regime, and up to ₹12,500 where it does not exceed ₹5,00,000 under the optional regime.
Senior citizen / super senior citizen	A resident individual of 60 / 80 years or more at any time during the tax year; for Tax Year 2026-27, date of birth on or before 1 April 1967 / 1 April 1947, applying CBDT Circular No. 28/2016. Higher exemption limits are available only under the optional regime.

Term	Meaning in one line
Surcharge	An additional tax computed as a percentage of the income-tax, applicable once total income crosses ₹50,00,000.
Tax year	The twelve months period of the financial year commencing on 1 April; shorter in the first year of a new business or source [section 3].
Total income	The total amount of income computed in the manner laid down in the Act, on which tax is charged.

7.3 Objective questions

Answers follow at the end of the section.

A. Choose the correct alternative

1. The Income-tax Act, 2025 came into force with effect from — (a) 1 April 2025 (b) 21 August 2025 (c) 1 April 2026 (d) 1 April 2027.
2. Under the Income-tax Act, 2025, "tax year" is defined in — (a) section 2(9) (b) section 3 (c) section 4 (d) section 5.
3. The power of Parliament to levy tax on income other than agricultural income flows from — (a) Entry 46 of the State List (b) Entry 82 of the Union List (c) Article 265 (d) Article 141.
4. Agricultural income is defined in — (a) section 2(1A) of the 2025 Act (b) section 2(5) of the 2025 Act (c) section 10(1) of the 2025 Act (d) section 11 of the 2025 Act.
5. Which of the following is NOT a "person" under section 2(77)? — (a) A local authority (b) An artificial juridical person (c) A minor child (d) All of these are persons.
6. An individual is resident in India if he is in India for — (a) 182 days or more in the tax year (b) 60 days or more in the tax year and 365 days or more in the preceding four years (c) either (a) or (b) (d) both (a) and (b).
7. The additional condition of 729 days relates to a period of — (a) 4 preceding tax years (b) 7 preceding tax years (c) 10 preceding tax years (d) 2 preceding tax years.
8. The deemed residence provision of section 6(7) applies where income other than income from foreign sources exceeds — (a) ₹5,00,000 (b) ₹10,00,000 (c) ₹15,00,000 (d) ₹50,00,000.
9. A company incorporated in India is — (a) always resident in India (b) resident only if its place of effective management is in India (c) resident only if all its directors are in India (d) never resident.
10. Foreign income from a business controlled from India is taxable in the hands of — (a) ROR only (b) ROR and RNOR (c) NR only (d) nobody.
11. Income earned and received abroad in an earlier year and remitted to India this year is taxable in the hands of — (a) ROR (b) RNOR (c) NR (d) none of these.
12. Exempted incomes are dealt with under the Income-tax Act, 2025 by — (a) section 10 (b) section 11 with Schedules II to VII (c) section 12 (d) Chapter VIII.
13. Under the default regime of section 202, income up to which limit is taxed at nil rate? — (a) ₹2,50,000 (b) ₹3,00,000 (c) ₹4,00,000 (d) ₹5,00,000.
14. The maximum rebate under section 156 under the default regime is — (a) ₹12,500 (b) ₹25,000 (c) ₹50,000 (d) ₹60,000.
15. Health and education cess is levied at — (a) 2% (b) 3% (c) 4% (d) 5%.
16. The fourth character of the PAN of an individual is — (a) I (b) P (c) A (d) the first letter of his first name.
17. A person must apply for a PAN if his business turnover is likely to exceed — (a) ₹1,00,000 (b) ₹5,00,000 (c) ₹10,00,000 (d) ₹40,00,000.
18. Partial integration of agricultural income applies only where net agricultural income exceeds — (a) ₹1,000 (b) ₹5,000 (c) ₹50,000 (d) ₹5,00,000.
19. Charitable and religious institutions are governed under the Income-tax Act, 2025 by — (a) section 11 (b) section 12 (c) sections 332 to 355 (d) Chapter VIII.
20. For Tax Year 2026-27, a resident individual is a senior citizen under the optional regime if his date of birth is on or before — (a) 1 April 1966 (b) 1 April 1967 (c) 2 April 1967 (d) 1 April 1968.
21. Under Rule 159 of the Income-tax Rules, 2026, PAN must be quoted on the purchase or sale of immovable property where the amount exceeds — (a) ₹10,00,000 (b) ₹20,00,000 (c) ₹30,00,000 (d) ₹45,00,000.

