UNIVERSITY OF DELHI

INCOME TAX
LAW AND PRACTICE

DSC 5.1

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

UNIT 5 — PART B

COMPUTATION OF TOTAL INCOME AND TAX LIABILITY

Individuals · Both Regimes · Tax Year 2026-27

The Six Steps • Gross Total Income • Total Income • Rounding Off
Section 202 — the Default Regime and the Option
Normal Income · Income Charged at its Own Rate · Sections 194 and 195
Capital Gains at 20% and 12.5% · Sections 196, 197 and 198
The Slabs · Surcharge · Marginal Relief · The 4% Cess
Rebate of ₹60,000 · Marginal Relief inside the Rebate · Relief on Arrears
Partial Integration of Agricultural Income
TWELVE LONG PRACTICAL PROBLEMS, EACH WORKED IN BOTH REGIMES

BUILT ON THE BARE TEXT OF SECTIONS 194 TO 202 AND 516

Governed by the INCOME-TAX ACT, 2025

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

TAX YEAR 2026-27

1 April 2026 to 31 March 2027

Academic Year 2026-27

Compiled by

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Preface

What changed, and which Act changed it

This booklet takes the five heads of income as computed in Units 2, 3 and 4 and the deductions of Unit 5 Part A, and carries them through to the figure that is actually paid. It is written from the bare text of the Income-tax Act, 2025 as amended by the Finance Act, 2026 — sections 194 to 202 for the rates, sections 155 to 158 for the rebate and the reliefs, section 202 for the two regimes, and section 516 for the rounding. The rates themselves come from the First Schedule to the Finance Act, 2026, Part I-B.

Income-tax Act, 1961	Income-tax Act, 2025	Substance
115BB, 115BBJ, 115BBH	194	Lottery, online games, virtual digital assets, carbon credits, patent royalty, life insurance business — one table of six
115BBE	195	Unexplained credits and investments — the rate brought down from 60% to 30% by the Finance Act, 2026
111A	196	Short-term capital gains on which securities transaction tax is paid — 20%
112	197	Long-term capital gains generally — 12.5%, with the pre-23-July-2024 comparison in 197(3)
112A	198	Long-term capital gains on which securities transaction tax is paid — 12.5% above ₹1,25,000
115BAC	202	The default regime, and the option out of it
288A and 288B	516	Rounding off the total income and the tax

One — the surcharge stops at 25% under the default regime and at 37% under the optional regime

The Finance Act, 2026, section 3(4)(b) (Table: Sl. No. 10) gives the surcharge for a person whose income is charged under section 202. It has four rates — 10%, 15%, 25% and a fall-back of 15% — and no rate of 37%. Paragraph F of Part I-B of the First Schedule, which governs everyone else, has five, the highest of which is 37% where the total income excluding dividend and the gains under sections 196, 197 and 198 exceeds ₹5,00,00,000.

At a total income of ₹6,00,40,000 the difference is worth ₹19,66,570. Problem 10 in Chapter 9 works it out.

Two — a slice charged at its own rate never leaves the total income

Sections 194 to 198 are each built in two limbs. The first charges the described slice — a lottery prize, a short-term gain on which securities transaction tax has been paid, a long-term gain — at its own percentage. The second charges the balance of the total income at the slab rates, as though the slice had never been there.

The slice nevertheless remains part of the total income. It counts towards the ₹12,00,000 in section 156(2), towards the ₹50,00,000 at which the surcharge begins, and towards the ₹5,00,00,000 at which 37% begins. What it leaves is the slab, and nothing else. Chapter 3, paragraph 3.7, works the point through.

Three — the rebate now has two limbs, and one of them carries its own marginal relief

Section 156(1) is the old rebate: a resident individual whose total income does not exceed ₹5,00,000 gets 100% of the tax or ₹12,500, whichever is less.

Section 156(2) applies where the total income is chargeable under section 202(1). Clause (a) gives 100% of the tax or ₹60,000, whichever is less, up to a total income of ₹12,00,000. Clause (b) then does something no other provision in the Act does — where the total income exceeds ₹12,00,000 and the tax exceeds the excess, it gives back the difference between the two. That is marginal relief written into the rebate itself, and it is spent at a total income of ₹12,70,588. Paragraphs 6.4 and 6.5 work the whole band.

What has not changed

The six rates in the Table to section 202(1) — 5%, 10%, 15%, 20%, 25% and 30% between ₹4,00,000 and ₹24,00,000 — are the rates a student will find in a book written on the 1961 Act for the year immediately preceding. The optional rates of Paragraph A are the familiar 5%, 20% and 30% on ₹2,50,000, ₹5,00,000 and ₹10,00,000, with ₹3,00,000 for a resident of sixty and ₹5,00,000 for a resident of eighty. The standard deduction is ₹75,000 under the default regime and ₹50,000 under the optional one [section 19(1) (Table: Sl. No. 2)]. The Health and Education Cess is 4%. The rebate is ₹60,000 under section 156(2) and ₹12,500 under section 156(1). Only the numbering has moved.

About this booklet, and a request

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.

Suggestions on presentation, and reports of any discrepancy, are warmly invited.

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The Prescribed Syllabus

Income Tax Law and Practice — DSC-5.1

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)
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) — this booklet

Chapters 7, 8 and 9 carry twelve long practical problems. Each is a complete computation of total income and of tax liability, worked once under section 202(1) and once under the optional rates, and each draws on more than one Unit — the first four on Units 2 and 5(A), the next four adding Units 3 and 4, and the last four adding the surcharge and marginal relief. Problem 12 draws on every one of the five Units at once.

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.

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

The return of income. Students are to be made familiar with the income-tax e-filing website, the tax services available on it, the tax calculator and the filing of a return. No specific question on TDS.

Which return. The guideline for Unit 5 says that only ITR-2 should be done using the excel utility on www.incometax.gov.in for the practical examination. Relevant Point 2 of the same minutes says that ITR-1 will be done in the academic session 2026-27. Point 2 is the later and the more specific of the two, and it is the one that names this session, so ITR-1 is what this booklet works.

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.

Contents

How this booklet is arranged

Chapter 1

The Scheme of the Computation

Sections 13, 122, 202 and 516

From the five heads to the figure that is paid

1.1 The six steps

The Act does not set out a proforma. It sets out a sequence, and the sequence is fixed by the sections themselves. Section 13 classifies income under five heads. Section 122(10) aggregates them into the gross total income. Chapter VIII then operates on that aggregate to produce the total income. Section 516 rounds the total income. The rates in section 202(1), or in Paragraph A of Part I-B of the First Schedule to the Finance Act, 2026, are applied to it. Section 516 rounds the tax.

Step	What is done	Authority
1	Compute the income under each of the five heads, after every exemption and every deduction allowed under that head	Sections 15 to 95
2	Apply the clubbing provisions and then the set-off and carry-forward provisions	Sections 96 to 121
3	Aggregate the five heads — the gross total income	Section 122(10)
4	Deduct the sums allowed by Chapter VIII, the aggregate never exceeding the gross total income	Section 122(2)
5	Round the total income to the nearest ten rupees and apply the rates	Sections 516, 202 and 194 to 198
6	Deduct the rebate, add the surcharge less marginal relief, add the cess at 4%, and round	Sections 156 and 516; Finance Act, 2026, section 3

1.2 The five heads and section 13

Section 13 names them — Salaries; Income from house property; Profits and gains of business or profession; Capital gains; and Income from other sources. An item of income falls under one head and one head only. Where it answers the description of two, the head that describes it specifically prevails over the head that describes it generally, and section 92 makes 'Income from other sources' the residuary head, reached only where none of the other four applies.

1.3 Gross total income

> **Section 122(10)**
> “gross total income” means the total income computed as per the provisions of this Act, before making any deduction under this Chapter.

Three things follow. The clubbing provisions of sections 96 to 101 operate before the aggregation, so an income clubbed in the hands of an individual enters his gross total income under the head to which it belongs. The set-off provisions of sections 108 to 121 also operate before the aggregation, so the figure carried to the gross total income under a head is the figure after intra-head and inter-head adjustment. And an exemption — anything in Schedule II or Schedule III — is not a deduction under Chapter VIII at all; it never enters the gross total income and so cannot be affected by section 122(2).

1.4 Chapter VIII and total income

Chapter VIII runs from section 122 to section 154 and is arranged in five Parts — A general, B in respect of certain payments, C in respect of certain incomes, D in respect of other incomes, and E in the case of a person with a disability. Part B carries section 123 and the list in Schedule XV. The whole of it is dealt with in Unit 5 Part A. Two general rules govern all of it and both matter here.

- **Section 122(2)** — the aggregate of the deductions cannot exceed the gross total income. The total income can be reduced to nil; it cannot be reduced below nil, and no part of an unabsorbed deduction is carried forward.
- **Section 122(3)** — where a deduction is claimed and allowed under one section of Chapter VIII in respect of a sum, no deduction in respect of that same sum is allowed under any other section of the Chapter.

To these must be added three provisions in the rate sections themselves. Sections 196(4), 197(5) and 198(6) require the deductions under Chapter VIII to be computed on the gross total income as reduced by the capital gains charged under those sections. The effect is that a Chapter VIII deduction can never be set against a capital gain charged at 20% or at 12.5%. Chapter 4 works this through.

1.5 Rounding off [section 516]

> **Section 516**
> The total income is rounded off to the nearest multiple of ten rupees, and the amount of tax, interest, penalty, fine or any other sum payable or refundable is likewise rounded off to the nearest multiple of ten rupees. Where the last figure is five or more, the rounding is upwards.

Rounding is applied twice — once to the total income before the rates are applied, and once to the final sum payable after the cess has been added. It is not applied to the intermediate figures. In every problem in Chapters 7 to 9 the total income happens to be an exact multiple of ten, so the first rounding leaves it unchanged; the second is shown as the closing line of each computation.

1.6 The order in which the tax itself is built up

The tax is not a single multiplication. Six operations are performed on it, and their order is fixed by section 155(1), by section 3 of the Finance Act, 2026 and by the arithmetic of the rate sections.

Order	Operation	Authority
1	Tax on each slice of income charged at its own rate — sections 194 to 198	The rate section itself
2	Tax at the slab rates on the balance of the total income	Section 202(1) or Paragraph A
3	Less: the rebate	Sections 155 and 156
4	Add: surcharge, and deduct marginal relief where the formula requires it	Finance Act, 2026, s.3(4) and (5)
5	Add: Health and Education Cess at 4% on the tax and surcharge together	Finance Act, 2026, s.3(6)
6	Round off to the nearest ten rupees	Section 516

> **The rebate comes before the surcharge**
> Section 155(1) allows the rebate "in computing income-tax on the total income" and from "income-tax as computed before allowing the deductions under this Part". The surcharge is not income-tax under the Act; it is levied by section 3 of the Finance Act on the income-tax so computed. The rebate is therefore taken off first.
> In practice the two never meet. The rebate under section 156(2) is spent by a total income of ₹12,70,588 and the surcharge does not begin until ₹50,00,000.

1.7 The proforma in full

Computation of total income and tax liability of an individual — Tax Year 2026-27

Income from Salaries [sections 15 to 19]		
Gross salary, including every taxable allowance and perquisite	xxx	
Less: exemptions under Schedule III — house rent allowance, leave travel concession and the rest	xxx	
Less: deductions under section 19(1) — standard deduction and tax on employment	xxx	xxx
Income from House Property [sections 20 to 25]		
Annual value under section 21, less 30% and less interest under section 22		xxx
Profits and Gains of Business or Profession [sections 26 to 63]		**xxx**
Capital Gains [sections 67 to 91]		
Short-term, and long-term, each kept separate by the rate that will be applied		xxx
Income from Other Sources [sections 92 to 95]		**xxx**
Add: income clubbed under sections 96 to 101		xxx
Less: set-off of losses under sections 108 to 121		xxx
GROSS TOTAL INCOME [section 122(10)]		xxx
Less: deductions under Chapter VIII, restricted to the gross total income [section 122(2)]		xxx
TOTAL INCOME, rounded off under section 516		**xxx**

Tax on the total income

Tax on the slices charged at their own rates [sections 194 to 198]		xxx
Tax at the slab rates on the balance		xxx
Income-tax on the total income		xxx
Less: rebate under section 156		xxx
Add: surcharge, less marginal relief		xxx
Add: Health and Education Cess at 4%		xxx
TAX PAYABLE, rounded off under section 516		**xxx**

Where a part of the total income is charged at its own rate under sections 194 to 198, the first line carries the tax on that part and the second the tax on the balance. Where none is, the first line is nil.

Chapter 2

The Two Regimes

Section 202 · Finance Act, 2026, section 47

The regime settles the total income, not merely the rate

2.1 Section 202(1) is the default

> **Section 202(1), opening words**
> Irrespective of anything contained in this Act other than Chapter XVII-B but subject to Parts A, B, E and this Part of this Chapter, the income-tax payable by a person, being — (a) an individual; or (b) a Hindu undivided family; or (c) an association of persons (other than a co-operative society); or (d) a body of individuals, whether incorporated or not; or (e) an artificial juridical person referred to in section 2(77)(g), in respect of the total income for a tax year, shall, unless the person exercises the option in the manner provided under sub-section (4), be computed at the rate of tax given in the following Table.

The words that decide everything are "unless the person exercises the option". Section 202(1) applies of its own force. Nothing has to be done to bring it into operation, and where the facts of a problem are silent on the regime it is section 202(1) that governs. The optional rates apply only where the option under section 202(4) has been exercised, and the exercise has to be shown.

2.2 Whom it applies to

Five kinds of person are named — an individual, a Hindu undivided family, an association of persons other than a co-operative society, a body of individuals, and an artificial juridical person. A firm, a company, a local authority and a co-operative society are outside section 202 altogether; their rates are in Paragraphs B to E of Part I-B, or in sections 199 to 204.

2.3 The option under section 202(4)

The person	When the option is exercised	How long it lasts
Having income from business or profession	On or before the due date under section 263(1) for that tax year	It applies to subsequent tax years; it may be withdrawn once, and after withdrawal the person can never exercise it again unless he ceases to have any income from business or profession
Not having income from business or profession	Along with the return of income furnished under section 263(1) for the tax year	For that tax year only; the choice is open again every year

The asymmetry is deliberate. A salaried person may move between the two regimes every year. A person carrying on business or a profession gets one exercise and one withdrawal, and section 202(4)(a)(iv) then closes the door for good.

2.4 What section 202(2) takes away

Section 202(2)(a) has twelve clauses. Eleven of them name particular provisions; the twelfth takes away almost the whole of Chapter VIII.

Clause	What is denied	In ordinary words
(i)	Schedule III (Table: Sl. Nos. 5, 6, 7, 8, 11 and 17)	The daily and constituency allowances of a member of Parliament or of a State Legislature; leave travel concession; house rent allowance; the ₹1,500 for each minor child whose income is clubbed

Clause	What is denied	In ordinary words
(ii)	Schedule III (Table: Sl. Nos. 12 and 13), other than those prescribed	The special allowances — a children education allowance and a hostel expenditure allowance are gone; the prescribed ones, such as the transport allowance of an employee who is blind or orthopaedically handicapped, survive
(iii)	Omitted by the Finance Act, 2026	Nothing is denied by this clause
(iv)	Section 19(1) (Table: Sl. No. 1)	Tax on employment — the professional tax paid to a State
(v)	Section 22(1)(b) for a property under section 21(6)	Interest on capital borrowed for a self-occupied house — the ₹2,00,000 is gone
(vi)	Section 33(8)	Additional depreciation on new plant and machinery
(vii)	Section 48	The tea, coffee and rubber development account
(viii)	Section 49	The Site Restoration Fund
(ix)	Section 45(3)(a), (b) and (c)	Contributions for scientific research
(x)	Section 46	The investment-linked deduction for a specified business
(xi)	Section 47(1)(a)	Expenditure on an agricultural extension project
(xii)	Chapter VIII, other than sections 124(1), 124(2), 125(2) and 146	Sections 123, 126 to 137, 138 to 145, 147 to 154 — thirty-odd deductions, all gone

2.5 What survives

Provision	What it gives	Whether the amount changes
Section 19(1) (Table: Sl. No. 2)	Standard deduction against salary	₹75,000 under section 202(1); ₹50,000 otherwise
Section 93(1)(d)	Deduction against family pension	One-third, capped at ₹25,000 under section 202(1) and at ₹15,000 otherwise
Sections 124(1) and 124(2)	The employer's contribution to the notified pension scheme	14% of salary under section 202(1); 10% otherwise
Section 125(2)	The Agnipath Scheme — the contribution made by the Central Government	Unchanged
Section 146	Additional employment generation	Unchanged
Section 22(1)(a) and (b) for a let-out property	30% of the annual value, and the whole of the interest	Unchanged — only the self-occupied interest is taken away

The two figures that go up under the default regime

The standard deduction against salary is ₹25,000 larger and the family pension deduction ₹10,000 larger. The percentage for the employer's pension contribution rises from 10% to 14%. Everything else in the list of survivors is the same in both regimes.

