DSC-5.1

# INCOME TAX LAW AND PRACTICE

Two Mock Question Papers, with Solutions

**B.Com. (Hons.) — UGCF**

*Semester V · Unique Paper Code 2412083501*

## TAX YEAR 2026-27

Income-tax Act, 2025 as amended by the Finance Act, 2026, read with the Income-tax Rules, 2026

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## How this booklet is arranged

This booklet carries TWO complete mock question papers for B.Com. (Hons.) — UGCF, and then the full solutions to both. The order is: Set I question paper, Set II question paper, solutions to Set I, solutions to Set II. Each paper is a three-hour paper of ninety marks, in five questions of eighteen marks each, every question in two parts and every question carrying an internal choice — the pattern of the paper actually set by the University on Wednesday, 10 December 2025.

### What the two papers cover

The five questions of each paper take the Units in the order the December 2025 paper took them:

**Question 1** — Unit 1: residential status and the scope of total income, the tax year, agricultural income and the partial integration, the Permanent Account Number.

**Question 2** — Unit 2 Part A: Salaries.

**Question 3** — Unit 3 Part A: Profits and gains of business or profession.

**Question 4** — Unit 2 Part B: Income from house property.

**Question 5** — Unit 3 Part B, Unit 4 and Unit 5: capital gains, income from other sources, clubbing, set-off and carry forward, the deductions of Chapter VIII, and the computation of total income and tax liability.

Set I is the paper released earlier, revised so that its fifth question now draws on Units 4 and 5 as the University's paper does, and so that the sequence of the five questions matches. Set II is a fresh paper on the same pattern. The two together work the whole syllabus twice.

**Note.** Neither paper is a University question paper and neither has any official status. Both are practice papers prepared for revision. Every figure in the solutions has been computed from the Income-tax Act, 2025 as amended by the Finance Act, 2026, read with the Income-tax Rules, 2026, and checked by an arithmetic verifier which implements the provisions a second time and asserts each figure independently.

### Four figures that catch almost everybody

- The standard deduction against salary is ₹75,000 under the default regime of section 202(1) and ₹50,000 under the optional rates [section 19(1), Table, Sl. No. 2].
- Children education allowance is exempt up to ₹3,000 per month per child for two children, and hostel expenditure up to ₹9,000 per month per child — not the ₹100 and ₹300 of the old Rules.
- The motor-car perquisite is ₹5,000 or ₹7,000 per month, with ₹3,000 for a chauffeur — not ₹1,800 or ₹2,400 with ₹900. Free food is not a perquisite at all up to ₹200 per meal.
- The rebate of section 156(2)(a) is ₹60,000 and runs up to a total income of ₹12,00,000 under the default regime; section 156(1) gives ₹12,500 up to ₹5,00,000 under the optional rates.

### Contents

# QUESTION PAPER — SET I

B.Com. (Hons.) — UGCF · Paper M-7351 · Tax Year 2026-27

*[Set I follows the pattern of the paper actually set on Wednesday, 10 December 2025 — five questions of eighteen marks each, every question in two parts and every question carrying an internal choice.]*

Your Roll No. ...............

| | | |
|---|---|---|
| **Sr. No. of Question Paper** | M-7351 | Mock Paper SET I — Tax Year 2026-27 |
| **Unique Paper Code** | 2412083501 | www.taxclasses.in · 9811116835 |
| **Name of the Paper** | Income Tax Law and Practice | Advocate Dr. S. B. Rathore (Ex-SLC) |
| **Name of the Course** | B.Com. (Hons.) — UGCF | |
| **Semester** | V — DSC 5.1 | |
| **Duration** | 3 Hours | Maximum Marks : 90 |

## Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Attempt all questions. Each question has an internal choice.
3. All questions carry two parts. Marks are shown against each part.
4. Use of a simple calculator is allowed.
5. Answers may be written either in English or in Hindi, but the same medium must be used throughout the paper.
6. All questions relate to the TAX YEAR 2026-27 and are to be answered under the INCOME-TAX ACT, 2025 as amended by the Finance Act, 2026, read with the Income-tax Rules, 2026. Section numbers of the repealed Income-tax Act, 1961 will not be accepted.
7. Round off the total income and the tax payable to the nearest multiple of ₹10 as required by section 516.

> **Note.** This is a practice paper prepared for revision. It is not a University question paper and has no official status. The five questions are drawn from Unit 1, Unit 2 Part A, Unit 3 Part A, Unit 2 Part B and Units 3 Part B, 4 and 5 respectively — the order in which the paper actually set on Wednesday, 10 December 2025 took them.

**1. (a)** Dr. Meenakshi Iyer, a person of Indian origin, has been settled in Singapore since 2009. She came to India on 5 October 2026 and left on 28 March 2027. During the four tax years immediately preceding the Tax Year 2026-27 she was in India for 390 days in all. Her income for the Tax Year 2026-27 is as follows: **(12)**

| # | Particulars | ₹ |
|---|---|---|
| 1 | Salary from an Indian company for services rendered in India, received in Singapore | 9,00,000 |
| 2 | Interest on a savings bank account with a bank at Chennai | 45,000 |
| 3 | Profit from a business at Singapore, controlled from Chennai, received at Singapore | 4,20,000 |
| 4 | Profit from a business at Kuala Lumpur, controlled from Kuala Lumpur, received there | 3,50,000 |
| 5 | Rent from a house property at Colombo, received at Colombo | 2,10,000 |
| 6 | Agricultural income from land situated in Nepal, received in Nepal | 1,40,000 |
| 7 | Fees for professional services rendered at Dubai from a profession set up in India, received at Dubai | 1,80,000 |
| 8 | Income earned and received at Singapore in the Tax Year 2023-24, remitted to India during the Tax Year 2026-27 | 5,00,000 |

Determine her residential status for the Tax Year 2026-27 and compute her total income on the assumption that she is (i) resident and ordinarily resident, (ii) resident but not ordinarily resident, and (iii) non-resident.