22. Under Rule 159, PAN must be quoted on cash deposits in a financial year aggregating to — (a) ₹50,000 or more (b) ₹2,00,000 or more (c) ₹5,00,000 or more (d) ₹10,00,000 or more.
23. A person, not being a company or a firm, who has no PAN must **apply** for one if he purchases immovable property exceeding — (a) ₹20,00,000 (b) ₹30,00,000 (c) ₹45,00,000 (d) ₹50,00,000.
24. The penalty for failing to comply with the provisions of section 262 is imposed under — (a) section 430 (b) section 467 (c) section 272B (d) section 516.
25. A person who has no PAN and enters into a transaction specified in Rule 159 makes a declaration in — (a) Form 60 (b) Form 97 (c) Form 98 (d) Form 168.
26. The total income of an assessee is rounded off under — (a) section 288A of the 2025 Act (b) section 516 (c) section 156 (d) section 262.
27. Under section 202, the maximum rate of surcharge on the income of an individual is — (a) 15% (b) 25% (c) 37% (d) 12%.
28. The Income-tax Rules, 2026 were notified on — (a) 1 April 2026 (b) 20 March 2026 (c) 1 February 2026 (d) 21 August 2025.
29. The Income-tax Act, 2025 contains — (a) 819 sections in 47 chapters (b) 536 sections in 23 chapters (c) 298 sections in 23 chapters (d) 536 sections in 16 chapters.

B. State whether True or False

1. The expression “assessment year” continues to be used under the Income-tax Act, 2025.
2. A tax year can never be longer than twelve months.
3. Residential status is determined afresh for every tax year.
4. An Indian citizen can never be a non-resident.
5. Agricultural income from land situated in Bhutan is exempt from tax in India.
6. A person who has only a loss and pays no tax is not an assessee.
7. An HUF can be a resident but not ordinarily resident.
8. A firm can be a resident but not ordinarily resident.
9. Illegal income is not taxable because the law cannot recognise it.
10. The share of profit received by a partner from a firm is exempt, but interest on his capital is taxable.
11. Exemptions under section 11 are lost if the assessee is taxed under the default regime of section 202.
12. Surcharge is computed as a percentage of total income.
13. Both the day of arrival in India and the day of departure from India are counted as days of stay in India.
14. A scholarship is exempt only to the extent it is actually spent on education.
15. Total income is rounded off to the nearest ten rupees.
16. Under Rule 159, PAN must be quoted on opening a Basic Savings Bank Deposit Account.
17. Marginal relief is available against the health and education cess.
18. The standard deduction from salary is ₹75,000 under the default regime and ₹50,000 under the optional regime.

C. Fill in the blanks

1. The Income-tax Act, 2025 contains __ sections, __ chapters and __ schedules.
2. The definition of “income” in section 2(49) is __ (exhaustive / inclusive).
3. The place where key management and commercial decisions are in substance made is called the __.
4. Gross total income is defined in section __ of the Income-tax Act, 2025.
5. A resident individual aged 60 years or more but below 80 years is called a __.
6. The maximum marginal rate as defined in section 2(70), before cess, is __ per cent.
7. A PAN consists of __ alphanumeric characters.
8. Foreign income of a non-resident is __ in India.
9. The rate of tax on the total income of a firm is __ per cent.
10. The transactions in which PAN must be quoted are prescribed by Rule __ of the Income-tax Rules, 2026.
11. The penalty for quoting a false PAN is ₹__ for each default, under section __.

Answers

A. Multiple choice
1 (c) 2 (b) 3 (b) 4 (b) 5 (d) 6 (c) 7 (b) 8 (c) 9 (a) 10 (b)

A. Multiple choice
11 (d) 12 (b) 13 (c) 14 (d) 15 (c) 16 (b) 17 (b) 18 (c) 19 (b) 20 (c)
21 (b) 22 (b) 23 (d) 24 (c) 25 (b) 26 (b) 27 (b) 28 (b) 29 (b) 30 (b)

B. True or False
1 False 2 True 3 True 4 False 5 False 6 False 7 True 8 False 9 False
10 True 11 False 12 False 13 True 14 False 15 True 16 False 17 False 18 True

C. Fill in the blanks
1. 536, 23, 16 2. inclusive 3. place of effective management 4. 122(10) 5. senior citizen
6. 75 7. 41.10 8. ten 9. not taxable 10. 30 11. 159 12. ₹10,000; section 467

7.4 Short-answer and long-answer questions

Short answer (about 5 marks each)

1. Explain the concept of "tax year" under section 3 and state how it differs from the previous year and the assessment year of the 1961 Act.
2. Define "person" under section 2(77) and distinguish between an association of persons and a body of individuals.
3. Who is an "assessee"? Explain the different kinds of assessee with examples.
4. What is the "maximum marginal rate"? Compute it and state three situations in which it applies.
5. Explain the provisions relating to the allotment and quoting of the Permanent Account Number, and state five transactions in which it must be quoted.
6. Distinguish between an exemption and a deduction.
7. Distinguish between application of income and diversion of income by overriding title.
8. Distinguish between a capital receipt and a revenue receipt, with three examples of each.
9. State the five sources of income tax law in India.
10. Explain the meaning of "place of effective management".
11. On what date is the age of a senior citizen to be tested for Tax Year 2026-27, and why?
12. Explain marginal relief from surcharge, and illustrate it with a computation.