2.6 The two set-off bars in section 202(2)(b)

> **Section 202(2)(b) and (3)**
>
> (b) without set off of — (i) any loss carried forward or depreciation from any earlier tax year, if such loss or depreciation is attributable to any of the deductions referred to in clause (a); or (ii) any loss under the head “Income from house property” with any other head of income.
>
> (3) The loss and depreciation referred to in sub-section (2)(b) shall be deemed to have been given full effect to and no further deduction for such loss or depreciation shall be allowed for any subsequent year.

Sub-clause (ii) is the one that is met most often. Under the optional regime a loss under the head 'Income from house property' is set off against income under any other head to the extent of ₹2,00,000 [section 109(1)(b)], and the balance is carried forward under section 110 for eight tax years. Under section 202(1) it is not set off against any other head at all — and section 202(3) then extinguishes it. It is neither allowed nor carried forward. Problem 2 in Chapter 7 loses ₹13,200 that way.

Sub-clause (i) is narrower than it looks. It bars only a brought-forward loss or depreciation that is attributable to one of the denied deductions. An ordinary business loss brought forward under section 112, being attributable to nothing in the list in clause (a), is set off in the usual way. Problem 8 in Chapter 8 sets off ₹3,20,000 of brought-forward business loss under both regimes alike.

2.7 The regime decides the figure, not merely the rate

It is tempting to treat the choice of regime as a choice between two rate tables applied to one total income. It is not. The two regimes produce two different total incomes, because section 202(2) changes what may be deducted in arriving at it. In Problem 1 of Chapter 7 the gross total income differs by ₹2,77,400 before a rate is applied at all, and in Problem 12 of Chapter 9 it differs by ₹9,09,900. The computation has to be done twice, from the gross salary down.

Chapter 3

Normal Income and Income Charged at its Own Rate

Sections 194 and 195 · Part A of Chapter XIX

The two-limb structure and what it does to the deductions

3.1 What a 'special rate' means in the 2025 Act

The Act does not use the expression. What it does is to take a described slice of income out of the slab and charge it at a stated percentage, and then charge the rest of the total income as though the slice had never been there. Every such section — 194, 195, 196, 197, 198 — is built in two limbs, and the second limb is always in the same words: the income-tax with which the assessee would have been chargeable had his total income been reduced by the described income.

The slice never leaves the total income. It is part of the total income for the purposes of the rebate, the surcharge and the cess. What it leaves is the slab.

3.2 Section 194 — the table of six

Section 194(1)

Irrespective of anything contained in any other provision of this Act, where the total income of an assessee as mentioned in column B of the Table below includes income of the nature specified in column C, the income-tax payable by such assessee, for a tax year, shall be the aggregate of — (a) income-tax calculated on income mentioned in column C, at the rate mentioned in column D, subject to the conditions specified in column E; and (b) income-tax with which the assessee would have been chargeable had his total income been reduced by income mentioned in column C thereof.

Sl. No.	The income	Rate	The condition attached
1	Winnings, other than from an online game, from a lottery, a crossword puzzle, a race including a horse race, a card game or any other game, and gambling or betting of any form	30%	Nil
2	Royalty in respect of a patent developed and registered in India, in the hands of a resident patentee	10%	No deduction for any expenditure or allowance; the option to be exercised on or before the due date under section 263(1); losing the option for five years if the income is not offered in any of the five succeeding years
3	Income by way of transfer of carbon credits	10%	No deduction for any expenditure or allowance
4	Any income from the transfer of a virtual digital asset	30%	No deduction other than the cost of acquisition; no set-off of any loss against it; and the loss from such a transfer is neither set off nor carried forward
5	Net winnings from an online game, computed as prescribed	30%	Nil
6	Profits and gains of a life insurance business	12.5%	Nil

3.3 Lottery, card games and gambling

Entry 1 is the one that appears most often in a computation. Three consequences follow from the words of the entry and of section 94.

- The rate is 30% flat, whatever the total income. It is not reduced because the rest of the income is small, and it is not increased because the rest is large.
- No expenditure is allowed against it. The gross winning is charged; the cost of the tickets is not deducted.

- The exception in the entry is the activity of owning and maintaining race horses. Income from that activity is not within entry 1; it is ordinary income under the head 'Income from other sources', and section 115 governs the set-off of a loss from it.

3.4 Net winnings from an online game

Entry 5 charges the net winnings, computed in the manner prescribed, and not the gross. The word 'net' does the work: the prescribed computation aggregates the deposits, the withdrawals and the balance in the user account over the year. Entry 1 expressly excludes an online game, so the two entries do not overlap. Both are at 30%.

3.5 Virtual digital assets

Entry 4 charges any income from the transfer of a virtual digital asset at 30%, allows nothing but the cost of acquisition, permits no set-off of any loss against that income, and forbids both the set-off and the carry forward of a loss from such a transfer. Section 194(2)(n) applies the definition of 'transfer' in section 2(109) to a virtual digital asset whether it is a capital asset or not, so the charge does not depend on the asset being held on capital account.

3.6 Section 195 — the rate brought down to 30%

> **Section 195(1), as amended**
> Where the total income of an assessee includes any income referred to in section 102 or 103 or 104 or 105 or 106 — unexplained credits, unexplained investments, unexplained money, investments not fully disclosed, and unexplained expenditure — the income-tax payable shall be the aggregate of income-tax calculated on that income at the rate of 30%, and income-tax with which the assessee would have been chargeable had his total income been reduced by that income.

Section 46 of the Finance Act, 2026 substituted 30% for the 60% at which the section stood when the Act was passed. Section 195(2) continues to disallow every expenditure, every allowance and every set-off against such income.

3.7 The two limbs, and what they mean for the deductions

Limb (b) charges the balance of the total income. The total income is the figure after Chapter VIII, so the deductions have already been made when limb (b) operates. Sections 196(4), 197(5) and 198(6) go further and require the deductions themselves to be computed on the gross total income as reduced by the capital gains. Section 194 carries no such provision, but the arithmetic reaches the same place: because the winnings are charged at 30% on their own gross amount, a Chapter VIII deduction can only ever reduce the income that is charged under limb (b).

The practical rule that follows is a rule about order. The described slice is set aside at its own rate; the Chapter VIII deductions are then made from what is left; and the slab rates are applied to the remainder. Where the remainder is smaller than the deductions, the excess is simply lost — section 122(2) does not permit the total income to fall below nil, and the slice charged at its own rate cannot be used to absorb it.

3.8 An illustration on the two limbs

> **Illustration 3.1**
> For the tax year 2026-27 Mr. Prakash, aged 44 and resident, has income from a business of ₹11,40,000 and winnings from a television game show of ₹4,00,000. He has exercised the option under section 202(4) and pays ₹1,50,000 into his public provident fund. Compute his tax liability.

Solution

Profits and gains of business or profession		11,40,000

Income from other sources — winnings [section 194, entry 1]		4,00,000
Gross total income		15,40,000
Less: deduction under section 123 — public provident fund		1,50,000
TOTAL INCOME		**13,90,000**
Limb (a) — winnings of ₹4,00,000 at 30%		**1,20,000**
Limb (b) — tax on ₹9,90,000 at the optional rates		
Up to 2,50,000 — nil		Nil
2,50,001 to 5,00,000 — 2,50,000 at 5%		12,500
5,00,001 to 9,90,000 — 4,90,000 at 20%		98,000
Income-tax on the total income		2,30,500
Add: Health and Education Cess at 4%		9,220
TAX PAYABLE, rounded off under section 516		**2,39,720**

The deduction of ₹1,50,000 reduces the income charged under limb (b), never the winnings charged under limb (a). Had the whole of his income been winnings, the deduction would have been lost.

Chapter 4

Capital Gains at their Own Rates

Sections 196, 197 and 198

20% · 12.5% · the ₹1,25,000 that is not charged

4.1 Section 196 — short-term gains at 20%

> **Section 196(1)**
> Where the total income of an assessee includes any income chargeable under the head "Capital gains", arising from the transfer of a short-term capital asset — (a) being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust; and (b) the transaction of sale of such equity share or unit is chargeable to securities transaction tax, then the tax payable by the assessee on the total income shall be the aggregate of — (i) income-tax calculated on such short-term capital gains at the rate of 20%; (ii) income-tax payable on the balance amount of the total income as if such balance amount were the total income.

Three conditions have to hold together — the asset must be an equity share, a unit of an equity oriented fund or a unit of a business trust; the holding must have been short-term; and securities transaction tax must have been paid on the sale. Section 196(3) dispenses with the third where the transaction is on a recognised stock exchange in an International Financial Services Centre and the consideration is payable in foreign currency. A short-term gain on anything else — on land, on a building, on gold, on unlisted shares, on debt mutual fund units — is not within section 196 at all. It is ordinary income, charged at the slab rates.

4.2 Section 197 — long-term gains at 12.5%

Section 197(1) is the general provision for long-term capital gains. The rate is 12.5%, and it applies to every long-term gain not caught by section 198 — land, a building, jewellery, unlisted shares, a debt-oriented unit. Section 72 continues to provide for the indexed cost of acquisition, but the rate on the gain so computed is the one in section 197, and the special comparison in section 197(3) is the only place where indexation now alters the tax.

4.3 Section 197(3) — land or a building acquired before 23 July 2024

> **Section 197(3)**
> In the case of an individual or a Hindu undivided family, being a resident, in the case of transfer of a long-term capital asset, being land or building, or both, which was acquired before the 23rd July, 2024, the excess income-tax computed as per the following formula shall be ignored: E = A – B, where E = excess income-tax to be ignored; A = income-tax computed under sub-section (1)(b); B = income-tax computed under sub-section (1)(b) taking the rate as 20% and the capital gains computed by taking the cost of acquisition as the indexed cost of acquisition and the cost of improvement as the indexed cost of improvement.

The sub-section reaches four things at once — a resident individual or Hindu undivided family, land or a building, a long-term holding, and an acquisition before 23 July 2024. Where all four hold, two computations are made. A is 12.5% of the gain worked out without indexation. B is 20% of the gain worked out with indexation. If A exceeds B the excess is ignored, so the tax is B. If B exceeds A nothing is ignored, and the tax is A.

> **The gain in the total income is always the unindexed gain**
> Sub-section (3) operates on the tax, not on the income. The capital gain that enters the gross total income, and therefore the total income and the surcharge threshold, is the gain computed under sub-section (1) — without indexation. Only the tax figure is adjusted. Problem 7 in Chapter 8 shows the two computations side by side; the gain of ₹24,00,000 stays in the total income while the tax on it comes down from ₹3,00,000 to ₹2,95,748.

4.4 Section 198 — the ₹1,25,000 that is not charged

> **Section 198(2)**
> The tax payable by the assessee on the total income referred to in sub-section (1) shall be the aggregate of — (a) income-tax calculated on such long-term capital gains exceeding ₹1,25,000 at the rate of 12.5%; and (b) income-tax payable on the total income as reduced by long-term capital gains referred to in sub-section (1) as if the total income so reduced were the total income of the assessee.

Section 198 applies where the long-term asset is an equity share, a unit of an equity oriented fund or a unit of a business trust and securities transaction tax has been paid — on both the acquisition and the transfer in the case of an equity share, and on the transfer alone in the case of a unit. The first ₹1,25,000 of such gains is not charged. The ₹1,25,000 is a single figure for the tax year, not one for each transaction, and it is available whatever the size of the rest of the total income.

4.5 The unused basic exemption, absorbed

> **Sections 196(2), 197(2) and 198(3) — the same words three times**
> In the case of an individual or a Hindu undivided family, being a resident, where the total income as reduced by the capital gains computed under sub-section (1) is below the maximum amount which is not chargeable to income-tax, then — (a) such capital gains shall be reduced by the amount by which the total income as so reduced falls short of the maximum amount which is not chargeable to income-tax; and (b) the tax on the balance of such capital gains shall be computed at the rate referred to in sub-section (1).

Four conditions are built into those words. The assessee must be an individual or a Hindu undivided family; he must be resident; the income other than the specially charged gains must fall short of the maximum amount not chargeable to tax; and it is the shortfall, not the whole exemption, that is absorbed. A non-resident gets no part of it.

> **Illustration 4.1**
> For the tax year 2026-27 Mrs. Kamala, aged 61 and resident, has interest income of ₹1,80,000 and a long-term capital gain of ₹6,20,000 on the sale of gold jewellery. She has exercised the option under section 202(4). Compute her tax liability.

Solution

Income from other sources		1,80,000
Long-term capital gains [section 197]		6,20,000
TOTAL INCOME		**8,00,000**
The maximum amount not chargeable to tax, she being sixty-one		**3,00,000**
Total income as reduced by the gains		1,80,000
Shortfall, absorbed by the gains under section 197(2)(a)		1,20,000
Long-term capital gains chargeable — ₹6,20,000 less ₹1,20,000		5,00,000
Income-tax at 12.5%		62,500
Add: Health and Education Cess at 4%		2,500
TAX PAYABLE, rounded off under section 516		**65,000**

The rebate under section 156(1) is not available, the total income exceeding ₹5,00,000. Had she been taxed under section 202(1) the maximum amount not chargeable would have been ₹4,00,000 and the shortfall absorbed ₹2,20,000.

4.6 Chapter VIII is computed on the reduced gross total income

Provision	What it says
Section 196(4)	Where the gross total income includes short-term capital gains referred to in sub-section (1), the deduction under Chapter VIII shall be allowed from the gross total income as reduced by such capital gains
Section 197(5)	Where the gross total income includes income arising from the transfer of a long-term capital asset, the gross total income shall be reduced by such income and the deduction under Chapter VIII shall be allowed as if the gross total income as so reduced were the gross total income
Section 198(6)	Where the gross total income includes any long-term capital gains referred to in sub-section (1), the deduction under Chapter VIII shall be allowed from the gross total income as reduced by such capital gains

The three sub-sections do one thing. They fix the ceiling in section 122(2) and the base of every percentage-driven deduction — the qualifying limit for a donation under section 133(4), most obviously — by reference to a gross total income from which the specially charged gains have been taken out. The deduction is then set against the ordinary income alone. Problems 5, 6, 8 and 12 all work on that footing.

4.7 Three illustrations

Illustration 4.2 — section 198 and the ₹1,25,000

Mr. Ramesh, aged 38 and resident, has business income of ₹9,60,000 and a long-term capital gain of ₹3,45,000 on listed equity shares sold through a recognised stock exchange, securities transaction tax having been paid on acquisition and on transfer. He is taxed under section 202(1). Compute his tax liability.

Solution

Profits and gains of business or profession		9,60,000
Long-term capital gains [section 198]		3,45,000
TOTAL INCOME		**13,05,000**
Tax at the slab rates on ₹9,60,000		
Up to 4,00,000 — nil		Nil
4,00,001 to 8,00,000 — 4,00,000 at 5%		20,000
8,00,001 to 9,60,000 — 1,60,000 at 10%		16,000
Tax at the slab rates		36,000
Long-term capital gains — ₹3,45,000 less ₹1,25,000, at 12.5%		27,500
Income-tax on the total income		63,500
Add: Health and Education Cess at 4%		2,540
TAX PAYABLE, rounded off under section 516		**66,040**

The rebate under section 156(2) is not available. Section 198(7) allows it against the income-tax on the total income as reduced by the tax on these gains — that is, against ₹36,000 — but the total income of ₹13,05,000 exceeds ₹12,00,000 and the tax of ₹36,000 does not exceed the excess of ₹1,05,000, so clause (b) of section 156(2) gives nothing.