**(b)** Define "tax year" under section 3 of the Income-tax Act, 2025. Explain how the single concept of a tax year differs from the scheme of "previous year" and "assessment year" under the repealed Act of 1961, and state the position where a business is newly set up during the year. **(6)**

**OR**

**1. (a)** Shri Hari Prasad, aged 62 years and resident in India, has a business income of ₹13,60,000 and net agricultural income of ₹2,40,000 for the Tax Year 2026-27. He deposits ₹1,50,000 in the Public Provident Fund and pays ₹50,000 as health insurance premium. Compute his tax liability (i) under the default regime of section 202 and (ii) under the optional regime, and state which regime is the more beneficial to him. **(12)**

**(b)** State any six transactions in which quoting of the Permanent Account Number is mandatory under Rule 159 of the Income-tax Rules, 2026, together with the monetary limit in each case. Distinguish between the obligation to quote a PAN and the obligation to apply for one. **(6)**

**2. (a)** Shri Ravindra Malhotra is employed with Shakti Cements Ltd. at Delhi. The following are the particulars of his salary for the Tax Year 2026-27: **(12)**

| # | Particulars | Amount |
|---|---|---|
| i | Basic salary | ₹80,000 p.m. |
| ii | Dearness allowance (60% forms part of retirement benefits) | ₹20,000 p.m. |
| iii | Commission at 1% on the turnover achieved of ₹40,00,000 | — |
| iv | House rent allowance (rent actually paid at Delhi ₹30,000 p.m.) | ₹25,000 p.m. |
| v | Children education allowance for three children | ₹4,000 p.m. per child |
| vi | Hostel expenditure allowance for one child | ₹10,000 p.m. |
| vii | Transport allowance | ₹3,000 p.m. |
| viii | Employer's contribution to a recognised provident fund; the employee contributes an equal amount | 16% of basic salary |
| ix | Interest credited to the recognised provident fund at 12% p.a. | ₹1,32,000 |
| x | A 1.8-litre motor car owned by the company with a chauffeur, used partly for official and partly for personal purposes, the company meeting all running and maintenance expenses | — |
| xi | Free lunch in the office at ₹150 per meal on 250 days | — |
| xii | Professional tax paid by him | ₹2,500 |

Compute his income under the head "Salaries" for the Tax Year 2026-27 under the optional regime.

**(b)** Explain the computation of the exemption in respect of house rent allowance under Schedule III (Sl. No. 11) read with Rule 279. State also the basis on which rent-free accommodation owned by the employer is valued under Rule 15(2). **(6)**

**OR**

**2. (a)** Shri Jagdish Chandra retired from Bharat Textiles Ltd. on 31 December 2026 after 29 years and 7 months of service. He is not covered by the Payment of Gratuity Act, 1972. His basic salary was ₹60,000 p.m. and dearness allowance ₹12,000 p.m., 50% of which forms part of retirement benefits; both had been at these rates for the last ten months of his service. On retirement he received: **(12)**

| # | Particulars | ₹ |
|---|---|---|
| i | Gratuity | 18,00,000 |
| ii | Leave salary for 240 days of unavailed leave. He was entitled to 35 days' leave for each completed year of service and had availed 400 days during his service | 7,20,000 |
| iii | Commuted value of 60% of his pension | 9,00,000 |
| iv | Uncommuted pension from 1 January 2027 | ₹16,000 p.m. |

Compute his income under the head "Salaries" for the Tax Year 2026-27 under the optional regime.

**(b)** Discuss the tax treatment of the employer's contribution to, and of the interest credited on, a recognised provident fund. State the two ceilings that apply to an employer's contributions to retirement funds. **(6)**

**3. (a)** The following is the Profit and Loss Account of Shri Mahesh Agarwal, a wholesale trader, for the year ended 31 March 2027: **(12)**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| Opening stock | 4,20,000 | Sales | 62,00,000 |
| Purchases | 32,50,000 | Closing stock | 5,60,000 |
| Salaries and wages | 8,40,000 | Dividend from an Indian company | 1,20,000 |
| Rent, rates and taxes | 2,60,000 | Interest on Government securities | 45,000 |
| Repairs | 1,15,000 | Recovery of a bad debt allowed earlier | 75,000 |
| Advertisement | 1,90,000 | Rent from house property | 2,60,000 |
| Interest | 2,25,000 | | |
| Depreciation | 3,60,000 | | |
| Bad debts written off | 90,000 | | |
| Provision for bad debts | 60,000 | | |
| Donation to the Prime Minister's National Relief Fund | 1,00,000 | | |
| General expenses | 2,10,000 | | |
| Net profit | 11,40,000 | | |
| | 72,60,000 | | 72,60,000 |