Long answer (about 10 to 15 marks each)

1. Define agricultural income. Discuss the essential conditions that must be satisfied, giving five examples each of income which is and which is not agricultural income.
2. What is partial integration of agricultural income? State the conditions and the persons to whom it applies, and illustrate the computation.
3. Explain in full the provisions of section 6 for determining the residential status of an individual, including the exceptions and the deemed residence provision.
4. Explain the scope of total income under section 5 in the case of a resident and ordinarily resident, a resident but not ordinarily resident, and a non-resident.
5. Discuss the scheme of exemption under section 11 read with Schedules II to VII, and list ten important exempt incomes.
6. Discuss Kautilya's taxation policy and the lessons it holds for a modern tax system.
7. Explain the salient features of the Income-tax Act, 2025 and the reasons for replacing the Income-tax Act, 1961.
8. Compare the default regime of section 202 with the optional regime of the Finance Act, 2026, and state the circumstances in which each is more beneficial.

7.5 Practical problems with solutions

PROBLEM 1 — RESIDENTIAL STATUS

Shri Naveen, an Indian citizen, left India for the first time on 15 August 2026 to take up a job in Muscat. He returned to India on 20 February 2027 and stayed on. Determine his residential status for Tax Year 2026-27.

Solution. Days in India: 1 April to 15 August 2026 = 30 + 31 + 30 + 31 + 15 = 137 days. Add 20 February to 31 March 2027 = 9 + 31 = 40 days. **Total = 177 days.**

Condition 6(2)(a): 177 days is less than 182 — not satisfied.

Condition 6(2)(b): he is an Indian citizen who left India during the tax year for employment outside India, so section 6(3)(b) makes condition 6(2)(b) inapplicable.

He is a NON-RESIDENT for Tax Year 2026-27.

Had he returned even five days earlier, on 15 February 2027, his stay would have been 182 days and he would have been a resident — and his Muscat salary would then have entered his Indian total income.

PROBLEM 2 — ROR, RNOR OR NR

Mohd. Sajid, a foreign citizen, came to India for the first time on 1 April 2019 and has stayed in India continuously since then. Determine his residential status for Tax Year 2026-27.

Solution. In Tax Year 2026-27 he was in India for 365 days, so condition 6(2)(a) is satisfied and he is a **RESIDENT**.

Section 6(13)(a)(i): during the ten tax years preceding 2026-27 — that is, 2016-17 to 2025-26 — he was resident in India in each of the seven years from 2019-20 to 2025-26. He was therefore not a non-resident in nine out of ten years. Limb (i) fails.

Section 6(13)(a)(ii): during the seven tax years preceding 2026-27 (2019-20 to 2025-26) he was in India for the whole of each year, roughly 2,557 days — far more than 729 days. Limb (ii) fails.

Sections 6(13)(b) and (c) do not apply, since he is neither a citizen of India nor a person of Indian origin.

He is a RESIDENT AND ORDINARILY RESIDENT for Tax Year 2026-27, and his world income is taxable in India.

This shows that citizenship is irrelevant. A foreign national living in India is taxed on his global income exactly like any Indian.

PROBLEM 3 — SCOPE OF TOTAL INCOME

Shri Ankush, resident but not ordinarily resident, furnishes the following particulars for Tax Year 2026-27. Compute his total income.

(i) Interest on a fixed deposit with a bank in Chennai ₹80,000; (ii) profit from a business in Bangkok, controlled from Chennai, received in Bangkok ₹6,00,000; (iii) profit from a business in Colombo, controlled from Colombo, received in Colombo ₹4,50,000; (iv) rent from a house in Delhi, received in Colombo ₹3,60,000; (v) salary for services rendered in Colombo, received in Delhi ₹2,00,000; (vi) income earned and received in Colombo in Tax Year 2023-24, brought into India in Tax Year 2026-27 ₹5,00,000.

Solution.

(i) Indian income — accrues and is received in India. Taxable **₹80,000**.