Illustration 4.3 — section 196 and Chapter VIII

Mr. Sanjay, aged 41 and resident, has income from house property of ₹2,40,000 and a short-term capital gain of ₹5,00,000 on listed equity shares on which securities transaction tax has been paid. He has exercised the option under section 202(4) and has paid ₹1,50,000 into his public provident fund. Compute his tax liability.

Solution

Income from house property		2,40,000
Short-term capital gains [section 196]		5,00,000
Gross total income		7,40,000
Gross total income as reduced by the gains [section 196(4)] — the ceiling on the Chapter VIII deduction		**2,40,000**
Less: deduction under section 123 — the sum actually paid, which is within that ceiling		1,50,000
TOTAL INCOME		**5,90,000**
Total income as reduced by the gains		**90,000**
Shortfall against the maximum amount not chargeable, ₹2,50,000		1,60,000
Short-term capital gains chargeable — ₹5,00,000 less ₹1,60,000		3,40,000
Income-tax at 20%		68,000
Add: Health and Education Cess at 4%		2,720
TAX PAYABLE, rounded off under section 516		**70,720**

Section 196(4) sets a ceiling on the deduction; it does not enlarge it. The rebate under section 156(1) is not available, the total income of ₹5,90,000 exceeding ₹5,00,000.

Chapter 5

The Rates, the Surcharge and Marginal Relief

Section 202(1) · Finance Act, 2026, section 3 and the First Schedule, Part I-B
Two rate tables, two surcharge tables, one formula

5.1 The default rates [section 202(1)]

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%

The table has no age bands. A resident of sixty-one and a resident of eighty-one are taxed under section 202(1) on exactly the same slabs as a person of thirty. The additional exemption for age exists only under the optional rates.

5.2 The optional rates [First Schedule, Part I-B, Paragraph A]

Total income	Individual below sixty, and a Hindu undivided family	Resident of sixty and above but below eighty	Resident of eighty and above
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%

The base figures in the Paragraph are ₹12,500 plus 20% above ₹5,00,000 and ₹1,12,500 plus 30% above ₹10,00,000 for a person below sixty; ₹10,000 and ₹1,10,000 for a resident of sixty; and ₹1,00,000 above ₹10,00,000 for a resident of eighty, who pays nothing at all up to ₹5,00,000 and then 20%. Section 2(100) asks only that the age be attained at any time during the tax year.

5.3 The maximum amount not chargeable to income-tax

The assessee	The maximum amount not chargeable
An assessee whose income is chargeable under section 202	₹4,00,000
Every other individual below sixty, a Hindu undivided family, an association of persons, a body of individuals, an artificial juridical person	₹2,50,000
A resident individual of sixty or more but below eighty	₹3,00,000
A resident individual of eighty or more	₹5,00,000

That figure does two separate jobs. It is the point at which the slab begins to bite, and it is the figure by reference to which the shortfall is absorbed under sections 196(2), 197(2) and 198(3). It is also the threshold in section 3(2) of the Finance Act, 2026 for the partial integration of agricultural income.

5.4 Surcharge under the default regime

Finance Act, 2026, section 3(4)(b) (Table: Sl. No. 10)
Where the income-tax is computed under section 202 in the case of an individual, a Hindu undivided family, an association of persons other than one consisting only of companies, a body of individuals or an artificial juridical person, the income-tax shall be increased by a surcharge at the rates set out below.

Clause	Where the total income	Rate
(i)	including dividend income and the capital gains under sections 196, 197 and 198, exceeds ₹50,00,000 but does not exceed ₹1,00,00,000	10%
(ii)	including those items, exceeds ₹1,00,00,000 but does not exceed ₹2,00,00,000	15%
(iii)	excluding dividend income and those capital gains, exceeds ₹2,00,00,000	25%
(iv)	including those items, exceeds ₹2,00,00,000 but is not covered by clause (iii)	15%
(v)	includes any such dividend income or capital gains, the rate of surcharge on the income-tax in respect of that part of the income	not more than 15%

There is no rate of 37% under the default regime
The Table stops at 25%. However large the total income, a person whose tax is computed under section 202(1) never pays a surcharge above 25% on the slab-rate part of the tax, and never above 15% on the tax on dividend and on the gains under sections 196, 197 and 198. That single difference is worth ₹19,66,570 on the facts of Problem 10.

5.5 Surcharge under the optional regime

Clause	Where the total income	Rate
(i)	including dividend and the gains under sections 196, 197 and 198, exceeds ₹50,00,000 but not ₹1,00,00,000	10%
(ii)	including those items, exceeds ₹1,00,00,000 but not ₹2,00,00,000	15%
(iii)	excluding those items, exceeds ₹2,00,00,000 but not ₹5,00,00,000	25%
(iv)	excluding those items, exceeds ₹5,00,00,000	37%
(v)	including those items, exceeds ₹2,00,00,000 but is not covered by clause (iii) or (iv)	15%
(vi)	includes any such dividend or gains, the rate on the income-tax on that part	not more than 15%

5.6 The 15% ceiling on the gains and the dividend

Clause (v) of the default table and clause (vi) of Paragraph F do the same work. Where the total income carries dividend income or capital gains charged under sections 196, 197 or 198, the surcharge on the tax attributable to that part is capped at 15% however high the surcharge on the rest may be. The computation is therefore in two pieces: the slab-rate tax carries the rate given by the table, and the tax on the gains carries the lower of that rate and 15%.

5.7 Marginal relief: T = R + S

Finance Act, 2026, section 3(5), and Paragraph F, Table 2

Tn = Rn + Sn, where Tn is the total amount beyond which the total amount payable as income-tax and surcharge shall not exceed; Rn is the total amount payable as income-tax and surcharge, if applicable, on an amount as specified in column C of the Table; and Sn is the total income less the amount specified in column C.

Column C carries the thresholds — ₹50,00,000, ₹1,00,00,000 and ₹2,00,00,000 for a person taxed under section 202, and those three together with ₹5,00,00,000 for everyone else. The rule is that the additional tax and surcharge cannot exceed the additional income. Relief is the excess of the tax and surcharge actually computed over that ceiling.

Illustration 5.1 — marginal relief at ₹50,00,000

The total income of a resident individual taxed under section 202(1) is ₹51,05,200, the whole of it charged at the slab rates. Compute the marginal relief.

Solution

Income-tax on ₹51,05,200 at the rates in section 202(1)		11,11,560
Add: surcharge at 10%		1,11,156
Income-tax and surcharge, before relief		12,22,716
R — income-tax and surcharge on ₹50,00,000		**10,80,000**
S — ₹51,05,200 less ₹50,00,000		1,05,200
T — the ceiling, R plus S		11,85,200
MARGINAL RELIEF — ₹12,22,716 less ₹11,85,200		**37,516**

No surcharge arises at ₹50,00,000 itself, the clause requiring the total income to exceed that figure, so R is the income-tax alone. The relief runs out at a total income of about ₹51,61,194, beyond which the ceiling exceeds the tax computed.

5.8 The Health and Education Cess

Finance Act, 2026, section 3(6)

The amount of income-tax as specified in sub-sections (1) to (5), as increased by the applicable surcharge, shall be further increased by an additional surcharge, to be called the "Health and Education Cess on income-tax", calculated at the rate of four per cent of such income-tax and surcharge.

The cess is 4%, it is charged on the income-tax and the surcharge together, and it is charged after the rebate and after marginal relief have been given. There is no threshold and no exemption from it; a person whose tax is reduced to nil by the rebate pays no cess, because 4% of nil is nil.

5.9 Net agricultural income and the partial integration

Section 3(2) of the Finance Act, 2026 keeps the familiar mechanism. Where the net agricultural income exceeds ₹5,000 and the total income exceeds the maximum amount not chargeable to tax, the agricultural income is taken into account only for the purpose of determining the rate. The formula is Zn = Xn – Yn, where Xn is the tax on the aggregate of the total income and the net agricultural income and Yn is the tax on the net agricultural income increased by the maximum amount not chargeable to tax. The tax so found is the tax on the total income. For a person taxed under section 202(1) the figure added in computing Yn is ₹4,00,000.

Illustration 5.2

For the tax year 2026-27 a resident individual of forty has a total income of ₹9,00,000 and net agricultural income of ₹3,00,000. He is taxed under section 202(1). Compute the income-tax.

Solution

Xn — tax on ₹12,00,000, the aggregate		
Up to 4,00,000 — nil		Nil
4,00,001 to 8,00,000 — 4,00,000 at 5%		20,000
8,00,001 to 12,00,000 — 4,00,000 at 10%		40,000
Xn		60,000
Yn — tax on ₹3,00,000 plus ₹4,00,000, that is ₹7,00,000		
4,00,001 to 7,00,000 — 3,00,000 at 5%		15,000
Yn		15,000
Zn — income-tax on the total income, Xn less Yn		45,000
Less: rebate under section 156(2)(a) — the total income does not exceed ₹12,00,000		45,000
TAX PAYABLE		**Nil**

The rebate is 100% of the income-tax payable or ₹60,000, whichever is less, and the income-tax payable after the partial integration is ₹45,000. The agricultural income has therefore raised the rate on the non-agricultural income by nothing at all, the rebate having absorbed the whole.

Chapter 6

Rebate and Relief

Sections 155 to 158

₹12,500 · ₹60,000 · marginal relief inside the rebate

6.1 Section 155 — the enabling section

Section 155

(1) In computing income-tax on the total income of an assessee with which he is chargeable for any tax year, there shall be allowed from income-tax (as computed before allowing the deductions under this Part), subject to the provisions of section 156, the deductions specified therein.

(2) The deduction under section 156 shall not, in any case, exceed income-tax (as computed before allowing the deductions under this Part) on the total income of the assessee with which he is chargeable for any tax year.

Section 155 does not itself give anything. It authorises the deduction, fixes the figure from which it is made — the income-tax before the Part is applied — and caps it at that figure. The rebate can therefore reduce the tax to nil and no further. There is no refund of an unabsorbed rebate.

6.2 Section 156(1) — the rebate of ₹12,500

Section 156(1)

An assessee, being an individual resident in India, shall be entitled to a deduction of 100% of income-tax payable or ₹12,500, whichever is less, from the income-tax (computed before allowing the deduction under this section) chargeable on the total income for any tax year if such total income does not exceed ₹5,00,000.

- It is confined to an individual. A Hindu undivided family, an association of persons and a body of individuals get nothing under it.
- The individual must be resident in India. Residence is tested under section 6; ordinary or not-ordinary residence makes no difference.
- The ceiling of ₹5,00,000 is on the total income, that is on the figure after Chapter VIII. A gross total income of ₹6,40,000 reduced to ₹4,90,000 by Chapter VIII qualifies.
- The rebate is the lower of the tax and ₹12,500 — and at a total income of exactly ₹5,00,000 the tax under the optional rates for a person below sixty is ₹12,500, so the liability vanishes precisely at the ceiling.

6.3 Section 156(2)(a) — the rebate of ₹60,000

Section 156(2)

Where the total income of a resident individual assessee for any tax year is chargeable to tax under section 202(1), then from income-tax (computed before allowing the deduction under this section) the following deductions shall be allowed, if — (a) the income does not exceed twelve lakh rupees, 100% of the income-tax payable or ₹60,000, whichever is less.

At a total income of ₹12,00,000 the tax under section 202(1) is ₹20,000 on the second slab and ₹40,000 on the third — ₹60,000 exactly. The rebate is therefore built to the slab: it extinguishes the whole of the tax at the ceiling and leaves a resident individual taxed under section 202(1) with no liability at all up to a total income of ₹12,00,000. Where the salary carries the standard deduction of ₹75,000, that is a gross salary of ₹12,75,000.

6.4 Section 156(2)(b) — marginal relief inside the rebate

> **Section 156(2)(b)**
> Where the total income exceeds twelve lakh rupees and the income-tax payable on such total income exceeds the amount by which the total income is in excess of twelve lakh rupees, an amount equal to the amount by which the income-tax payable on such total income is in excess of the amount by which the total income exceeds twelve lakh rupees.

This is marginal relief written into the rebate itself, and no other provision in the Act does it. Two conditions must be satisfied together — the total income must exceed ₹12,00,000, and the income-tax must exceed the excess of the total income over ₹12,00,000. Where both hold, the rebate is the difference between the two. The effect is that the tax on the first rupee above ₹12,00,000 is one rupee, not fifteen paise plus the ₹60,000 that was rebated a moment earlier.

Total income	Tax under section 202(1)	Excess over ₹12,00,000	Rebate under 156(2)(b)	Tax after rebate
₹12,00,000	₹60,000	—	₹60,000 [clause (a)]	Nil
₹12,10,000	₹61,500	₹10,000	₹51,500	₹10,000
₹12,40,000	₹66,000	₹40,000	₹26,000	₹40,000
₹12,70,000	₹70,500	₹70,000	₹500	₹70,000
₹12,70,588	₹70,588	₹70,588	Nil	₹70,588
₹12,80,000	₹72,000	₹80,000	Nil	₹72,000

6.5 Where the band runs out

Within the band the tax after rebate equals the excess of the total income over ₹12,00,000 — the whole of the additional income is taken in tax and nothing more. The band closes where the tax equals the excess. Writing the excess as d, the tax under section 202(1) is ₹60,000 plus 15% of d, and the band closes where ₹60,000 + 0.15d = d, that is where d = ₹70,588. The rebate under section 156(2)(b) is therefore spent at a total income of ₹12,70,588, and above that figure the tax is computed on the slab in the ordinary way.

6.6 Section 156(3)

> **Section 156(3)**
> The deduction under sub-section (2) shall not exceed income-tax payable as per the rates provided in section 202(1).

The sub-section keeps the rebate within the tax computed on the slab. Where a part of the total income is charged at its own rate under sections 194 to 198, the tax on that part is not tax computed at the rates provided in section 202(1), and the rebate is measured against the slab-rate tax alone. Section 198(7) says the same thing for the gains it governs in so many words — the rebate is allowed from the income-tax on the total income as reduced by the tax payable on those capital gains.

6.7 Section 198(7) and the long-term gain

> **Section 198(7)**
> Where the total income of an assessee includes any long-term capital gains referred to in sub-section (1), the rebate under section 156 shall be allowed from the income-tax on the total income as reduced by tax payable on such capital gains.

The gains stay in the total income, so they count towards the ₹12,00,000 threshold and towards the ₹5,00,000 threshold; but the tax on them is outside the rebate. A resident individual taxed under section 202(1) with a total income of ₹11,80,000 of which ₹3,00,000 is a long-term gain under section 198 pays the 12.5% on ₹1,75,000 of that gain and gets the rebate only against the slab-rate tax on the remaining ₹8,80,000.

Chapter 7

Practical Problems 1 to 4

Salary, house property and Chapter VIII
Tax Year 2026-27 · Income-tax Act, 2025

Each of the twelve problems in this and the two following chapters is worked twice — once under the optional rates, which apply where the option under section 202(4) has been exercised, and once under section 202(1), which applies of its own force where it has not. The two computations begin at the gross salary, not at the total income, because section 202(2) changes what may be deducted on the way down.

7.1 Problem 1 — salary, a self-occupied house and the Chapter VIII basket

Problem 1

Mr. Aditya Raman, aged 34 and resident, is employed in Delhi. For the tax year 2026-27 his emoluments and his outgoings are —

- basic salary ₹9,60,000 and dearness allowance forming part of the salary for retirement benefits ₹2,40,000;
- house rent allowance ₹1,92,000, against rent actually paid of ₹2,40,000 for a flat in Delhi;
- the employer's contribution of ₹1,20,000 to his account under the notified pension scheme referred to in section 124;
- tax on employment paid to the State ₹2,400;
- interest of ₹1,80,000 on capital borrowed for the house he occupies himself, the construction having been completed in 2019;
- life insurance premium on his own life ₹60,000 (sum assured ₹8,00,000), public provident fund ₹70,000, tuition fees for two children ₹40,000;
- health insurance premium for himself, his wife and his children ₹28,000;
- interest on his savings bank account ₹12,000.

Compute his total income and tax liability under both regimes.