**Additional information:**

- Salaries and wages include ₹1,80,000 paid to his brother, which is excessive to the extent of ₹60,000 having regard to the fair market value of the services rendered.
- Rent, rates and taxes include ₹40,000 of municipal tax on the let-out house property and ₹25,000 of income-tax paid.
- Advertisement includes ₹50,000 paid in cash on a single day to one person.
- Interest includes ₹75,000 on capital borrowed for the acquisition of a machine which had not been put to use till 31 March 2027.
- Depreciation allowable under section 33 is ₹2,85,000.
- General expenses include ₹35,000 paid as a penalty for the infringement of a municipal by-law.
- The closing stock has been valued at 20% below cost; the opening stock is at cost.
- Sales do not include ₹1,20,000 of goods delivered in March 2027 for which the invoice was raised in April 2027.

Compute his income under the head "Profits and gains of business or profession" for the Tax Year 2026-27.

**(b)** Section 34(1) is the general deduction under the head "Profits and gains of business or profession". State the five conditions an expenditure must satisfy to be allowed under it, and give three examples of expenditure expressly disallowed by sections 35 and 36. **(6)**

**OR**

**3. (a)** Shri Karan Ahuja, a resident individual, does not maintain books of account and wishes to be assessed on a presumptive basis for the Tax Year 2026-27. His turnover from a retail trading business is ₹1,00,00,000, of which ₹96,00,000 was received through banking channels and ₹4,00,000 in cash. He also owns six goods carriages throughout the year — four light goods vehicles and two heavy goods vehicles of 15 tonnes gross vehicle weight each. Compute his income under section 58, stating the conditions and the turnover limits, and state whether he is required to get his accounts audited under section 63. **(12)**

**(b)** Explain the provisions of section 37 relating to deductions allowed only on actual payment. Which sums are covered, what is the extension given by sub-section (3), and which clause does that extension not reach? **(6)**

**4. (a)** Smt. Anuradha Deshmukh owns three house properties. The particulars for the Tax Year 2026-27 are as follows: **(12)**

| Particulars | House I — Nagpur (let out) | House II — Pune (self-occupied) | House III — Indore (self-occupied) |
|---|---|---|---|
| Municipal value | ₹3,60,000 | ₹5,00,000 | ₹2,80,000 |
| Fair rent | ₹4,20,000 | — | ₹3,20,000 |
| Standard rent | ₹3,90,000 | — | — |
| Actual rent | ₹38,000 p.m. | — | — |
| Vacancy | 2 months | — | — |
| Unrealised rent (conditions of Rule 21 satisfied) | 1 month | — | — |
| Municipal taxes levied | ₹36,000 | — | ₹28,000 |
| Municipal taxes paid during the year | 75% by her, the balance by the tenant | — | ₹28,000 by her |
| Interest on borrowed capital for the year | ₹1,80,000 | ₹2,40,000 | ₹45,000 (loan taken for repairs) |

House II was constructed with a loan of ₹25,00,000 taken on 1 July 2022; construction was completed on 15 August 2025. The interest for the period up to 31 March 2025 amounted to ₹6,00,000.

Compute her income under the head "Income from house property" for the Tax Year 2026-27 under the optional regime, choosing the option most beneficial to her. State also how much of any loss may be set off against her other income.

**(b)** Explain the deduction for interest on borrowed capital under section 22, including pre-construction interest and the ceilings applicable to a self-occupied house. State the position under the default regime of section 202. **(6)**

**OR**

**4. (a)** Shri Deepak Saxena and his brother Shri Vinod Saxena own a building at Lucknow in the ratio 3 : 2, their shares being definite and ascertainable. The particulars for the Tax Year 2026-27 are: municipal value ₹6,00,000; fair rent ₹7,20,000; standard rent ₹6,60,000. The building is let out at ₹60,000 p.m., of which ₹8,000 p.m. is towards furniture and amenities. Municipal taxes levied were ₹60,000, of which ₹45,000 was paid during the year. Interest on a loan taken for construction was ₹2,70,000. Arrears of rent of an earlier year received during the year amounted to ₹1,20,000, and unrealised rent of the Tax Year 2023-24 (allowed as a deduction in that year) recovered during the year amounted to ₹80,000. They also paid repairs ₹35,000, insurance ₹12,000 and collection charges ₹9,000. Compute the income of each co-owner under the head "Income from house property". **(12)**

**(b)** Who is the "owner" of a house property for the purposes of section 20? Explain the concept of deemed ownership under section 25 with suitable examples. **(6)**

**5. (a)** Shri Naresh Kumar Bhatia, a resident individual aged 45 years, has not exercised the option under section 202(4). His particulars for the Tax Year 2026-27 are: **(12)**

- A residential house at Jaipur, purchased in June 2012 for ₹18,00,000, sold on 10 September 2026 for ₹82,00,000. Brokerage at 1% of the sale price was paid. He purchased another residential house at Jaipur for ₹40,00,000 on 5 January 2027 and owns no other house.
- 4,000 listed equity shares of ABC Ltd., purchased on 12 May 2016 at ₹150 each, sold on 20 November 2026 at ₹640 each through a recognised stock exchange, securities transaction tax paid. The fair market value as on 31 January 2018 was ₹300 per share.
- Gold jewellery purchased in August 2023 for ₹6,00,000, sold on 5 February 2027 for ₹9,50,000.
- Listed equity shares purchased on 10 June 2026 for ₹5,00,000 and sold on 15 March 2027 for ₹7,20,000 through a recognised stock exchange, securities transaction tax paid.
- Income from a proprietary business ₹4,00,000, and interest on a savings bank account with a nationalised bank ₹22,000.
- Winnings from a television game show, ₹1,40,000 received after deduction of tax at source at 30%.
- Interest of ₹40,000 earned by his minor son on a fixed deposit made out of a gift received from the boy's grandfather. Shri Bhatia's total income is greater than that of his wife.