(ii) Foreign income, but from a business controlled from India, so taxable for an RNOR. Taxable **₹6,00,000**.

(iii) Foreign income from a business controlled outside India. Not taxable for an RNOR. **Nil**.

(iv) Indian income — the property is situated in India, so the rent accrues in India. The place of receipt is irrelevant. Taxable **₹3,60,000**.

(v) Indian income — it is received in India. Taxable **₹2,00,000**.

(vi) A mere remittance of income of an earlier year is not income of this year. **Nil**.

Total income = ₹80,000 + ₹6,00,000 + ₹3,60,000 + ₹2,00,000 = ₹12,40,000

PROBLEM 4 — AGRICULTURAL INCOME AND PARTIAL INTEGRATION

Mrs. Seema, aged 42, a resident, has business income of ₹11,00,000 and net agricultural income of ₹3,00,000 for Tax Year 2026-27. She is taxed under the default regime of section 202. Compute her tax liability.

Solution. Net agricultural income of ₹3,00,000 exceeds ₹5,000, and the non-agricultural income of ₹11,00,000 exceeds the maximum amount not chargeable to tax of ₹4,00,000. Partial integration therefore applies.

Step 1 — tax on ₹11,00,000 + ₹3,00,000 = ₹14,00,000. Nil up to ₹4,00,000; ₹4,00,000 @ 5% = ₹20,000; ₹4,00,000 @ 10% = ₹40,000; ₹2,00,000 @ 15% = ₹30,000. **Total = ₹90,000**

Step 2 — tax on ₹3,00,000 + ₹4,00,000 = ₹7,00,000. Nil up to ₹4,00,000; ₹3,00,000 @ 5% = ₹15,000. **Total = ₹15,000**

Step 3 — ₹90,000 – ₹15,000 = ₹75,000.

Rebate under section 156(2)(a): her total income of ₹11,00,000 does not exceed ₹12,00,000 and she is a resident individual, so the rebate is the lower of ₹60,000 and ₹75,000 — that is **₹60,000**.

Tax after rebate = ₹75,000 – ₹60,000 = ₹15,000. Add health and education cess @ 4% = ₹600.

Tax payable = ₹15,600

PROBLEM 5 — TAX ON A SALARIED INDIVIDUAL

Shri Vibhu, aged 64, a resident, has a gross salary of ₹22,00,000 for Tax Year 2026-27, deposits ₹1,50,000 in the Public Provident Fund and pays ₹40,000 as health insurance premium. Compute his tax liability under the default regime.

Solution. Gross salary ₹22,00,000; less standard deduction under section 19(1) (Table: Sl. No. 2)(a) ₹75,000; total income = **₹21,25,000**.

Under the default regime the deposit in PPF and the health insurance premium do not qualify for deduction, and there is no higher exemption limit for a senior citizen.

Tax: Nil up to ₹4,00,000; ₹4,00,000 @ 5% = ₹20,000; ₹4,00,000 @ 10% = ₹40,000; ₹4,00,000 @ 15% = ₹60,000; ₹4,00,000 @ 20% = ₹80,000; ₹1,25,000 @ 25% = ₹31,250.

Income-tax = **₹2,31,250**. No surcharge (total income does not exceed ₹50,00,000). No rebate (total income exceeds ₹12,00,000). Add health and education cess @ 4% = ₹9,250.

Tax payable = ₹2,40,500

As an exercise, work the same problem under the optional regime, where the standard deduction is ₹50,000, the PPF deposit qualifies under section 123, the health insurance premium qualifies under section 126, and a resident senior citizen enjoys a basic exemption of ₹3,00,000. Compare the two figures.

Problem 6 — PAN: who must apply, and where it must be quoted

State, with reasons, whether a PAN must be **applied for**, and whether a PAN must be **quoted**, in each of the following cases for Tax Year 2026-27.

(a) Shri Deepak, a salaried employee with a total income of ₹9,00,000, buys a flat in Ghaziabad for ₹32,00,000.

(b) Smt. Rekha, a housewife with no taxable income and no PAN, deposits ₹11,00,000 in cash into her savings account during the year.

(c) M/s Bharat Traders, a resident firm, enters into a single financial transaction of ₹2,60,000.

(d) Master Aman, aged 12, with no income chargeable to tax, buys mutual fund units of ₹80,000 from a gift received from his grandfather.

Solution.

(a) He must **quote** his PAN: Rule 159(1), Sl. No. 11 — immovable property exceeding ₹20,00,000. He already has to hold a PAN in any case, because his total income exceeds the maximum amount not chargeable to tax [section 262(1)(a)]. Note that he is below the ₹45,00,000 line of Rule 159(3), so that sub-rule adds nothing here.