(a) Total income under the optional rates [option under section 202(4) exercised]

Income from Salaries		
Basic salary	9,60,000	
Dearness allowance	2,40,000	
House rent allowance	1,92,000	
Employer's contribution to the pension scheme	1,20,000	
Gross salary	15,12,000	
Less: house rent allowance exempt [Schedule III, Sl. No. 11] read with Rule 279 — least of ₹1,92,000, ₹2,40,000 less 10% of ₹12,00,000, and 50% of ₹12,00,000	1,20,000	
Less: standard deduction [section 19(1), Sl. No. 2(b)]	50,000	
Less: tax on employment [section 19(1), Sl. No. 1]	2,400	13,39,600
Income from House Property — self-occupied [section 21(6)]		
Annual value	Nil	
Less: interest on borrowed capital ₹1,80,000, within the ₹2,00,000 of section 22(2)(a)	1,80,000	(1,80,000)
Income from Other Sources — interest on the savings account		12,000
GROSS TOTAL INCOME		11,71,600

Less: deductions under Chapter VIII —		
Section 123 — ₹60,000 plus ₹70,000 plus ₹40,000, that is ₹1,70,000, restricted to	1,50,000	
Section 124(1) — the employer's contribution, within 10% of ₹12,00,000	1,20,000	
Section 126 — health insurance premium ₹28,000, restricted to	25,000	
Section 153 — interest on the savings account, restricted to	10,000	3,05,000
TOTAL INCOME		**8,66,600**

Tax liability under the optional rates

Total income 8,66,600 — tax at the slab rates		
Up to 2,50,000 — nil		Nil
2,50,001 to 5,00,000 — 2,50,000 at 5%		12,500
5,00,001 to 10,00,000 — 3,66,600 at 20%		73,320
Income-tax on the total income		85,820
Add: Health and Education Cess at 4%		3,433
TAX PAYABLE		89,253
ROUNDED OFF UNDER SECTION 516		**89,250**

(b) Total income under the default regime [section 202(1)]

Income from Salaries		
Gross salary, as above	15,12,000	
House rent allowance — the exemption is denied by section 202(2)(a)(i)	Nil	
Less: standard deduction [section 19(1), Sl. No. 2(a)]	75,000	
Tax on employment — denied by section 202(2)(a)(iv)	Nil	14,37,000
Income from House Property — the interest on the self-occupied house is denied by section 202(2)(a)(v)		Nil
Income from Other Sources — interest on the savings account		12,000
GROSS TOTAL INCOME		14,49,000
Less: deductions under Chapter VIII —		
Section 124(1) read with section 124(2) — the employer's contribution, within 14% of ₹12,00,000, that is ₹1,68,000	1,20,000	
Sections 123, 126 and 153 — denied by section 202(2)(a)(xii)	Nil	1,20,000
TOTAL INCOME		**13,29,000**

Tax liability under the default regime

Total income 13,29,000 — tax at the slab rates		
Up to 4,00,000 — nil		Nil
4,00,001 to 8,00,000 — 4,00,000 at 5%		20,000
8,00,001 to 12,00,000 — 4,00,000 at 10%		40,000
12,00,001 to 16,00,000 — 1,29,000 at 15%		19,350

Income-tax on the total income		79,350
Add: Health and Education Cess at 4%		3,174
TAX PAYABLE		82,524
ROUNDED OFF UNDER SECTION 516		**82,520**

Comparison

Tax payable under the optional rates [section 202(4) exercised]		89,250
Tax payable under the default rates [section 202(1)]		82,520
The default regime is cheaper by		**6,730**

The gross total income under the default regime is ₹2,77,400 higher, and the deductions ₹1,85,000 smaller; the lower slabs more than make up the difference.

7.2 Problem 2 — house rent allowance, a let-out house and interest income

Problem 2

Mrs. Kavita Menon, aged 42 and resident, is employed in Mumbai. For the tax year 2026-27 —

- basic salary ₹8,40,000; dearness allowance forming part of the salary ₹1,68,000; house rent allowance ₹3,36,000 against rent actually paid of ₹3,60,000 in Mumbai; children education allowance ₹96,000 for two children;
- tax on employment ₹2,500;
- she owns a second flat which is let out at ₹30,000 a month. Its municipal value is ₹3,00,000, its fair rent ₹3,36,000 and the standard rent under the Rent Control Act ₹3,90,000. She paid municipal taxes of ₹36,000 and interest of ₹2,40,000 on the loan taken to buy it;
- interest on her savings bank account ₹18,000, interest on a fixed deposit ₹64,000 and dividend from Indian companies ₹22,000;
- life insurance premium ₹48,000 (sum assured ₹6,00,000), public provident fund ₹80,000, an equity linked savings scheme ₹50,000 and tuition fees ₹60,000;
- health insurance premium ₹26,000 for herself and her family and ₹42,000 for her parents, both of whom are above sixty;
- ₹50,000 into her account under the notified pension scheme, claimed under section 124(3), and ₹20,000 to the Prime Minister's National Relief Fund.

Compute her total income and tax liability under both regimes.

Income from house property [sections 21 and 22]

Municipal value ₹3,00,000; fair rent ₹3,36,000 — the higher		3,36,000
Standard rent ₹3,90,000 — the expected rent, being the lower of the two		3,36,000
Rent actually received, ₹30,000 for twelve months		3,60,000
Gross annual value — the higher [section 21(1)]		3,60,000
Less: municipal taxes actually paid by the owner		36,000
Net annual value		3,24,000
Less: 30% of the net annual value [section 22(1)(a)]		97,200
Less: interest on borrowed capital [section 22(1)(b)]		2,40,000
INCOME FROM HOUSE PROPERTY		**(13,200)**

The property is let out, so no ceiling applies to the interest. The ₹2,00,000 of section 22(2) governs a property under section 21(6) alone.

(a) Total income under the optional rates

Income from Salaries		
Basic salary, dearness allowance, house rent allowance and children education allowance	14,40,000	
Less: house rent allowance exempt — least of ₹3,36,000, ₹3,60,000 less 10% of ₹10,08,000, and 50% of ₹10,08,000	2,59,200	
Less: children education allowance exempt [Schedule III, Sl. No. 13; Rule 280(2), Table: Sl. No. 7] — ₹3,000 a month for each of two children	72,000	
Less: standard deduction	50,000	
Less: tax on employment	2,500	10,56,300
Income from House Property, as computed above		(13,200)
Income from Other Sources — savings interest ₹18,000, fixed deposit interest ₹64,000, dividend ₹22,000		1,04,000
GROSS TOTAL INCOME		11,47,100
Less: deductions under Chapter VIII —		
Section 123 — ₹2,38,000 of qualifying sums, restricted to	1,50,000	
Section 124(3) — her own contribution to the pension scheme	50,000	
Section 126 — ₹25,000 for herself and her family and ₹42,000 for her parents, who are senior citizens	67,000	
Section 133 — the Prime Minister's National Relief Fund, at 100% and outside the qualifying limit	20,000	
Section 153 — savings bank interest, restricted to	10,000	2,97,000
TOTAL INCOME		**8,50,100**

Tax liability under the optional rates

Total income 8,50,100 — tax at the slab rates		
Up to 2,50,000 — nil		Nil
2,50,001 to 5,00,000 — 2,50,000 at 5%		12,500
5,00,001 to 10,00,000 — 3,50,100 at 20%		70,020
Income-tax on the total income		82,520
Add: Health and Education Cess at 4%		3,301
TAX PAYABLE		85,821
ROUNDED OFF UNDER SECTION 516		**85,820**

(b) Total income under the default regime

Income from Salaries		
Gross salary, as above	14,40,000	
House rent allowance — denied by section 202(2)(a)(i)	Nil	
Children education allowance — denied by section 202(2)(a)(ii), not being a prescribed allowance	Nil	
Less: standard deduction	75,000	
Tax on employment — denied	Nil	13,65,000

Income from House Property — a loss of ₹13,200, which section 202(2)(b)(ii) forbids to be set off against any other head and section 202(3) extinguishes		0
Income from Other Sources		1,04,000
GROSS TOTAL INCOME		14,69,000
Less: deductions under Chapter VIII — sections 123, 124(3), 126, 133 and 153 are all denied by section 202(2)(a)(xii)		0
TOTAL INCOME		**14,69,000**

Tax liability under the default regime

Total income 14,69,000 — tax at the slab rates		
Up to 4,00,000 — nil		Nil
4,00,001 to 8,00,000 — 4,00,000 at 5%		20,000
8,00,001 to 12,00,000 — 4,00,000 at 10%		40,000
12,00,001 to 16,00,000 — 2,69,000 at 15%		40,350
Income-tax on the total income		1,00,350
Add: Health and Education Cess at 4%		4,014
TAX PAYABLE		1,04,364
ROUNDED OFF UNDER SECTION 516		**1,04,360**

Comparison

Tax payable under the optional rates [section 202(4) exercised]		85,820
Tax payable under the default rates [section 202(1)]		1,04,360
The optional regime is cheaper by		**18,540**

The exemptions denied come to ₹3,33,700 — house rent allowance ₹2,59,200, children education allowance ₹72,000 and tax on employment ₹2,500 — against ₹25,000 of extra standard deduction; and ₹2,97,000 of Chapter VIII deductions go as well. The lower slabs return less than that. Being a person without income from business or profession she may exercise the option afresh every year.

7.3 Problem 3 — pension, family pension and a donation, at sixty-six

Problem 3

Mrs. Sarojini Iyer, aged 66 and resident, is a widow. For the tax year 2026-27 —

- pension from her former employer ₹4,80,000;
- family pension in respect of her late husband ₹2,40,000;
- she owns a house which is let out at ₹22,000 a month; its municipal value is ₹2,40,000 and its fair rent ₹2,64,000, there is no standard rent, she paid municipal taxes of ₹24,000 and interest of ₹1,20,000 on the loan taken to build it;
- interest on her savings bank account ₹26,000 and on fixed deposits ₹1,84,000;
- a five-year term deposit with a scheduled bank under a notified scheme ₹1,00,000 and life insurance premium ₹36,000 (sum assured ₹5,00,000);
- health insurance premium on her own life ₹48,000;
- ₹60,000 spent on the medical treatment of a specified disease for herself, supported by the prescription required by section 128(3);
- a donation of ₹50,000 to a notified charitable trust, qualifying at 50% and subject to the qualifying limit.

Compute her total income and tax liability under both regimes.

Income from house property

Expected rent — the higher of the municipal value ₹2,40,000 and the fair rent ₹2,64,000; there is no standard rent		2,64,000
Rent actually received, ₹22,000 for twelve months		2,64,000
Gross annual value		2,64,000
Less: municipal taxes paid		24,000
Net annual value		2,40,000
Less: 30% of the net annual value		72,000
Less: interest on borrowed capital		1,20,000
INCOME FROM HOUSE PROPERTY		**48,000**

(a) Total income under the optional rates

Income from Salaries — pension		
Pension received	4,80,000	
Less: standard deduction	50,000	4,30,000
Income from House Property, as computed above		48,000
Income from Other Sources		
Family pension	2,40,000	
Less: deduction under section 93(1)(d)(ii) — one-third of ₹2,40,000 is ₹80,000, restricted to ₹15,000	15,000	
Interest on the savings account	26,000	
Interest on fixed deposits	1,84,000	4,35,000
GROSS TOTAL INCOME		9,13,000
Less: deductions under Chapter VIII —		
Section 123 — the five-year deposit and the premium	1,36,000	
Section 126 — she being a senior citizen, the limit is ₹50,000	48,000	
Section 128 — treatment of a specified disease, within the ₹1,00,000 for a senior citizen	60,000	
Section 133 — donation of ₹50,000, which is within 10% of the adjusted gross total income of 6,19,000; 50% of it	25,000	
Section 153 — she being sixty and above, interest of every kind counts, restricted to	50,000	3,19,000
TOTAL INCOME		**5,94,000**

Tax liability under the optional rates

Total income 5,94,000 — tax at the slab rates		
Up to 3,00,000 — nil		Nil
3,00,001 to 5,00,000 — 2,00,000 at 5%		10,000
5,00,001 to 10,00,000 — 94,000 at 20%		18,800
Income-tax on the total income		28,800
Add: Health and Education Cess at 4%		1,152
TAX PAYABLE		29,952

ROUNDED OFF UNDER SECTION 516		**29,950**

The maximum amount not chargeable to income-tax is ₹3,00,000, she being a resident of sixty-six.

(b) Total income under the default regime

Income from Salaries — pension		
Pension received	4,80,000	
Less: standard deduction	75,000	4,05,000
Income from House Property, unchanged		48,000
Income from Other Sources		
Family pension ₹2,40,000, less the deduction under section 93(1)(d)(i) — one-third, restricted to ₹25,000	2,15,000	
Interest on the savings account and on fixed deposits	2,10,000	4,25,000
GROSS TOTAL INCOME		8,78,000
Less: deductions under Chapter VIII — sections 123, 126, 128, 133 and 153 are all denied		0
TOTAL INCOME		**8,78,000**

Tax liability under the default regime

Total income 8,78,000 — tax at the slab rates		
Up to 4,00,000 — nil		Nil
4,00,001 to 8,00,000 — 4,00,000 at 5%		20,000
8,00,001 to 12,00,000 — 78,000 at 10%		7,800
Income-tax on the total income		27,800
Less: rebate under section 156		27,800
Income-tax after rebate		Nil
Add: Health and Education Cess at 4%		Nil
TAX PAYABLE		Nil
ROUNDED OFF UNDER SECTION 516		**Nil**

Comparison

Tax payable under the optional rates [section 202(4) exercised]		29,950
Tax payable under the default rates [section 202(1)]		Nil
The default regime is cheaper by		**29,950**

Age buys nothing under section 202(1) — the slab is the same at sixty-six as at thirty — but the rebate of ₹60,000 under section 156(2)(a) extinguishes the whole of the tax, and ₹3,19,000 of deductions given up cost her nothing at all.

7.4 Problem 4 — two houses, leave travel concession and three loans

Problem 4

Mr. Rohit Verma, aged 38 and resident, is employed in Bengaluru. For the tax year 2026-27 —

- basic salary ₹12,00,000, dearness allowance forming part of the salary ₹3,00,000 and bonus ₹2,00,000;
- leave travel concession ₹80,000, the whole of which was spent on a journey within India satisfying Rule 278;
- the employer's contribution to the notified pension scheme ₹2,10,000, and his own contribution ₹50,000;
- tax on employment ₹2,400;
- the first house is occupied by him; interest on the capital borrowed to acquire it is ₹2,40,000;
- the second house is let out at ₹28,000 a month; its municipal value is ₹3,20,000 and its fair rent ₹3,00,000; municipal taxes paid ₹32,000 and interest ₹1,90,000;
- interest on the savings account ₹14,000 and interest on an income-tax refund ₹3,000;
- life insurance premium ₹90,000 (sum assured ₹12,00,000), public provident fund ₹60,000 and repayment of the principal of the housing loan ₹1,20,000;
- health insurance premium ₹28,000 for himself and ₹52,000 for his parents, who are above sixty;
- interest of ₹1,10,000 on a loan taken for the higher education of his daughter, and ₹70,000 on a loan taken to buy an electric vehicle.

Compute his total income and tax liability under both regimes.

Income from the let-out house

Expected rent — the higher of ₹3,20,000 and ₹3,00,000		3,20,000
Rent actually received, ₹28,000 for twelve months		3,36,000
Gross annual value		3,36,000
Less: municipal taxes paid		32,000
Net annual value		3,04,000
Less: 30% of the net annual value		91,200
Less: interest on borrowed capital		1,90,000
INCOME FROM THE LET-OUT HOUSE		**22,800**

(a) Total income under the optional rates

Income from Salaries		
Basic salary, dearness allowance, bonus, leave travel concession and the employer's pension contribution	19,90,000	
Less: leave travel concession exempt [Schedule III, Sl. No. 8]	80,000	
Less: standard deduction	50,000	
Less: tax on employment	2,400	18,57,600
Income from House Property		
Self-occupied house — interest ₹2,40,000, restricted by section 22(2)(a) to	(2,00,000)	
Let-out house, as computed above	22,800	(1,77,200)
Income from Other Sources — savings interest and interest on the refund		17,000
GROSS TOTAL INCOME		16,97,400
Less: deductions under Chapter VIII —		
Section 123 — ₹2,70,000 of qualifying sums, restricted to	1,50,000	

Section 124(1) — ₹2,10,000 contributed, within 10% of ₹15,00,000	1,50,000	
Section 124(3) — his own contribution	50,000	
Section 126 — ₹25,000 for himself and ₹50,000 for his parents	75,000	
Section 129 — interest on the education loan, without any ceiling	1,10,000	
Section 132 — interest on the electric vehicle loan, within ₹1,50,000	70,000	
Section 153 — savings bank interest, restricted to	10,000	6,15,000
TOTAL INCOME		**10,82,400**

The loss of ₹2,00,000 on the self-occupied house is set off within the head against the ₹22,800 of the let-out house, and the balance of ₹1,77,200 against the salary — within the ₹2,00,000 that section 109(1)(b) permits.