  Cost Inflation Index: 2012-13 = 200; 2026-27 = 384. Compute his total income and his tax liability for the Tax Year 2026-27 under the default regime of section 202.

**(b)** Explain the exemption available under section 82 on the transfer of a residential house. State the conditions, the time limits, and the part played by the Capital Gains Account Scheme under section 89. **(6)**

**OR**

**5. (a)** Shri Anil Khanna, a resident individual aged 50 years, has exercised the option under section 202(4). His particulars for the Tax Year 2026-27 are: **(12)**

- A plot of land at Faridabad, purchased in November 2012 for ₹12,50,000, sold on 18 August 2026 for ₹52,00,000. On 10 December 2026 he invested ₹15,00,000 in bonds of the National Highways Authority of India.
- 1,000 bonus shares of Sunrise Ltd., a listed company, allotted to him on 5 July 2021, sold on 12 January 2027 at ₹520 each through a recognised stock exchange, securities transaction tax paid.
- Agricultural land situated 3 kilometres from the limits of a municipality having a population of 3,00,000 according to the last published census, purchased in September 2014 for ₹9,00,000 and sold in October 2026 for ₹22,00,000.
- Interest on bank fixed deposits ₹6,20,000 and interest on a savings bank account ₹14,000.
- He deposited ₹1,50,000 in the Public Provident Fund, paid ₹31,000 as health insurance premium for himself and his family and ₹42,000 for his parents aged 71 and 68, all by cheque, and donated ₹50,000 by cheque to the Prime Minister's National Relief Fund.

  Cost Inflation Index: 2012-13 = 200; 2014-15 = 240; 2026-27 = 384. Compute his total income and his tax liability for the Tax Year 2026-27.

**(b)** Explain the clubbing of a minor child's income under section 99(1)(c). State the three cases in which it does not apply, which parent is charged, and the extent of the exclusion under Schedule III (Table: Sl. No. 17). State whether that exclusion survives under the default regime. **(6)**

**— END OF THE QUESTION PAPER —**

# QUESTION PAPER — SET II

B.Com. (Hons.) — UGCF · Paper M-7352 · Tax Year 2026-27

*[Set II follows the same pattern as Set I. The two papers together cover the whole of the syllabus of DSC-5.1 twice over.]*

Your Roll No. ................

| | | |
|---|---|---|
| **Sr. No. of Question Paper** | M-7352 | Mock Paper SET II — Tax Year 2026-27 |
| **Unique Paper Code** | 2412083501 | www.taxclasses.in · 9811116835 |
| **Name of the Paper** | Income Tax Law and Practice | Advocate Dr. S. B. Rathore (Ex-SLC) |
| **Name of the Course** | B.Com. (Hons.) — UGCF | |
| **Semester** | V — DSC 5.1 | |
| **Duration** | 3 Hours | Maximum Marks : 90 |

## Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Attempt all questions. Each question has an internal choice.
3. All questions carry two parts. Marks are shown against each part.
4. Use of a simple calculator is allowed.
5. Answers may be written either in English or in Hindi, but the same medium must be used throughout the paper.
6. All questions relate to the TAX YEAR 2026-27 and are to be answered under the INCOME-TAX ACT, 2025 as amended by the Finance Act, 2026, read with the Income-tax Rules, 2026. Section numbers of the repealed Income-tax Act, 1961 will not be accepted.
7. Round off the total income and the tax payable to the nearest multiple of ₹10 as required by section 516.

> **Note.** This is a practice paper prepared for revision. It is not a University question paper and has no official status. The five questions are drawn from Unit 1, Unit 2 Part A, Unit 3 Part A, Unit 2 Part B and Units 3 Part B, 4 and 5 respectively — the order in which the paper actually set on Wednesday, 10 December 2025 took them.

**1. (a)** Shri Vikram Sethi, a citizen of India, had never left India until he went to Muscat on 12 August 2026 to take up employment there. He did not return during the Tax Year 2026-27. He is not liable to tax in Oman. His income for the Tax Year 2026-27 is as follows: **(12)**

| # | Particulars | ₹ |
|---|---|---|
| 1 | Salary for services rendered at Muscat, received at Muscat | 18,00,000 |
| 2 | Salary from the Government of India for services rendered at Muscat | 4,20,000 |
| 3 | Interest on a fixed deposit with a bank at Mumbai | 90,000 |
| 4 | Profit from a business at Dubai, controlled from Mumbai, received at Dubai | 3,60,000 |
| 5 | Profit from a business at Muscat, controlled from Muscat, received at Muscat | 2,40,000 |
| 6 | Dividend from a company incorporated outside India, received at London | 1,50,000 |
| 7 | Income from a house property at Pune (computed) | 2,80,000 |
| 8 | Untaxed foreign income of the Tax Year 2022-23 brought into India during the Tax Year 2026-27 | 4,00,000 |

Determine his residential status for the Tax Year 2026-27 and compute his total income on the assumption that he is (i) resident and ordinarily resident, (ii) resident but not ordinarily resident, and (iii) non-resident.