(b) She must **quote** a PAN: Rule 159(1), Sl. No. 6 — cash deposits aggregating to ₹10,00,000 or more in a financial year. As she has none, Rule 159(3) requires her to **apply** for a PAN, the transaction being at Sl. No. 6, which is within Sl. Nos. 1 to 10. A declaration in Form 97 is not open to her, because that is available only for Sl. Nos. 11 to 16.

(c) The firm must **apply** for and hold a PAN: it is a resident, other than an individual, entering into a financial transaction aggregating to ₹2,50,000 or more [section 262(1)(d)]. Its partners are covered by section 262(1)(e).

(d) PAN must be **quoted** — Rule 159(1), Sl. No. 4, payment to a Mutual Fund exceeding ₹50,000. Being a minor with no income chargeable to tax, he quotes the PAN of his father, mother or guardian under Rule 159(2)(a).

7.6 A one-page revision sheet for Tax Year 2026-27

Item	Figure or provision
Act in force	Income-tax Act, 2025 (Act No. 30 of 2025), from 1 April 2026
Rules in force	Income-tax Rules, 2026, from 1 April 2026
Rates fixed by	Finance Act, 2026 — section 202 of the Act and Part I-B of the First Schedule
Tax year	1 April 2026 to 31 March 2027
Default-regime slabs [s. 202]	Nil / 5 / 10 / 15 / 20 / 25 / 30 per cent at ₹4 / 8 / 12 / 16 / 20 / 24 lakh
Optional-regime slabs	Nil / 5 / 20 / 30 per cent at ₹2.5 / 5 / 10 lakh (₹3 lakh and ₹5 lakh exemption for resident senior and super senior citizens)
Standard deduction from salary [s. 19]	₹75,000 default | ₹50,000 optional
Rebate [s. 156]	₹60,000 up to ₹12,00,000 (default) | ₹12,500 up to ₹5,00,000 (optional)
Surcharge	10 / 15 / 25 / 37 per cent above ₹50 lakh, ₹1 crore, ₹2 crore, ₹5 crore; capped at 25% under section 202 and at 15% on dividend and capital gains
Health and education cess	4 per cent, no marginal relief
Maximum marginal rate [s. 2(70)]	41.10 per cent (42.744 per cent with cess)
Rounding off [s. 516]	Nearest multiple of ₹10
Senior / super senior citizen	Date of birth on or before 1 April 1967 / 1 April 1947

Item	Figure or provision
Deemed resident / RNOR threshold	₹15,00,000 of income other than income from foreign sources
Residence tests	182 days; or 60 days + 365 days in 4 preceding years (120 days for a visiting citizen or PIO with income above ₹15 lakh)
Not ordinarily resident	Non-resident in 9 of 10 preceding years, or 729 days or less in 7 preceding years
Partial integration	Net agricultural income above ₹5,000 and other income above the exemption limit
PAN turnover trigger [s. 262(1)(b)]	₹5,00,000
PAN penalty [s. 467]	₹10,000 for each default
PAN — immovable property [Rule 159]	Quote above ₹20,00,000; apply above ₹45,00,000
PAN — cash deposits or withdrawals	₹10,00,000 or more in a financial year
PAN — goods or services	Above ₹2,00,000 per transaction

7.7 Where to go next

- **The bare Act and the bare Rules.** The Income-tax Act, 2025 as amended by the Finance Act, 2026, and the Income-tax Rules, 2026, are available free at **incometaxindia.gov.in** under Tax Laws & Rules. Read sections 2, 3, 5, 6 and 11 and Rule 159 in the original at least once. It is easier than you expect — the new drafting is meant to be read.
- **The Finance Act and its Memorandum.** The Finance Bill, the Memorandum explaining its provisions and the Budget Speech are on **indiabudget.gov.in**. The Memorandum is the quickest way to find out what changed and why.
- **The e-filing portal. incometax.gov.in** — for the practical exercises of the syllabus, for the ITR utilities and for the Annual Information Statement.
- **Suggested readings.** Ahuja & Gupta, *Simplified Approach to Income Tax*; Mittal, *Concept Building Approach to Income Tax Law and Practice*; Singhania & Singhania, *Students' Guide to Income Tax (University Edition)*. Always take the latest edition — an edition written on the 1961 Act will mislead you on every section number.
- **This teacher's own material.** Syllabus, question papers, study notes and video links are available free at **www.taxclasses.in** and on the YouTube channel **Tax Doctor**.

End of Unit 1.