Tax liability under the optional rates

Total income 10,82,400 — tax at the slab rates		
Up to 2,50,000 — nil		Nil
2,50,001 to 5,00,000 — 2,50,000 at 5%		12,500
5,00,001 to 10,00,000 — 5,00,000 at 20%		1,00,000
10,00,001 to the balance — 82,400 at 30%		24,720
Income-tax on the total income		1,37,220
Add: Health and Education Cess at 4%		5,489
TAX PAYABLE		1,42,709
ROUNDED OFF UNDER SECTION 516		**1,42,710**

(b) Total income under the default regime

Income from Salaries		
Gross salary, as above	19,90,000	
Leave travel concession — the exemption is denied by section 202(2)(a)(i)	Nil	
Less: standard deduction	75,000	
Tax on employment — denied	Nil	19,15,000
Income from House Property		
Self-occupied house — the interest is denied by section 202(2)(a)(v)	Nil	
Let-out house — the 30% and the whole of the interest are allowed	22,800	22,800
Income from Other Sources		17,000
GROSS TOTAL INCOME		19,54,800
Less: deductions under Chapter VIII —		
Section 124(1) read with 124(2) — ₹2,10,000 contributed, within 14% of ₹15,00,000, that is ₹2,10,000	2,10,000	
Sections 123, 124(3), 126, 129, 132 and 153 — denied	Nil	2,10,000
TOTAL INCOME		**17,44,800**

Tax liability under the default regime

Total income 17,44,800 — tax at the slab rates		
Up to 4,00,000 — nil		Nil
4,00,001 to 8,00,000 — 4,00,000 at 5%		20,000
8,00,001 to 12,00,000 — 4,00,000 at 10%		40,000
12,00,001 to 16,00,000 — 4,00,000 at 15%		60,000
16,00,001 to 20,00,000 — 1,44,800 at 20%		28,960
Income-tax on the total income		1,48,960
Add: Health and Education Cess at 4%		5,958
TAX PAYABLE		1,54,918
ROUNDED OFF UNDER SECTION 516		**1,54,920**

Comparison

Tax payable under the optional rates [section 202(4) exercised]		1,42,710
Tax payable under the default rates [section 202(1)]		1,54,920
The optional regime is cheaper by		**12,210**

The employer's contribution is the one item on which the default regime is the more generous — ₹2,10,000 against ₹1,50,000, because section 124(2) substitutes 14% for 10%. It is not enough to carry the comparison.

Chapter 8

Practical Problems 5 to 8

Business, profession and capital gains at their own rates
Sections 194, 196, 197 and 198 in a full computation

8.1 Problem 5 — a proprietary business and short-term gains under section 196

Problem 5

Mr. Sameer Qureshi, aged 45 and resident, carries on a trading business. His profit and loss account for the year ended 31 March 2027 shows a net profit of ₹18,40,000, arrived at after debiting —

- life insurance premium on his own life ₹80,000;
- donation to a notified charitable trust ₹40,000;
- income-tax paid ₹1,20,000;
- provision for bad and doubtful debts ₹50,000;
- depreciation charged in the books ₹2,60,000, against ₹3,40,000 allowable under section 33;

and after crediting —

- short-term capital gains of ₹4,80,000 on listed equity shares sold through a recognised stock exchange, securities transaction tax having been paid;
- dividend from Indian companies ₹36,000;
- interest on his savings bank account ₹22,000.

He also paid ₹70,000 into his public provident fund and ₹30,000 as health insurance premium for himself and his family. Compute his total income and tax liability under both regimes.

Profits and gains of business or profession

Net profit as per the profit and loss account		18,40,000
Add: sums debited but not allowable —		
Life insurance premium, a personal expense	80,000	
Donation to a charitable trust	40,000	
Income-tax paid [section 35]	1,20,000	
Provision for bad and doubtful debts, no debt having been written off	50,000	
Depreciation charged in the books	2,60,000	5,50,000
Less: sums credited but not taxable under this head, and depreciation allowable —		
Depreciation under section 33	3,40,000	
Short-term capital gains, chargeable under 'Capital gains'	4,80,000	
Dividend, chargeable under 'Income from other sources'	36,000	
Interest on the savings account	22,000	8,78,000
PROFITS AND GAINS OF BUSINESS OR PROFESSION		**15,12,000**

The adjustment is the same under both regimes. Nothing in section 202(2) touches the computation of business income on these facts.

(a) Total income under the optional rates

Profits and gains of business or profession		15,12,000
Capital gains — short-term, on which securities transaction tax has been paid [section 196]		4,80,000

Income from Other Sources — dividend ₹36,000 and savings interest ₹22,000		58,000
GROSS TOTAL INCOME		20,50,000
Gross total income as reduced by the gains [section 196(4)] — the base for Chapter VIII		**15,70,000**
Less: deductions under Chapter VIII —		
Section 123 — premium ₹80,000 and provident fund ₹70,000	1,50,000	
Section 126 — premium ₹30,000, restricted to	25,000	
Section 133 — donation of ₹40,000, within 10% of the adjusted gross total income of 13,85,000; 50% of it	20,000	
Section 153 — savings bank interest, restricted to	10,000	2,05,000
TOTAL INCOME		**18,45,000**

Tax liability under the optional rates

Total income, of which —		**18,45,000**
Short-term capital gains [section 196]		4,80,000
Income charged at the slab rates		13,65,000
Tax at the slab rates on 13,65,000		
Up to 2,50,000 — nil		Nil
2,50,001 to 5,00,000 — 2,50,000 at 5%		12,500
5,00,001 to 10,00,000 — 5,00,000 at 20%		1,00,000
10,00,001 to the balance — 3,65,000 at 30%		1,09,500
Tax at the slab rates		2,22,000
Short-term capital gains [section 196] — 4,80,000 at 20%		96,000
Income-tax on the total income		3,18,000
Add: Health and Education Cess at 4%		12,720
TAX PAYABLE		3,30,720
ROUNDED OFF UNDER SECTION 516		**3,30,720**

(b) Total income under the default regime

Profits and gains of business or profession		15,12,000
Capital gains — short-term [section 196]		4,80,000
Income from Other Sources		58,000
GROSS TOTAL INCOME		20,50,000
Less: deductions under Chapter VIII — sections 123, 126, 133 and 153 are all denied by section 202(2)(a)(xii)		0
TOTAL INCOME		**20,50,000**

Tax liability under the default regime

Total income, of which —		**20,50,000**
Short-term capital gains [section 196]		4,80,000

Income charged at the slab rates		15,70,000
Tax at the slab rates on 15,70,000		
Up to 4,00,000 — nil		Nil
4,00,001 to 8,00,000 — 4,00,000 at 5%		20,000
8,00,001 to 12,00,000 — 4,00,000 at 10%		40,000
12,00,001 to 16,00,000 — 3,70,000 at 15%		55,500
Tax at the slab rates		1,15,500
Short-term capital gains [section 196] — 4,80,000 at 20%		96,000
Income-tax on the total income		2,11,500
Add: Health and Education Cess at 4%		8,460
TAX PAYABLE		2,19,960
ROUNDED OFF UNDER SECTION 516		**2,19,960**

Comparison

Tax payable under the optional rates [section 202(4) exercised]		3,30,720
Tax payable under the default rates [section 202(1)]		2,19,960
The default regime is cheaper by		**1,10,760**

The tax on the short-term gains is ₹96,000 in both computations. The whole of the difference is on the ordinary income, where the default slabs charge ₹1,15,500 against ₹2,22,000.

8.2 Problem 6 — a profession, with gains under sections 196, 197 and 198

Problem 6

Dr. Anjali Nair, aged 52 and resident, is a consultant physician. For the tax year 2026-27 her gross professional receipts are ₹42,00,000 and the expenditure allowable under sections 28 to 38 is ₹19,60,000. During the year she sold —

- units of an equity oriented fund held for four years, securities transaction tax having been paid on the transfer, giving a long-term capital gain of ₹6,25,000;
- listed equity shares held for seven months, securities transaction tax having been paid, giving a short-term capital gain of ₹1,80,000;
- gold jewellery held for nine years, giving a long-term capital gain of ₹3,40,000 as computed under section 72.

She also has interest on her savings account of ₹19,000 and on fixed deposits of ₹1,45,000. She paid life insurance premium ₹1,00,000 (sum assured ₹15,00,000), public provident fund ₹80,000, ₹50,000 into her account under the notified pension scheme claimed under section 124(3), health insurance premium ₹32,000 for herself and ₹55,000 for her parents who are above sixty, and ₹80,000 to a notified charitable trust qualifying at 50%. Compute her total income and tax liability under both regimes.

(a) Total income under the optional rates

Profits and gains of profession — ₹42,00,000 less ₹19,60,000		22,40,000
Capital gains —		
Long-term, units of an equity oriented fund [section 198]	6,25,000	
Short-term, listed equity shares [section 196]	1,80,000	
Long-term, gold jewellery [section 197]	3,40,000	11,45,000
Income from Other Sources — ₹19,000 and ₹1,45,000		1,64,000

GROSS TOTAL INCOME		35,49,000
Gross total income as reduced by all three slices of capital gain [sections 196(4), 197(5) and 198(6)]		**24,04,000**
Less: deductions under Chapter VIII —		
Section 123 — ₹1,80,000 of qualifying sums, restricted to	1,50,000	
Section 124(3) — her own pension contribution	50,000	
Section 126 — ₹25,000 for herself and ₹50,000 for her parents	75,000	
Section 133 — ₹80,000, within 10% of the adjusted gross total income of 21,19,000; 50% of it	40,000	
Section 153 — savings bank interest, restricted to	10,000	3,25,000
TOTAL INCOME		**32,24,000**

Tax liability under the optional rates

Total income, of which —		**32,24,000**
Long-term capital gains [section 198]		6,25,000
Short-term capital gains [section 196]		1,80,000
Long-term capital gains [section 197]		3,40,000
Income charged at the slab rates		20,79,000
Tax at the slab rates on 20,79,000		
Up to 2,50,000 — nil		Nil
2,50,001 to 5,00,000 — 2,50,000 at 5%		12,500
5,00,001 to 10,00,000 — 5,00,000 at 20%		1,00,000
10,00,001 to the balance — 10,79,000 at 30%		3,23,700
Tax at the slab rates		4,36,200
Long-term capital gains [section 198] — 5,00,000 (after the exempt 1,25,000) at 12.5%		62,500
Short-term capital gains [section 196] — 1,80,000 at 20%		36,000
Long-term capital gains [section 197] — 3,40,000 at 12.5%		42,500
Income-tax on the total income		5,77,200
Add: Health and Education Cess at 4%		23,088
TAX PAYABLE		6,00,288
ROUNDED OFF UNDER SECTION 516		**6,00,290**

Each slice keeps its own rate: 12.5% on the long-term gains, with ₹1,25,000 of the section 198 gain not charged at all, and 20% on the short-term gain under section 196.

(b) Total income under the default regime

Profits and gains of profession		22,40,000
Capital gains — the three slices, unchanged		11,45,000
Income from Other Sources		1,64,000
GROSS TOTAL INCOME		35,49,000
Less: deductions under Chapter VIII — all denied		0
TOTAL INCOME		**35,49,000**

Tax liability under the default regime

Total income, of which —		**35,49,000**
Long-term capital gains [section 198]		6,25,000
Short-term capital gains [section 196]		1,80,000
Long-term capital gains [section 197]		3,40,000
Income charged at the slab rates		24,04,000
Tax at the slab rates on 24,04,000		
Up to 4,00,000 — nil		Nil
4,00,001 to 8,00,000 — 4,00,000 at 5%		20,000
8,00,001 to 12,00,000 — 4,00,000 at 10%		40,000
12,00,001 to 16,00,000 — 4,00,000 at 15%		60,000
16,00,001 to 20,00,000 — 4,00,000 at 20%		80,000
20,00,001 to 24,00,000 — 4,00,000 at 25%		1,00,000
24,00,001 to the balance — 4,000 at 30%		1,200
Tax at the slab rates		3,01,200
Long-term capital gains [section 198] — 5,00,000 (after the exempt 1,25,000) at 12.5%		62,500
Short-term capital gains [section 196] — 1,80,000 at 20%		36,000
Long-term capital gains [section 197] — 3,40,000 at 12.5%		42,500
Income-tax on the total income		4,42,200
Add: Health and Education Cess at 4%		17,688
TAX PAYABLE		4,59,888
ROUNDED OFF UNDER SECTION 516		**4,59,890**

Comparison

Tax payable under the optional rates [section 202(4) exercised]		6,00,290
Tax payable under the default rates [section 202(1)]		4,59,890
The default regime is cheaper by		**1,40,400**

The tax on the three slices of capital gain is ₹1,41,000 under both regimes. The rates in sections 196, 197 and 198 do not change with the regime, and neither does the ₹1,25,000 in section 198(2)(a).

8.3 Problem 7 — land bought before 23 July 2024, and a lottery prize

Problem 7

Mr. Vikram Chauhan, aged 58 and resident, is employed. For the tax year 2026-27 —

- basic salary ₹9,00,000 and dearness allowance forming part of the salary ₹2,40,000; tax on employment ₹2,400;
- on 12 September 2026 he sold a plot of land for ₹42,00,000. He had bought it on 5 June 2015 for ₹18,00,000. The Cost Inflation Index is 254 for 2015-16 and 384 for 2026-27;
- he won ₹2,00,000 in a lottery, from which ₹60,000 was deducted at source;
- interest on his savings bank account ₹15,000;
- life insurance premium ₹1,20,000 (sum assured ₹15,00,000), public provident fund ₹40,000 and health insurance premium ₹34,000 for himself and his family.

Compute his total income and tax liability under both regimes.

The long-term capital gain, and section 197(3)

Full value of the consideration		42,00,000
Less: cost of acquisition		18,00,000
LONG-TERM CAPITAL GAIN entering the total income		**24,00,000**
A — income-tax on ₹24,00,000 at 12.5% [section 197(1)(b)]		**3,00,000**
Indexed cost of acquisition — ₹18,00,000 × 384 ÷ 254		27,21,260
Gain on the indexed computation — ₹42,00,000 less 27,21,260		14,78,740
B — income-tax on that gain at 20%		2,95,748
E — the excess to be ignored, A less B		4,252
INCOME-TAX ON THE LONG-TERM CAPITAL GAIN		**2,95,748**

All four conditions in section 197(3) are satisfied — a resident individual, land, a long-term holding, and an acquisition before 23 July 2024. The gain that enters the total income remains ₹24,00,000; only the tax on it is reduced.

(a) Total income under the optional rates

Income from Salaries		
Basic salary and dearness allowance	11,40,000	
Less: standard deduction	50,000	
Less: tax on employment	2,400	10,87,600
Capital gains — long-term, on the land [section 197]		24,00,000
Income from Other Sources — lottery winnings ₹2,00,000 and savings interest ₹15,000		2,15,000
GROSS TOTAL INCOME		37,02,600
Less: deductions under Chapter VIII —		
Section 123 — ₹1,60,000 of qualifying sums, restricted to	1,50,000	
Section 126 — premium ₹34,000, restricted to	25,000	1,75,000
TOTAL INCOME		**35,27,600**

The deductions are set against the salary. They cannot touch the capital gain, which section 197(5) takes out of the base, nor the winnings, which section 194 charges at 30% on their gross amount.

Tax liability under the optional rates

Total income, of which —		**35,27,600**
Long-term capital gains on land [section 197]		24,00,000
Winnings from a lottery [section 194]		2,00,000
Income charged at the slab rates		9,27,600
Tax at the slab rates on 9,27,600		
Up to 2,50,000 — nil		Nil
2,50,001 to 5,00,000 — 2,50,000 at 5%		12,500
5,00,001 to 10,00,000 — 4,27,600 at 20%		85,520
Tax at the slab rates		98,020
Long-term capital gains on land [section 197] — 24,00,000 at 12.5%		3,00,000
Winnings from a lottery [section 194] — 2,00,000 at 30%		60,000
Income-tax on the total income		4,53,768

Add: Health and Education Cess at 4%		18,151
TAX PAYABLE		4,71,919
ROUNDED OFF UNDER SECTION 516		**4,71,920**

The ₹60,000 deducted at source on the winnings is credited against the tax so computed; it is not a deduction in arriving at it.