**(b)** State any six incomes which are deemed to accrue or arise in India under section 9. Explain the position of salary paid by the Government of India to a citizen of India for services rendered outside India, and of a dividend declared by an Indian company and paid outside India. **(6)**

**OR**

**1. (a)** Smt. Padmini Ravi, aged 68 years and resident in India, has income from a profession of ₹11,20,000 and net agricultural income of ₹3,60,000 for the Tax Year 2026-27. She contributes ₹1,20,000 to the Public Provident Fund, pays ₹46,000 as health insurance premium for herself, and donates ₹40,000 by cheque to the Prime Minister's National Relief Fund. Compute her tax liability (i) under the default regime of section 202 and (ii) under the optional regime, and state which regime is the more beneficial to her. **(12)**

**(b)** Explain the residential status of a Hindu undivided family, a firm and a company under section 6. State when a company is said to have its place of effective management in India, and when a Hindu undivided family is said to be not ordinarily resident. **(6)**

**2. (a)** Smt. Ritika Nambiar is employed with Konkan Chemicals Ltd. at Mumbai, the population of which exceeded 40 lakh according to the 2011 census. The following are her particulars for the Tax Year 2026-27: **(12)**

| # | Particulars | Amount |
|---|---|---|
| i | Basic salary | ₹70,000 p.m. |
| ii | Dearness allowance (forming part of retirement benefits) | ₹14,000 p.m. |
| iii | Bonus | ₹1,40,000 |
| iv | Commission at 2% on the turnover achieved of ₹25,00,000 | — |
| v | Rent-free accommodation owned by the employer, furnished with furniture costing ₹4,00,000; she pays nothing for it | — |
| vi | A domestic servant engaged by her, whose wages of ₹5,000 p.m. are reimbursed by the employer | — |
| vii | Free education for her two children in a school maintained by the employer, the cost in a similar school being ₹4,500 p.m. per child | — |
| viii | Employer's contribution to a recognised provident fund; she contributes an equal amount | 15% of basic salary |
| ix | Interest credited to the recognised provident fund at 11.5% p.a. | ₹1,15,000 |
| x | Leave travel concession for a journey to Manali by air-conditioned first class rail, the whole of it spent on the journey; she has claimed no concession in the current block | ₹60,000 |
| xi | Professional tax paid by her | ₹2,500 |

Compute her income under the head "Salaries" for the Tax Year 2026-27 under the optional regime.

**(b)** Explain the valuation of rent-free accommodation under Rule 15(2) where it is (i) owned by the employer, (ii) taken on lease or rent by the employer and (iii) provided in a hotel. State the three population slabs and the rate applicable to each, and the manner in which furniture is valued. **(6)**

**OR**

**2. (a)** Shri Prem Kumar Saluja retired from Deccan Engineering Ltd. on 30 November 2026 after 26 years and 8 months of service. He is covered by the Payment of Gratuity Act, 1972. His basic salary was ₹52,000 p.m. and dearness allowance ₹26,000 p.m., 40% of which forms part of retirement benefits; both had been at these rates for the last two years of his service. On retirement he received: **(12)**

| # | Particulars | ₹ |
|---|---|---|
| i | Gratuity | 16,00,000 |
| ii | Leave salary for 300 days of unavailed leave. He was entitled to 30 days' leave for each completed year of service and had availed 480 days during his service | 8,40,000 |
| iii | Commuted value of 40% of his pension | 7,20,000 |
| iv | Uncommuted pension from 1 December 2026 | ₹18,000 p.m. |

He paid professional tax of ₹2,400 during the year. Compute his income under the head "Salaries" for the Tax Year 2026-27 under the optional regime.

**(b)** Distinguish between the exemption for gratuity at Sl. No. 5 and that at Sl. No. 6 of the Table to section 19(1). State, for each, who is covered, what is taken as salary or wages, how a part of a year is treated, and what the lifetime ceiling is. **(6)**

**3. (a)** The following is the Profit and Loss Account of Shri Vinay Kulkarni, a manufacturer, for the year ended 31 March 2027: **(12)**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| Opening stock | 5,50,000 | Sales | 78,00,000 |
| Purchases | 41,20,000 | Closing stock | 6,40,000 |
| Wages and salaries | 9,80,000 | Interest on an income-tax refund | 25,000 |
| Office and administrative expenses | 3,15,000 | Rent from a residential flat let out by him | 2,40,000 |
| Rent, rates and taxes | 2,40,000 | Gift received from a friend on his birthday | 1,00,000 |
| Repairs to machinery | 1,25,000 | Bad debt of an earlier year recovered | 65,000 |
| Interest on the proprietor's own capital | 1,50,000 | | |
| Depreciation | 4,20,000 | | |
| Bad debts written off | 70,000 | | |
| Reserve for future losses | 80,000 | | |
| Advertisement in a souvenir of a political party | 60,000 | | |
| Contribution to an approved scientific research association | 1,00,000 | | |
| Legal expenses | 85,000 | | |
| Net profit | 15,75,000 | | |
| | 88,70,000 | | 88,70,000 |

**Additional information:**

- Wages and salaries include ₹1,20,000 paid in cash on a single day to one contractor.
- Rent, rates and taxes include ₹90,000 of advance income-tax paid.
- Depreciation allowable under section 33 is ₹3,45,000.
- Legal expenses include ₹30,000 spent in defending a prosecution for an offence of adulteration.
- Office and administrative expenses include ₹45,000 deducted from the salaries of employees as their contribution to the provident fund and deposited on 15 May 2027, after the due date under the relevant Act.
- The contribution to the scientific research association is allowable in full under section 45.
- The closing stock is valued at cost; the opening stock had been valued at 10% above cost.

Compute his income under the head "Profits and gains of business or profession" for the Tax Year 2026-27.

**(b)** Explain the provisions of section 33 relating to depreciation. State the meaning of a block of assets, the effect of an asset being put to use for less than 180 days in the year, the conditions for additional depreciation, and the treatment of unabsorbed depreciation under section 33(11). **(6)**

**OR**

**3. (a)** Dr. Sunita Bhargava, a medical practitioner, furnishes the following Receipts and Payments Account for the year ended 31 March 2027: **(12)**

| Receipts | ₹ | Payments | ₹ |
|---|---|---|---|
| Balance b/d | 1,20,000 | Clinic rent | 3,60,000 |
| Consultation fees | 24,60,000 | Salary to staff | 5,40,000 |

| Receipts | ₹ | Payments | ₹ |
|---|---|---|---|
| Visiting fees | 6,40,000 | Purchase of medicines | 5,80,000 |
| Sale of medicines | 8,90,000 | Surgical equipment purchased on 15 May 2026 | 4,00,000 |
| Gifts from patients | 70,000 | Motor car purchased on 10 December 2026 | 9,00,000 |
| Interest on a Post Office savings account | 22,000 | Motor car expenses | 1,80,000 |
| Dividend from an Indian company | 45,000 | Household expenses | 4,20,000 |
| | | Life insurance premium | 90,000 |
| | | Income-tax paid | 1,10,000 |
| | | Books of a professional nature (annual publications) | 40,000 |
| | | Telephone and internet | 66,000 |
| | | Balance c/d | 5,61,000 |
| | 42,47,000 | | 42,47,000 |



**Additional information:** one-third of the use of the motor car is personal; the closing stock of medicines is ₹1,20,000 and there was no opening stock; the rates of depreciation are 15% on the surgical equipment, 15% on the motor car and 40% on annual publications. Compute her income under the head "Profits and gains of business or profession" for the Tax Year 2026-27.

**(b)** State the books of account which a person carrying on a specified profession is required to maintain under section 62 read with Rule 24, and the limits of income and turnover at which section 63 requires the accounts to be audited. **(6)**

**4. (a)** Shri Girish Pandit owns three house properties. The particulars for the Tax Year 2026-27 are as follows: **(12)**

| Particulars | House I — Kanpur (let out) | House II — Dehradun (self-occupied) | House III — Shimla (let out) |
|---|---|---|---|
| Municipal value | ₹4,80,000 | ₹3,60,000 | ₹2,40,000 |
| Fair rent | ₹5,40,000 | — | ₹2,88,000 |
| Standard rent | ₹5,10,000 | — | — |
| Actual rent | ₹52,000 p.m. | — | ₹20,000 p.m. |
| Vacancy | 2 months | — | — |
| Unrealised rent (conditions of Rule 21 satisfied) | 1 month | — | — |
| Municipal taxes levied | ₹48,000 | — | ₹24,000 |
| Municipal taxes paid by him during the year | ₹36,000 | — | ₹24,000 |
| Interest on borrowed capital for the year | ₹2,10,000 | ₹1,90,000 | ₹60,000 |

The loan on House II was taken on 1 October 2021 for its construction, which was completed on 20 June 2025. The interest for the period up to 31 March 2025 amounted to ₹4,50,000. House III is let out to a firm for use as a guest house.

Compute his income under the head "Income from house property" for the Tax Year 2026-27 under the optional regime.

**(b)** Explain sections 21(6) and 21(7). What is the annual value of a self-occupied house, how many houses may be treated as self-occupied, and what becomes of the rest? State the position of a house which the owner could not occupy because his employment is at another place. **(6)**

**OR**

**4. (a)** Smt. Lalita Menon owns a house at Chennai consisting of two identical residential units. Unit 1 was occupied by her for her own residence throughout the year. Unit 2 was let out at ₹30,000 per month from 1 April 2026 to 31 December 2026 and remained vacant for the rest of the year. The particulars of the whole house for the Tax Year 2026-27 are: municipal value ₹6,00,000; fair rent ₹7,20,000; standard rent ₹6,60,000; municipal taxes paid by her ₹60,000; interest for the year on capital borrowed on 1 May 2019 for the purchase of the house ₹3,20,000. She also received ₹90,000 during the year as arrears of rent of an earlier year in respect of Unit 2. Compute her income under the head "Income from house property" for the Tax Year 2026-27 under the optional regime, and state the extent to which any loss may be set off against her other income. **(12)**

**(b)** Explain the treatment of unrealised rent and of arrears of rent under section 23. State the four conditions of Rule 21, and whether it matters that the person receiving the arrears still owns the property. **(6)**