(b) Total income under the default regime

Income from Salaries — ₹11,40,000 less the standard deduction of ₹75,000, the tax on employment being denied		10,65,000
Capital gains — long-term, on the land		24,00,000
Income from Other Sources		2,15,000
GROSS TOTAL INCOME		36,80,000
Less: deductions under Chapter VIII — sections 123 and 126 denied		0
TOTAL INCOME		**36,80,000**

Tax liability under the default regime

Total income, of which —		**36,80,000**
Long-term capital gains on land [section 197]		24,00,000
Winnings from a lottery [section 194]		2,00,000
Income charged at the slab rates		10,80,000
Tax at the slab rates on 10,80,000		
Up to 4,00,000 — nil		Nil
4,00,001 to 8,00,000 — 4,00,000 at 5%		20,000
8,00,001 to 12,00,000 — 2,80,000 at 10%		28,000
Tax at the slab rates		48,000
Long-term capital gains on land [section 197] — 24,00,000 at 12.5%		3,00,000
Winnings from a lottery [section 194] — 2,00,000 at 30%		60,000
Income-tax on the total income		4,03,748
Add: Health and Education Cess at 4%		16,150
TAX PAYABLE		4,19,898
ROUNDED OFF UNDER SECTION 516		**4,19,900**

Comparison

Tax payable under the optional rates [section 202(4) exercised]		4,71,920
Tax payable under the default rates [section 202(1)]		4,19,900
The default regime is cheaper by		**52,020**

Only ₹10,80,000 of the total income is charged at the slab rates under the default regime and ₹9,27,600 under the optional one; the rest carries its own rate in both. Section 197(3) saves ₹4,252 of tax under each.

8.4 Problem 8 — clubbing, set-off, carry forward and an online game

Problem 8

Mr. Naveen Bhatia, aged 47 and resident, has for the tax year 2026-27 —

- profits of ₹16,80,000 from a garment trading business, and a loss of ₹2,40,000 from a speculation business;
- an unabsorbed business loss of ₹3,20,000 brought forward from the tax year 2024-25;
- a short-term capital loss of ₹1,60,000 and a long-term capital gain of ₹4,20,000 on unlisted shares;
- interest of ₹48,000 earned by his minor son on a fixed deposit made out of a sum gifted to him by his father;
- interest of ₹2,00,000 on capital borrowed for the house he occupies himself;
- net winnings from an online game ₹1,50,000 and interest on his savings bank account ₹21,000;
- life insurance premium ₹1,40,000 (sum assured ₹20,00,000), health insurance premium ₹22,000 and a donation of ₹60,000 to a notified charitable trust qualifying at 50%.

Compute his total income and tax liability under both regimes, and state what is carried forward.

The set-off, before the two regimes diverge

The speculation loss of ₹2,40,000 is set off only against the profits of another speculation business [section 113]. There being none, it is carried forward for four tax years under both regimes alike.

The short-term capital loss of ₹1,60,000 is set off against the long-term capital gain of ₹4,20,000 within the head, leaving ₹2,60,000 [section 108(2)(a)].

The brought-forward business loss of ₹3,20,000 is attributable to none of the deductions listed in section 202(2)(a), so section 202(2)(b)(i) does not touch it and it is set off under both regimes.

The minor son's interest is clubbed under section 99(1)(c). The exemption of ₹1,500 in Schedule III (Table: Sl. No. 17) is available under the optional regime and is denied under the default one by section 202(2)(a)(i).

(a) Total income under the optional rates

Income from House Property — self-occupied, interest ₹2,00,000		(2,00,000)
Profits and gains of business or profession		
Trading business	16,80,000	
Less: business loss brought forward from 2024-25 [section 112]	3,20,000	13,60,000
Capital gains — ₹4,20,000 less the short-term loss of ₹1,60,000		2,60,000
Income from Other Sources		
Net winnings from an online game [section 194, entry 5]	1,50,000	
Interest on the savings account	21,000	
Interest of the minor son, clubbed, less ₹1,500	46,500	2,17,500
GROSS TOTAL INCOME, the house property loss having been set off against business income within the ₹2,00,000 of section 109(1)(b)		16,37,500
Gross total income as reduced by the long-term gain [section 197(5)]		**13,77,500**
Less: deductions under Chapter VIII —		
Section 123 — life insurance premium	1,40,000	
Section 126 — health insurance premium	22,000	
Section 133 — ₹60,000, within 10% of the adjusted gross total income of 12,05,500; 50% of it	30,000	
Section 153 — savings bank interest, restricted to	10,000	2,02,000

TOTAL INCOME		**14,35,500**

Tax liability under the optional rates

Total income, of which —		**14,35,500**
Long-term capital gains [section 197]		2,60,000
Net winnings from an online game [section 194]		1,50,000
Income charged at the slab rates		10,25,500
Tax at the slab rates on 10,25,500		
Up to 2,50,000 — nil		Nil
2,50,001 to 5,00,000 — 2,50,000 at 5%		12,500
5,00,001 to 10,00,000 — 5,00,000 at 20%		1,00,000
10,00,001 to the balance — 25,500 at 30%		7,650
Tax at the slab rates		1,20,150
Long-term capital gains [section 197] — 2,60,000 at 12.5%		32,500
Net winnings from an online game [section 194] — 1,50,000 at 30%		45,000
Income-tax on the total income		1,97,650
Add: Health and Education Cess at 4%		7,906
TAX PAYABLE		2,05,556
ROUNDED OFF UNDER SECTION 516		**2,05,560**

(b) Total income under the default regime

Income from House Property — the interest on the self-occupied house is denied by section 202(2)(a)(v), so there is no loss at all		0
Profits and gains of business or profession — ₹16,80,000 less the brought-forward loss of ₹3,20,000		13,60,000
Capital gains		2,60,000
Income from Other Sources — winnings ₹1,50,000, savings interest ₹21,000, and the minor son's ₹48,000 without the ₹1,500		2,19,000
GROSS TOTAL INCOME		18,39,000
Less: deductions under Chapter VIII — all denied		0
TOTAL INCOME		**18,39,000**

Tax liability under the default regime

Total income, of which —		**18,39,000**
Long-term capital gains [section 197]		2,60,000
Net winnings from an online game [section 194]		1,50,000
Income charged at the slab rates		14,29,000
Tax at the slab rates on 14,29,000		
Up to 4,00,000 — nil		Nil
4,00,001 to 8,00,000 — 4,00,000 at 5%		20,000
8,00,001 to 12,00,000 — 4,00,000 at 10%		40,000

12,00,001 to 16,00,000 — 2,29,000 at 15%		34,350
Tax at the slab rates		94,350
Long-term capital gains [section 197] — 2,60,000 at 12.5%		32,500
Net winnings from an online game [section 194] — 1,50,000 at 30%		45,000
Income-tax on the total income		1,71,850
Add: Health and Education Cess at 4%		6,874
TAX PAYABLE		1,78,724
ROUNDED OFF UNDER SECTION 516		**1,78,720**

Comparison

Tax payable under the optional rates [section 202(4) exercised]		2,05,560
Tax payable under the default rates [section 202(1)]		1,78,720
The default regime is cheaper by		**26,840**

Carried forward under both regimes: the speculation loss of ₹2,40,000, for four tax years under section 113(3). Nothing else is carried forward — and under the default regime the ₹2,00,000 of house property interest is not carried forward either, section 202(2)(a)(v) having denied the deduction outright.

Chapter 9

Practical Problems 9 to 12

Surcharge, marginal relief and the whole of the syllabus
The last four of the twelve

9.1 Problem 9 — the surcharge threshold, and marginal relief in full

Problem 9

Mr. Harish Malhotra, aged 44 and resident, is employed in Mumbai. For the tax year 2026-27 —

- basic salary ₹32,00,000, dearness allowance forming part of the salary ₹7,20,000 and bonus ₹3,60,000;
- house rent allowance ₹6,00,000 against rent actually paid of ₹7,20,000 in Mumbai;
- the employer's contribution to the notified pension scheme ₹3,92,000; his own contribution ₹50,000; tax on employment ₹2,400;
- a house let out at ₹45,000 a month, municipal value ₹5,00,000, fair rent ₹5,20,000, municipal taxes paid ₹54,000 and interest on the loan ₹2,40,000;
- interest on the savings account ₹28,000 and on fixed deposits ₹1,72,000;
- life insurance premium and public provident fund together ₹1,65,000, health insurance premium ₹28,000 for himself and ₹52,000 for his parents, who are above sixty.

Compute his total income and tax liability under both regimes.

Income from the let-out house

Expected rent — the higher of ₹5,00,000 and ₹5,20,000		5,20,000
Rent actually received, ₹45,000 for twelve months		5,40,000
Gross annual value		5,40,000
Less: municipal taxes paid		54,000
Net annual value		4,86,000
Less: 30% of the net annual value		1,45,800
Less: interest on borrowed capital		2,40,000
INCOME FROM HOUSE PROPERTY		**1,00,200**

(a) Total income under the optional rates

Income from Salaries		
Basic salary, dearness allowance, bonus, house rent allowance and the employer's pension contribution	52,72,000	
Less: house rent allowance exempt — least of ₹6,00,000, ₹7,20,000 less 10% of ₹39,20,000, and 50% of ₹39,20,000	3,28,000	
Less: standard deduction	50,000	
Less: tax on employment	2,400	48,91,600
Income from House Property, as computed above		1,00,200
Income from Other Sources — ₹28,000 and ₹1,72,000		2,00,000
GROSS TOTAL INCOME		51,91,800
Less: deductions under Chapter VIII —		
Section 123 — restricted to	1,50,000	
Section 124(1) — ₹3,92,000, being 10% of ₹39,20,000	3,92,000	

Section 124(3) — his own contribution	50,000	
Section 126 — ₹25,000 and ₹50,000	75,000	
Section 153 — restricted to	10,000	6,77,000
TOTAL INCOME		**45,14,800**

The total income falls short of ₹50,00,000, so no surcharge arises at all.

Tax liability under the optional rates

Total income 45,14,800 — tax at the slab rates		
Up to 2,50,000 — nil		Nil
2,50,001 to 5,00,000 — 2,50,000 at 5%		12,500
5,00,001 to 10,00,000 — 5,00,000 at 20%		1,00,000
10,00,001 to the balance — 35,14,800 at 30%		10,54,440
Income-tax on the total income		11,66,940
Add: Health and Education Cess at 4%		46,678
TAX PAYABLE		12,13,618
ROUNDED OFF UNDER SECTION 516		**12,13,620**

(b) Total income under the default regime

Income from Salaries		
Gross salary, as above	52,72,000	
House rent allowance — denied by section 202(2)(a)(i)	Nil	
Less: standard deduction	75,000	
Tax on employment — denied	Nil	51,97,000
Income from House Property		1,00,200
Income from Other Sources		2,00,000
GROSS TOTAL INCOME		54,97,200
Less: deductions under Chapter VIII —		
Section 124(1) read with 124(2) — ₹3,92,000 contributed, within 14% of ₹39,20,000, that is ₹5,48,800	3,92,000	
Sections 123, 124(3), 126 and 153 — denied	Nil	3,92,000
TOTAL INCOME		**51,05,200**

The total income exceeds ₹50,00,000 by ₹1,05,200, so the surcharge of 10% is attracted and marginal relief has to be computed.

Tax liability under the default regime

Total income 51,05,200 — tax at the slab rates		
Up to 4,00,000 — nil		Nil
4,00,001 to 8,00,000 — 4,00,000 at 5%		20,000
8,00,001 to 12,00,000 — 4,00,000 at 10%		40,000
12,00,001 to 16,00,000 — 4,00,000 at 15%		60,000
16,00,001 to 20,00,000 — 4,00,000 at 20%		80,000
20,00,001 to 24,00,000 — 4,00,000 at 25%		1,00,000
24,00,001 to the balance — 27,05,200 at 30%		8,11,560

Income-tax on the total income		11,11,560
Add: surcharge at 10%		1,11,156
Less: marginal relief [total income 51,05,200 against 50,00,000]		37,516
Income-tax and surcharge		11,85,200
Add: Health and Education Cess at 4%		47,408
TAX PAYABLE		12,32,608
ROUNDED OFF UNDER SECTION 516		**12,32,610**

The marginal relief, set out

R — income-tax and surcharge on ₹50,00,000: the tax at the rates in section 202(1) is ₹10,80,000 and no surcharge arises at that figure, the clause requiring the total income to exceed it. R is therefore ₹10,80,000.

S — the total income less ₹50,00,000, that is ₹1,05,200.

T — the ceiling, R plus S, is ₹11,85,200. The income-tax and surcharge computed come to ₹12,22,716, so the relief is ₹37,516 and the cess of 4% is charged on ₹11,85,200.

Comparison

Tax payable under the optional rates [section 202(4) exercised]		12,13,620
Tax payable under the default rates [section 202(1)]		12,32,610
The optional regime is cheaper by		**18,990**

The regime decides whether the surcharge arises at all. Losing the house rent allowance exemption of ₹3,28,000 and ₹6,77,000 of Chapter VIII deductions carries the total income across ₹50,00,000 under the default regime while the optional computation stops at ₹45,14,800.

9.2 Problem 10 — above five crore: 37% against 25%

Problem 10

Mr. Devendra Shah, aged 50 and resident, carries on a manufacturing business. For the tax year 2026-27 —

- profits and gains of the business, computed under sections 26 to 63, ₹5,40,00,000;
- a long-term capital gain of ₹60,00,000 on listed equity shares sold through a recognised stock exchange, securities transaction tax having been paid on the acquisition and on the transfer;
- interest on his savings bank account ₹40,000;
- life insurance premium and public provident fund together ₹1,50,000, ₹50,000 into his account under the notified pension scheme, health insurance premium ₹30,000 for himself and ₹55,000 for his parents who are above sixty, and ₹5,00,000 to the Prime Minister's National Relief Fund.

Compute his total income and tax liability under both regimes.

(a) Total income under the optional rates

Profits and gains of business or profession		5,40,00,000
Capital gains — long-term, listed equity shares [section 198]		60,00,000
Income from Other Sources — savings bank interest		40,000
GROSS TOTAL INCOME		6,00,40,000
Gross total income as reduced by the gains [section 198(6)]		**5,40,40,000**
Less: deductions under Chapter VIII —		
Section 123 — restricted to	1,50,000	

Section 124(3)	50,000	
Section 126 — ₹25,000 and ₹50,000	75,000	
Section 133 — the Prime Minister's National Relief Fund, at 100% and outside the qualifying limit	5,00,000	
Section 153 — restricted to	10,000	7,85,000
TOTAL INCOME		**5,92,55,000**

The total income excluding the capital gains is ₹5,32,55,000, which exceeds ₹5,00,00,000, so clause (iv) of Paragraph F applies and the surcharge on the slab-rate tax is 37%. Clause (vi) caps the surcharge on the tax on the gains at 15%.

Tax liability under the optional rates

Total income, of which —		**5,92,55,000**
Long-term capital gains [section 198]		60,00,000
Income charged at the slab rates		5,32,55,000
Tax at the slab rates on 5,32,55,000		
Up to 2,50,000 — nil		Nil
2,50,001 to 5,00,000 — 2,50,000 at 5%		12,500
5,00,001 to 10,00,000 — 5,00,000 at 20%		1,00,000
10,00,001 to the balance — 5,22,55,000 at 30%		1,56,76,500
Tax at the slab rates		1,57,89,000
Long-term capital gains [section 198] — 58,75,000 (after the exempt 1,25,000) at 12.5%		7,34,375
Income-tax on the total income		1,65,23,375
Add: surcharge at 37% on the slab-rate tax and 15% on the tax on the gains		59,52,086
Income-tax and surcharge		2,24,75,461
Add: Health and Education Cess at 4%		8,99,018
TAX PAYABLE		2,33,74,480
ROUNDED OFF UNDER SECTION 516		**2,33,74,480**

(b) Total income under the default regime

Profits and gains of business or profession		5,40,00,000
Capital gains — long-term [section 198]		60,00,000
Income from Other Sources		40,000
GROSS TOTAL INCOME		6,00,40,000
Less: deductions under Chapter VIII — all denied		0
TOTAL INCOME		**6,00,40,000**

The total income excluding the capital gains is ₹5,40,40,000 and exceeds ₹2,00,00,000, so clause (iii) of the Table to section 3(4)(b) applies and the surcharge on the slab-rate tax is 25%. There is no rate of 37% under the default regime, however large the income. Clause (v) caps the surcharge on the tax on the gains at 15%.