**5. (a)** Shri Yashpal Bhatnagar, a resident individual aged 58 years, has exercised the option under section 202(4). His particulars for the Tax Year 2026-27 are: **(12)**

- A plot of land at Ludhiana, purchased in May 2014 for ₹16,00,000, sold on 12 October 2026 for ₹58,00,000, brokerage at 2% of the sale price being paid. On 20 February 2027 he invested ₹12,00,000 in bonds of the Rural Electrification Corporation Ltd.
- 3,000 listed equity shares of Nova Ltd., purchased on 14 September 2025 at ₹280 each, sold on 6 March 2027 at ₹410 each through a recognised stock exchange, securities transaction tax paid.
- Income from a proprietary business ₹8,40,000; interest on a savings bank account ₹16,000; interest on bank fixed deposits ₹1,40,000.
- His minor daughter earned ₹60,000 as interest on a fixed deposit made out of a gift from her uncle, and ₹1,20,000 from a stage performance given by her. Shri Bhatnagar's total income is greater than that of his wife.
- He deposited ₹1,50,000 in the Public Provident Fund; paid, by cheque, ₹28,000 as health insurance premium for himself and his family and ₹52,000 for his parents aged 74 and 72; and paid ₹1,20,000 as interest on a loan taken from a bank for the higher education of his son.

Cost Inflation Index: 2014-15 = 240; 2026-27 = 384. Compute his total income and his tax liability for the Tax Year 2026-27.

**(b)** Explain the deduction under section 126 in respect of health insurance premia. State the four monetary limits, the treatment of a preventive health check-up, the mode of payment required by section 126(9), and the position of a senior citizen who has no insurance but incurs medical expenditure. **(6)**

**OR**

**5. (a)** Shri Devendra Nair, a resident individual aged 63 years, has not exercised the option under section 202(4). The following are his particulars for the Tax Year 2026-27: **(12)**

| # | Particulars | ₹ |
|---|---|---|
| 1 | Income from a business of manufacturing garments | 9,60,000 |
| 2 | Loss from a speculation business | (1,80,000) |
| 3 | Loss from the activity of owning and maintaining race horses | (90,000) |
| 4 | Income from a let-out shop, computed under the head "Income from house property" | 2,40,000 |
| 5 | Interest on capital borrowed for his self-occupied house | (1,90,000) |
| 6 | Short-term capital loss on the sale of unlisted shares | (1,20,000) |
| 7 | Long-term capital gain on the sale of gold jewellery | 4,60,000 |
| 8 | Winnings from a lottery, received after deduction of tax at source at 30% | 2,80,000 |
| 9 | Interest on a savings bank account | 18,000 |
| 10 | Business loss of the Tax Year 2023-24 brought forward, the return for that year having been filed in time | (1,40,000) |

He deposited ₹1,50,000 in the Public Provident Fund and paid ₹40,000 as health insurance premium. Compute his total income and his tax liability for the Tax Year 2026-27, and state the losses to be carried forward and the years for which they may be carried.

**(b)** Explain the order in which losses are set off under sections 108 and 109. State which losses may be carried forward under sections 110 to 115, for how many years, and against what they may then be set off. **(6)**

**— END OF THE QUESTION PAPER —**

# SOLUTIONS — SET I

B.Com. (Hons.) — UGCF · Paper M-7351 · Tax Year 2026-27

# SOLUTIONS

B.Com. (Hons.) — DSC 5.1 · Mock Paper SET I · Paper M-7351 · Tax Year 2026-27

**Before you compare your answer**

Every figure below has been computed from the Income-tax Act, 2025 as amended by the Finance Act, 2026, read with the Income-tax Rules, 2026, and checked by an arithmetic verifier. Where a figure of yours differs, find the step at which it began to differ rather than changing the final answer.

Four figures in the Rules of 2026 differ sharply from the old Rules and catch almost everybody: children education allowance is now exempt up to ₹3,000 per month per child for two children (it was ₹100); hostel expenditure up to ₹9,000 per month per child (it was ₹300); the motor-car perquisite is ₹5,000 or ₹7,000 per month with ₹3,000 for a chauffeur (it was ₹1,800 or ₹2,400 with ₹900); and free food is not a perquisite at all up to ₹200 per meal (it was ₹50).

## Question 1 (a) — residential status and scope of total income

### Step 1 — count the days

5 to 31 October 27 + November 30 + December 31 + January 31 + February 28 + 1 to 28 March 28 = 175 days.

### Step 2 — is she resident? [section 6]

Section 6(2)(a) fails: 175 days is less than 182. She is a person of Indian origin who, being outside India, came on a visit, so section 6(4) would switch off the 60-day test — unless her income other than income from foreign sources exceeds ₹15,00,000.

"Income from foreign sources" [section 6(14)] excludes income derived from a business controlled in, or a profession set up in, India. So her income other than income from foreign sources is ₹9,00,000 + ₹45,000 + ₹4,20,000 + ₹1,80,000 = ₹15,45,000, which exceeds ₹15,00,000.

Section 6(5) therefore substitutes "120 days" for "60 days" in section 6(2)(b). She was in India for 175 days (120 or more) and for 390 days in the four preceding years (365 or more). Both limbs are satisfied — she is RESIDENT.