Tax liability under the default regime

Total income, of which —		**6,00,40,000**
Long-term capital gains [section 198]		60,00,000
Income charged at the slab rates		5,40,40,000
Tax at the slab rates on 5,40,40,000		

Up to 4,00,000 — nil		Nil
4,00,001 to 8,00,000 — 4,00,000 at 5%		20,000
8,00,001 to 12,00,000 — 4,00,000 at 10%		40,000
12,00,001 to 16,00,000 — 4,00,000 at 15%		60,000
16,00,001 to 20,00,000 — 4,00,000 at 20%		80,000
20,00,001 to 24,00,000 — 4,00,000 at 25%		1,00,000
24,00,001 to the balance — 5,16,40,000 at 30%		1,54,92,000
Tax at the slab rates		1,57,92,000
Long-term capital gains [section 198] — 58,75,000 (after the exempt 1,25,000) at 12.5%		7,34,375
Income-tax on the total income		1,65,26,375
Add: surcharge at 25% on the slab-rate tax and 15% on the tax on the gains		40,58,156
Income-tax and surcharge		2,05,84,531
Add: Health and Education Cess at 4%		8,23,381
TAX PAYABLE		2,14,07,912
ROUNDED OFF UNDER SECTION 516		**2,14,07,910**

Where the difference comes from

The slab-rate tax is almost the same in the two computations — ₹1,57,89,000 and ₹1,57,92,000 — because at this level of income every rupee is in the 30% band under either table and the ₹7,85,000 of deductions is worth only about ₹2,35,500 of tax.

The surcharge is where they part. At 37% the surcharge on the slab-rate tax is ₹58,41,930; at 25% it is ₹39,48,000. The surcharge on the tax on the capital gains is ₹1,10,156 in both, being capped at 15%. Marginal relief does not arise in either computation, the total income being far above the thresholds at which the ceiling bites.

Comparison

Tax payable under the optional rates [section 202(4) exercised]		2,33,74,480
Tax payable under the default rates [section 202(1)]		2,14,07,910
The default regime is cheaper by		**19,66,570**

Giving up ₹7,85,000 of deductions costs about ₹2,35,500 of tax and saves ₹18,93,930 of surcharge. At the top of the scale the default regime is not a close question.

9.3 Problem 11 — pension, a profession and a virtual digital asset, at sixty-two

Problem 11

Mr. Prakash Iyengar, aged 62 and resident, retired from service in 2024 and now practises as a consultant. For the tax year 2026-27 —

- pension from his former employer ₹7,20,000;
- profits of the consultancy, computed under sections 26 to 63, ₹6,40,000;
- a house let out at ₹26,000 a month; its municipal value is ₹2,80,000 and its fair rent ₹3,00,000, there is no standard rent, municipal taxes paid ₹30,000 and interest on the loan ₹1,40,000;
- income of ₹4,50,000 from the transfer of a virtual digital asset, computed after deducting the cost of acquisition;
- interest on his savings bank account ₹24,000 and on fixed deposits ₹1,96,000;
- interest of ₹36,000 earned by his minor daughter on a deposit made out of a sum gifted to her by him;
- life insurance premium and public provident fund together ₹1,50,000; health insurance premium on his own life ₹46,000; ₹40,000 spent on the medical treatment of a specified disease for himself; and a donation of ₹40,000 to a notified charitable trust qualifying at 50%.

Compute his total income and tax liability under both regimes.

Income from house property

Expected rent — the higher of ₹2,80,000 and ₹3,00,000; there is no standard rent		3,00,000
Rent actually received, ₹26,000 for twelve months		3,12,000
Gross annual value		3,12,000
Less: municipal taxes paid		30,000
Net annual value		2,82,000
Less: 30% of the net annual value		84,600
Less: interest on borrowed capital		1,40,000
INCOME FROM HOUSE PROPERTY		**57,400**

(a) Total income under the optional rates

Income from Salaries — pension		
Pension received	7,20,000	
Less: standard deduction	50,000	6,70,000
Income from House Property, as computed above		57,400
Profits and gains of business or profession		6,40,000
Income from Other Sources		
Income from the transfer of a virtual digital asset [section 194, entry 4]	4,50,000	
Interest on the savings account	24,000	
Interest on fixed deposits	1,96,000	
Interest of the minor daughter, clubbed under section 99(1)(c), less ₹1,500 [Schedule III, Sl. No. 17]	34,500	7,04,500
GROSS TOTAL INCOME		20,71,900
Less: deductions under Chapter VIII —		
Section 123 — restricted to	1,50,000	

Section 126 — he being a senior citizen, the limit is ₹50,000	46,000	
Section 128 — treatment of a specified disease, within the ₹1,00,000 for a senior citizen	40,000	
Section 133 — ₹40,000, within 10% of the adjusted gross total income of 17,85,900; 50% of it	20,000	
Section 153 — he being sixty and above, interest of every kind counts, restricted to	50,000	3,06,000
TOTAL INCOME		**17,65,900**

Section 194 (Table: Sl. No. 4) allows nothing but the cost of acquisition against the virtual digital asset, and no loss may be set off against it. The Chapter VIII deductions therefore reduce the pension, the profession and the interest, and never the ₹4,50,000.

Tax liability under the optional rates

Total income, of which —		**17,65,900**
Income from the transfer of a virtual digital asset [section 194]		4,50,000
Income charged at the slab rates		13,15,900
Tax at the slab rates on 13,15,900		
Up to 3,00,000 — nil		Nil
3,00,001 to 5,00,000 — 2,00,000 at 5%		10,000
5,00,001 to 10,00,000 — 5,00,000 at 20%		1,00,000
10,00,001 to the balance — 3,15,900 at 30%		94,770
Tax at the slab rates		2,04,770
Income from the transfer of a virtual digital asset [section 194] — 4,50,000 at 30%		1,35,000
Income-tax on the total income		3,39,770
Add: Health and Education Cess at 4%		13,591
TAX PAYABLE		3,53,361
ROUNDED OFF UNDER SECTION 516		**3,53,360**

The maximum amount not chargeable to income-tax is ₹3,00,000, he being a resident of sixty-two.

(b) Total income under the default regime

Income from Salaries — pension ₹7,20,000 less the standard deduction of ₹75,000		6,45,000
Income from House Property, unchanged		57,400
Profits and gains of business or profession		6,40,000
Income from Other Sources — the virtual digital asset ₹4,50,000, savings interest ₹24,000, fixed deposit interest ₹1,96,000, and the minor daughter's ₹36,000 without the ₹1,500		7,06,000
GROSS TOTAL INCOME		20,48,400
Less: deductions under Chapter VIII — sections 123, 126, 128, 133 and 153 are all denied		0
TOTAL INCOME		**20,48,400**

Tax liability under the default regime

Total income, of which —		**20,48,400**
Income from the transfer of a virtual digital asset [section 194]		4,50,000

Income charged at the slab rates		15,98,400
Tax at the slab rates on 15,98,400		
Up to 4,00,000 — nil		Nil
4,00,001 to 8,00,000 — 4,00,000 at 5%		20,000
8,00,001 to 12,00,000 — 4,00,000 at 10%		40,000
12,00,001 to 16,00,000 — 3,98,400 at 15%		59,760
Tax at the slab rates		1,19,760
Income from the transfer of a virtual digital asset [section 194] — 4,50,000 at 30%		1,35,000
Income-tax on the total income		2,54,760
Add: Health and Education Cess at 4%		10,190
TAX PAYABLE		2,64,950
ROUNDED OFF UNDER SECTION 516		**2,64,950**

Comparison

Tax payable under the optional rates [section 202(4) exercised]		3,53,360
Tax payable under the default rates [section 202(1)]		2,64,950
The default regime is cheaper by		**88,410**

The tax on the virtual digital asset is ₹1,35,000 under both regimes; section 194 knows nothing of the regime. The whole of the difference is on the remaining income, where the default slabs charge ₹1,19,760 against ₹2,04,770 — and the extra exemption of ₹3,00,000 that age gives under Paragraph A is worth less than the wider slabs of section 202(1).

9.4 Problem 12 — the capstone: every head of income in one computation

Problem 12

Mrs. Rukmini Desai, aged 47 and resident, is employed in Delhi and also carries on a business. For the tax year 2026-27 —

- basic salary ₹24,00,000, dearness allowance forming part of the salary ₹4,80,000 and house rent allowance ₹4,80,000 against rent actually paid of ₹6,00,000; the employer contributes ₹2,88,000 to her account under the notified pension scheme; tax on employment ₹2,400;
- the first house is occupied by her, interest on the capital borrowed to acquire it being ₹2,20,000; the second is let out at ₹40,000 a month, its municipal value ₹4,20,000, its fair rent ₹4,50,000, municipal taxes paid ₹48,000 and interest ₹2,10,000;
- profits of the business ₹8,60,000, against which a business loss of ₹1,80,000 brought forward from the tax year 2024-25 is to be set off;
- a long-term capital gain of ₹3,80,000 on listed equity shares on which securities transaction tax has been paid; a short-term capital gain of ₹1,20,000 on listed equity shares on which it has also been paid; a long-term capital gain of ₹2,60,000 on jewellery; and a short-term capital loss of ₹90,000 on units of a debt-oriented fund;
- winnings from a card game ₹1,50,000; interest on her savings bank account ₹26,000 and on fixed deposits ₹1,74,000; and interest of ₹52,000 earned by her minor son on a deposit made out of a sum gifted to him by her;
- life insurance premium and public provident fund together ₹1,50,000; ₹50,000 into her own account under the notified pension scheme; health insurance premium ₹28,000 for herself and ₹48,000 for her parents, who are above sixty; interest of ₹86,000 on a loan taken for the higher education of her daughter; and a donation of ₹1,00,000 to a notified charitable trust qualifying at 50%.

Compute her total income and tax liability under both regimes.

Income from the let-out house

Expected rent — the higher of ₹4,20,000 and ₹4,50,000		4,50,000
Rent actually received, ₹40,000 for twelve months		4,80,000
Gross annual value		4,80,000
Less: municipal taxes paid		48,000
Net annual value		4,32,000
Less: 30% of the net annual value		1,29,600
Less: interest on borrowed capital		2,10,000
INCOME FROM THE LET-OUT HOUSE		**92,400**

The capital gains, before the two regimes diverge

The short-term capital loss of ₹90,000 on the debt-oriented units is set off under section 108(2)(a) against income computed in respect of any other capital asset. It is set against the short-term gain charged under section 196, that gain carrying the highest of the three rates, and reduces it from ₹1,20,000 to ₹30,000.

The three remaining slices keep their own rates — ₹3,80,000 under section 198, ₹30,000 under section 196 and ₹2,60,000 under section 197 — and section 198(6), 196(4) and 197(5) between them take all three out of the base on which Chapter VIII operates.

The brought-forward business loss of ₹1,80,000 is attributable to none of the deductions listed in section 202(2)(a), so it is set off under both regimes alike.

(a) Total income under the optional rates

Income from Salaries		
Basic salary, dearness allowance, house rent allowance and the employer's pension contribution	36,48,000	
Less: house rent allowance exempt — least of ₹4,80,000, ₹6,00,000 less 10% of ₹28,80,000, and 50% of ₹28,80,000	3,12,000	
Less: standard deduction	50,000	
Less: tax on employment	2,400	32,83,600
Income from House Property		
Self-occupied house — interest ₹2,20,000, restricted by section 22(2)(a) to	(2,00,000)	
Let-out house, as computed above	92,400	(1,07,600)
Profits and gains of business or profession		
Profits of the business	8,60,000	
Less: business loss brought forward [section 112]	1,80,000	6,80,000
Capital gains — ₹3,80,000, ₹30,000 and ₹2,60,000		6,70,000
Income from Other Sources		
Winnings from a card game [section 194, entry 1]	1,50,000	
Interest on the savings account and on fixed deposits	2,00,000	
Interest of the minor son, clubbed, less ₹1,500	50,500	4,00,500
GROSS TOTAL INCOME		49,26,500
Gross total income as reduced by the three slices of capital gain		**42,56,500**
Less: deductions under Chapter VIII —		

Section 123 — restricted to	1,50,000	
Section 124(1) — ₹2,88,000, being 10% of ₹28,80,000	2,88,000	
Section 124(3) — her own contribution	50,000	
Section 126 — ₹25,000 for herself and ₹48,000 for her parents	73,000	
Section 129 — interest on the education loan, without any ceiling	86,000	
Section 133 — ₹1,00,000, within 10% of the adjusted gross total income of 35,99,500; 50% of it	50,000	
Section 153 — savings bank interest, restricted to	10,000	7,07,000
TOTAL INCOME		**42,19,500**

The house property loss of ₹1,07,600 is set off against the salary, within the ₹2,00,000 that section 109(1)(b) permits.

Tax liability under the optional rates

Total income, of which —		**42,19,500**
Long-term capital gains [section 198]		3,80,000
Short-term capital gains [section 196]		30,000
Long-term capital gains [section 197]		2,60,000
Winnings from a card game [section 194]		1,50,000
Income charged at the slab rates		33,99,500
Tax at the slab rates on 33,99,500		
Up to 2,50,000 — nil		Nil
2,50,001 to 5,00,000 — 2,50,000 at 5%		12,500
5,00,001 to 10,00,000 — 5,00,000 at 20%		1,00,000
10,00,001 to the balance — 23,99,500 at 30%		7,19,850
Tax at the slab rates		8,32,350
Long-term capital gains [section 198] — 2,55,000 (after the exempt 1,25,000) at 12.5%		31,875
Short-term capital gains [section 196] — 30,000 at 20%		6,000
Long-term capital gains [section 197] — 2,60,000 at 12.5%		32,500
Winnings from a card game [section 194] — 1,50,000 at 30%		45,000
Income-tax on the total income		9,47,725
Add: Health and Education Cess at 4%		37,909
TAX PAYABLE		9,85,634
ROUNDED OFF UNDER SECTION 516		**9,85,630**

(b) Total income under the default regime

Income from Salaries		
Gross salary, as above	36,48,000	
House rent allowance — denied by section 202(2)(a)(i)	Nil	
Less: standard deduction	75,000	
Tax on employment — denied	Nil	35,73,000
Income from House Property		

Self-occupied house — the interest is denied by section 202(2)(a)(v)	Nil	
Let-out house	92,400	92,400
Profits and gains of business or profession — ₹8,60,000 less the brought-forward loss of ₹1,80,000		6,80,000
Capital gains		6,70,000
Income from Other Sources — winnings ₹1,50,000, interest ₹2,00,000, and the minor son's ₹52,000 without the ₹1,500		4,02,000
GROSS TOTAL INCOME		54,17,400
Less: deductions under Chapter VIII —		
Section 124(1) read with 124(2) — ₹2,88,000 contributed, within 14% of ₹28,80,000, that is ₹4,03,200	2,88,000	
Sections 123, 124(3), 126, 129, 133 and 153 — denied	Nil	2,88,000
TOTAL INCOME		**51,29,400**

The total income exceeds ₹50,00,000 by ₹1,29,400, so the surcharge of 10% is attracted.

Tax liability under the default regime

Total income, of which —		**51,29,400**
Long-term capital gains [section 198]		3,80,000
Short-term capital gains [section 196]		30,000
Long-term capital gains [section 197]		2,60,000
Winnings from a card game [section 194]		1,50,000
Income charged at the slab rates		43,09,400
Tax at the slab rates on 43,09,400		
Up to 4,00,000 — nil		Nil
4,00,001 to 8,00,000 — 4,00,000 at 5%		20,000
8,00,001 to 12,00,000 — 4,00,000 at 10%		40,000
12,00,001 to 16,00,000 — 4,00,000 at 15%		60,000
16,00,001 to 20,00,000 — 4,00,000 at 20%		80,000
20,00,001 to 24,00,000 — 4,00,000 at 25%		1,00,000
24,00,001 to the balance — 19,09,400 at 30%		5,72,820
Tax at the slab rates		8,72,820
Long-term capital gains [section 198] — 2,55,000 (after the exempt 1,25,000) at 12.5%		31,875
Short-term capital gains [section 196] — 30,000 at 20%		6,000
Long-term capital gains [section 197] — 2,60,000 at 12.5%		32,500
Winnings from a card game [section 194] — 1,50,000 at 30%		45,000
Income-tax on the total income		9,88,195
Add: surcharge at 10%		98,820
Income-tax and surcharge		10,87,014
Add: Health and Education Cess at 4%		43,481
TAX PAYABLE		11,30,495
ROUNDED OFF UNDER SECTION 516		**11,30,500**

Why no marginal relief arises here

The ceiling under section 3(5) of the Finance Act, 2026 is the income-tax and surcharge on ₹50,00,000, that is ₹10,80,000, plus the ₹1,29,400 by which the total income exceeds it — ₹12,09,400. The income-tax and surcharge actually computed come to ₹10,87,015, which is below the ceiling, so nothing is given back.

The reason is that ₹6,70,000 of the total income carries 12.5% or 20% rather than 30%, while the ceiling is worked out as though the whole of ₹50,00,000 had been charged at the slab rates. Marginal relief at a threshold is reached only where the income just above it is ordinary income. Problem 9 is such a case; this one is not.

Comparison

Tax payable under the optional rates [section 202(4) exercised]		9,85,630
Tax payable under the default rates [section 202(1)]		11,30,500
The optional regime is cheaper by		**1,44,870**

This is the fullest of the twelve — five heads of income, clubbing under section 99, a set-off within the head of capital gains, a brought-forward business loss, three capital-gain sections, casual income under section 194 and seven deductions out of Chapter VIII. The optional regime is ahead because ₹4,91,400 of exemptions and ₹7,07,000 of deductions are worth more here than the wider slabs.

9.5 The twelve answers on one page

No.	The problem	Total income — optional	Total income — default	Tax — optional	Tax — default	Cheaper
1	Salary, self-occupied house, Chapter VIII basket	₹8,66,600	₹13,29,000	₹89,250	₹82,520	Default
2	House rent allowance, let-out house, interest	₹8,50,100	₹14,69,000	₹85,820	₹1,04,360	Optional
3	Pension and family pension at sixty-six	₹5,94,000	₹8,78,000	₹29,950	₹0	Default
4	Two houses, leave travel concession, three loans	₹10,82,400	₹17,44,800	₹1,42,710	₹1,54,920	Optional
5	Business, and short-term gains under section 196	₹18,45,000	₹20,50,000	₹3,30,720	₹2,19,960	Default
6	Profession, and sections 196, 197 and 198 together	₹32,24,000	₹35,49,000	₹6,00,290	₹4,59,890	Default
7	Land bought before 23 July 2024, and a lottery	₹35,27,600	₹36,80,000	₹4,71,920	₹4,19,900	Default
8	Clubbing, set-off, carry forward, an online game	₹14,35,500	₹18,39,000	₹2,05,560	₹1,78,720	Default
9	The surcharge threshold and marginal relief	₹45,14,800	₹51,05,200	₹12,13,620	₹12,32,610	Optional
10	Above five crore — 37% against 25%	₹5,92,55,000	₹6,00,40,000	₹2,33,74,480	₹2,14,07,910	Default
11	Pension, a profession and a virtual digital asset	₹17,65,900	₹20,48,400	₹3,53,360	₹2,64,950	Default
12	The capstone — every head of income	₹42,19,500	₹51,29,400	₹9,85,630	₹11,30,500	Optional

What the table shows

The default regime is cheaper in eight of the twelve and the optional regime in four. There is no rule of thumb in it. The default regime wins where the exemptions and deductions given up are small — Problems 1, 3, 5, 6, 7, 8 and 11 — and where the surcharge is capped at 25% instead of 37%, as in Problem 10. The optional regime wins where they are large: house rent allowance and a full Chapter VIII basket in Problems 2, 4, 9 and 12.

The comparison has to be made on the figures, and it has to be made afresh every year for a person without income from business or profession, because section 202(4)(b) gives him the choice again each time he files.

Chapter 10

Long, Short and Objective Questions

Twelve long questions · Twenty short questions
Forty objective questions with answers

10.1 Twelve long questions

1. Set out the six steps by which the total income and the tax liability of an individual are arrived at, naming the section that governs each, and explain why the gross total income under section 122(10) is not the same figure as the aggregate of the five heads before the clubbing and set-off provisions have operated.

2. Section 202(1) applies "unless the person exercises the option in the manner provided under sub-section (4)". Explain the consequences of that sentence for a person having income from business or profession and for a person who has none, and set out the twelve clauses of section 202(2)(a) with the provision denied by each.

3. Explain what survives under the default regime, and state the two figures that are larger under it than under the optional rates. Illustrate with a salaried individual whose gross salary is ₹15,00,000, of which the employer's contribution to the notified pension scheme is ₹1,50,000 and the salary for the purposes of section 124 is ₹12,00,000.

4. Explain the two-limb structure of sections 194 to 198, and show by an example why a deduction under Chapter VIII can never reduce the tax on the income described in the first limb.

5. Set out the six entries in the Table to section 194 with their rates and the conditions attached to each, and explain why income from the activity of owning and maintaining race horses is not within entry 1.

6. Compare sections 196, 197 and 198 — the assets they reach, the rates they impose, the securities transaction tax condition, and the treatment of the first ₹1,25,000 under section 198. Explain the effect of sections 196(4), 197(5) and 198(6) on the deductions under Chapter VIII.

7. Explain section 197(3) in full — the four conditions that must be satisfied together, the two computations, the formula E = A – B, and the reason why the capital gain that enters the total income is the unindexed gain even where the tax is computed on the indexed one.

8. Explain the absorption of the unused basic exemption under sections 196(2), 197(2) and 198(3). Who may claim it, against what, and in what order? Illustrate with a resident individual of sixty-two whose only income is a long-term capital gain of ₹7,00,000 on gold and interest of ₹1,40,000.

9. Set out the surcharge rates applicable to an individual under section 202 and under Paragraph F of Part I-B of the First Schedule, explain the ceiling of 15% on the tax on dividend and on the gains under sections 196, 197 and 198, and work the marginal relief formula T = R + S for a total income of ₹1,02,00,000 charged wholly at the slab rates under section 202(1).

10. Explain section 156 in full — the rebate under sub-section (1), the two clauses of sub-section (2), the limit in sub-section (3) and the effect of section 198(7). Show by a table how the rebate under section 156(2)(b) behaves between a total income of ₹12,00,000 and ₹12,80,000, and establish the figure at which it is spent.

11. Set out the order in which the six operations on the tax are performed — the tax on the slices charged at their own rates, the tax at the slab rates, the rebate, the surcharge and marginal relief, the cess and the rounding — and give the authority for each. Explain why the rebate is taken off before the surcharge is added, and why in practice the two never meet.

12. Mr. A and Mr. B are both resident individuals of forty-five with a gross total income of ₹22,00,000 each. Mr. A's income is wholly from a business and he claims no deduction under Chapter VIII. Mr. B's income includes a salary carrying house rent allowance of ₹4,00,000 of which ₹3,20,000 would be exempt, and he claims ₹1,50,000 under section 123, ₹75,000 under section 126 and ₹2,00,000 of interest on a self-occupied house. Compute the liability of each under both regimes and explain the difference.

10.2 Twenty short questions

1. State the two occasions on which section 516 is applied in a computation.
2. Define gross total income, and state where the definition is.
3. What is the maximum amount not chargeable to income-tax for an assessee whose income is chargeable under section 202?
4. State the rate of tax on net winnings from an online game, and the section that imposes it.
5. At what rate is income under sections 102 to 106 charged, and what did the Finance Act, 2026 change?
6. What is the rate under section 196, and on what three classes of asset does it operate?
7. How much of a long-term capital gain under section 198 is not charged at all?
8. State the highest rate of surcharge that an individual taxed under section 202(1) can pay.
9. State the highest rate of surcharge that an individual taxed at the optional rates can pay, and the condition for it.
10. What is the rate of the Health and Education Cess, and on what is it charged?
11. State the rebate under section 156(1) and the total income up to which it is available.
12. State the rebate under section 156(2)(a) and the total income up to which it is available.
13. At what total income is the rebate under section 156(2)(b) exhausted?
14. State the two conditions that must both be satisfied before the rebate under section 156(2)(b) is available.
15. State the four steps of the partial integration of agricultural income under section 3(2) of the Finance Act, 2026.
16. Which sub-clause of section 202(2)(a) denies the interest on a self-occupied house, and what happens to that interest?
17. What is the effect of section 202(3) on a house property loss under the default regime?
18. State the standard deduction against salary under each regime.
19. State the deduction against family pension under each regime.
20. What happens under the default regime to a loss under the head 'Income from house property'?

10.3 Forty objective questions

1. The rate of tax on the slab from ₹20,00,001 to ₹24,00,000 under section 202(1) is
   (a) 20% (b) 25% (c) 30% (d) 15%
2. The maximum amount not chargeable to income-tax for a resident individual of eighty-two who has exercised the option under section 202(4) is
   (a) ₹2,50,000 (b) ₹3,00,000 (c) ₹4,00,000 (d) ₹5,00,000
3. The standard deduction against salary where section 202(1) applies is
   (a) ₹50,000 (b) ₹75,000 (c) ₹1,00,000 (d) Nil
4. The deduction against family pension where section 202(1) applies is one-third or
   (a) ₹15,000 (b) ₹25,000 (c) ₹50,000 (d) ₹75,000
5. The employer's contribution to the notified pension scheme is deducted under section 124(1) up to what percentage of salary where section 202(1) applies?
   (a) 10% (b) 12% (c) 14% (d) 20%
6. Interest on capital borrowed for a self-occupied house is deducted under the default regime to the extent of
   (a) ₹2,00,000 (b) ₹30,000 (c) The whole amount (d) Nil
7. Winnings from a crossword puzzle are charged under section 194 at
   (a) 10% (b) 12.5% (c) 20% (d) 30%
8. Income by way of transfer of carbon credits is charged at
   (a) 10% (b) 12.5% (c) 20% (d) 30%
9. Profits and gains of a life insurance business are charged under section 194 at
   (a) 10% (b) 12.5% (c) 20% (d) 30%
10. Income from the transfer of a virtual digital asset is charged at

(a) 10% (b) 20% (c) 30% (d) 12.5%

11. Against income from the transfer of a virtual digital asset the Act allows
(a) every expenditure (b) the cost of acquisition only (c) the cost of acquisition and improvement (d) nothing at all

12. Income under sections 102 to 106 is charged under section 195 at
(a) 30% (b) 60% (c) 40% (d) 20%

13. Short-term capital gains on which securities transaction tax has been paid are charged under section 196 at
(a) 15% (b) 20% (c) 12.5% (d) 30%

14. Long-term capital gains are charged under section 197 at
(a) 10% (b) 12.5% (c) 20% (d) 15%

15. Under section 198 the long-term capital gain not charged at all is
(a) ₹1,00,000 (b) ₹1,25,000 (c) ₹1,50,000 (d) ₹2,00,000

16. In section 197(3), B is the income-tax computed at
(a) 12.5% without indexation (b) 20% with indexation (c) 20% without indexation (d) 12.5% with indexation

17. The absorption of the unused basic exemption against gains charged under sections 196, 197 and 198 is available to
(a) every assessee (b) a resident individual or Hindu undivided family (c) an individual only (d) a resident of any description

18. Where the gross total income includes gains charged under section 198, the deductions under Chapter VIII are allowed from
(a) the gross total income (b) the gross total income as reduced by those gains (c) the total income (d) the gains alone

19. The surcharge on an individual taxed under section 202 where the total income is ₹1,60,00,000 and there are no capital gains is
(a) 10% (b) 15% (c) 25% (d) 37%

20. The highest rate of surcharge under the default regime is
(a) 15% (b) 25% (c) 37% (d) 10%

21. The highest rate of surcharge under the optional rates is
(a) 15% (b) 25% (c) 37% (d) 10%

22. The surcharge on the tax on dividend income and on the gains under sections 196, 197 and 198 can never exceed
(a) 10% (b) 15% (c) 25% (d) 37%

23. Marginal relief is computed by the formula
(a) T = R − S (b) T = R + S (c) T = R × S (d) T = R ÷ S

24. The Health and Education Cess is charged at
(a) 2% (b) 3% (c) 4% (d) 5%

25. The Health and Education Cess is charged on
(a) the income-tax alone (b) the income-tax and surcharge (c) the total income (d) the surcharge alone

26. The rebate under section 156(1) is the lower of the tax and
(a) ₹2,500 (b) ₹12,500 (c) ₹25,000 (d) ₹60,000

27. The rebate under section 156(2)(a) is available up to a total income of
(a) ₹5,00,000 (b) ₹7,00,000 (c) ₹12,00,000 (d) ₹12,70,588

28. The rebate under section 156(2)(b) is exhausted at a total income of
(a) ₹12,00,000 (b) ₹12,50,000 (c) ₹12,70,588 (d) ₹15,00,000

29. The rebate under section 156 is available to
(a) every assessee (b) a resident individual (c) an individual (d) a resident individual or Hindu undivided family

30. Section 198(7) allows the rebate under section 156 from the income-tax on
(a) the total income (b) the total income as reduced by the tax on the gains under section 198 (c) the gains alone (d) the gross total income

31. Section 155 permits a deduction, from the income-tax on the total income of an assessee, of
(a) any rebate allowed under this Part (b) any relief (c) any surcharge (d) the health and education cess

32. Where the total income of a resident individual taxed under section 202(1) is ₹12,40,000, the rebate under section 156(2)(b) is
(a) Nil (b) ₹26,000 (c) ₹40,000 (d) ₹60,000

33. A loss under the head 'Income from house property' is set off against income under any other head to the extent of
(a) ₹1,50,000 (b) ₹2,00,000 (c) ₹2,50,000 (d) the whole loss

34. Under the default regime a loss under the head 'Income from house property' is
(a) set off up to ₹2,00,000 (b) carried forward for eight tax years (c) neither set off against any other head nor carried forward (d) set off in full

35. A loss from a speculation business is carried forward for
(a) four tax years (b) eight tax years (c) fifteen tax years (d) indefinitely

36. A business loss, other than a speculation loss, is carried forward under section 112 for
(a) four tax years (b) eight tax years (c) ten tax years (d) fifteen tax years

37. The exemption of ₹1,500 for each minor child whose income is clubbed is
(a) available under both regimes (b) denied where section 202(1) applies (c) denied where the option under section 202(4) is exercised (d) ₹1,000 under the default regime

38. Where the net agricultural income exceeds ₹5,000, the figure added to it in computing Yn for a person taxed under section 202(1) is
(a) ₹2,50,000 (b) ₹3,00,000 (c) ₹4,00,000 (d) ₹5,00,000

39. The option under section 202(4) may be exercised afresh every year by
(a) every assessee (b) a person having income from business or profession (c) a person not having income from business or profession (d) no assessee

40. A person having income from business or profession who withdraws the option under section 202(4)
(a) may exercise it again the next year (b) may exercise it again after three years (c) may never exercise it again unless he ceases to have such income (d) must obtain the approval of the Assessing Officer

Answers to the objective questions

1. (b)	2. (d)	3. (b)	4. (b)	5. (c)
6. (d)	7. (d)	8. (a)	9. (b)	10. (c)
11. (b)	12. (a)	13. (b)	14. (b)	15. (b)
16. (b)	17. (b)	18. (b)	19. (b)	20. (b)
21. (c)	22. (b)	23. (b)	24. (c)	25. (b)
26. (b)	27. (c)	28. (c)	29. (b)	30. (b)
31. (a)	32. (b)	33. (b)	34. (c)	35. (a)
36. (b)	37. (b)	38. (c)	39. (c)	40. (c)

Where each answer is worked out

Questions 1 to 6 on the scheme and the regimes — Chapters 1 and 2. Questions 7 to 12 on the rates in sections 194 and 195 — Chapter 3. Questions 13 to 18 on capital gains — Chapter 4. Questions 19 to 25 on the surcharge, marginal relief and the cess — Chapter 5. Questions 26 to 31 on the rebate and the relief — Chapter 6. Questions 32 to 40 on set-off, clubbing and the option — Chapters 1, 2 and 6.