### Step 3 — ordinarily resident or not? [section 6(13)(b)]

She is a person of Indian origin, her income other than foreign-source income exceeds ₹15,00,000, and her stay was 120 days or more but less than 182 days. She is therefore RESIDENT BUT NOT ORDINARILY RESIDENT for the Tax Year 2026-27.

### Step 4 — the computation of total income [section 5]

| # | Particulars | ROR (₹) | RNOR (₹) | NR (₹) |
|---|---|---|---|---|
| 1 | Salary for services rendered in India — Indian income, it accrues in India; the place of receipt is irrelevant | 9,00,000 | 9,00,000 | 9,00,000 |
| 2 | Interest on a savings bank account at Chennai — Indian income | 45,000 | 45,000 | 45,000 |
| 3 | Business at Singapore controlled from Chennai — foreign income from a business controlled in India | 4,20,000 | 4,20,000 | Nil |
| 4 | Business at Kuala Lumpur controlled from abroad | 3,50,000 | Nil | Nil |
| 5 | Rent from a house at Colombo, received there | 2,10,000 | Nil | Nil |
| 6 | Agricultural income from land in Nepal — not exempt, because section 2(5) requires the land to be in India | 1,40,000 | Nil | Nil |
| 7 | Fees for services at Dubai from a profession set up in India | 1,80,000 | 1,80,000 | Nil |

| # | Particulars | ROR (₹) | RNOR (₹) | NR (₹) |
|---|---|---|---|---|
| 8 | Income of the Tax Year 2023-24 merely remitted to India — a remittance is not income | Nil | Nil | Nil |
| | TOTAL INCOME | 22,45,000 | 15,45,000 | 9,45,000 |

> Her actual status is RNOR, so her total income for the Tax Year 2026-27 is ₹15,45,000. The other two columns are asked for by way of contrast and must still be shown.

## Question 1 (b) — tax year [section 3]

- Section 3(1): "tax year" means the twelve months period of the financial year commencing on the 1st April.
- Section 3(2): where a business or profession is newly set up, or a source of income newly comes into existence, in any financial year, the tax year for that source begins on the date of setting up or of coming into existence and ends with that financial year. It is therefore shorter than twelve months in the first year, and can never be longer.
- Under the 1961 Act two labels had to be carried at once — the previous year in which the income was earned [section 3] and the assessment year in which it was assessed [section 2(9)]. The 2025 Act abolishes both. Income of 1 April 2026 to 31 March 2027 belongs to the Tax Year 2026-27, is taxed at Tax Year 2026-27 rates, and the return relating to it is the Tax Year 2026-27 return. There is no Assessment Year 2027-28.
- "Financial year" survives in the Act, the Rules and on the portal for due dates, advance tax and TDS statements; it takes its meaning from the General Clauses Act, 1897.

## Question 1 (a) OR — partial integration and the choice of regime

### Do the conditions for aggregation apply?

Net agricultural income of ₹2,40,000 exceeds ₹5,000, and the non-agricultural income exceeds the maximum amount not chargeable to tax. He is an individual. Section 3(2) of the Finance Act, 2026 therefore applies under both regimes.

### (i) Under the default regime — section 202

| | | |
|---|---|---|
| **Step 1 — tax on ₹13,60,000 + ₹2,40,000 = ₹16,00,000** | | |
| Nil up to ₹4,00,000; ₹4,00,000 @ 5% | | 20,000 |
| ₹4,00,000 @ 10% | | 40,000 |
| ₹4,00,000 @ 15% | | 60,000 |
| Tax at Step 1 | | 1,20,000 |
| **Step 2 — tax on ₹2,40,000 + ₹4,00,000 = ₹6,40,000** | | |
| Nil up to ₹4,00,000; ₹2,40,000 @ 5% | | 12,000 |
| **Step 3 — tax on the non-agricultural income (₹1,20,000 – ₹12,000)** | | **1,08,000** |
| Rebate under section 156(2)(a) — not available, total income exceeds ₹12,00,000 | | Nil |
| Add: health and education cess @ 4% | | 4,320 |
| **TAX PAYABLE (rounded off under section 516)** | | **1,12,320** |

### (ii) Under the optional regime

Being a resident aged 62, his basic exemption is ₹3,00,000. The deposit of ₹1,50,000 in the Public Provident Fund qualifies under section 123 and the health insurance premium of ₹50,000 under section 126, so his total income is ₹13,60,000 – ₹2,00,000 = ₹11,60,000.

| **Step 1 — tax on ₹11,60,000 + ₹2,40,000 = ₹14,00,000** | | |
|---|---|---|
| Nil up to ₹3,00,000; ₹2,00,000 @ 5% | | 10,000 |
| ₹5,00,000 @ 20% | | 1,00,000 |
| ₹4,00,000 @ 30% | | 1,20,000 |
| Tax at Step 1 | | 2,30,000 |
| Step 2 — tax on ₹2,40,000 + ₹3,00,000 = ₹5,40,000 | | 18,000 |
| **Step 3 — tax on the non-agricultural income** | | **2,12,000** |
| Add: health and education cess @ 4% | | 8,480 |
| **TAX PAYABLE** | | **2,20,480** |

**Advice**

The default regime costs him ₹1,12,320 and the optional regime ₹2,20,480. He should stay in the default regime and save ₹1,08,160. Because he has business income, section 202(4) requires that any option to move out be exercised on or before the due date under section 263(1), that it then governs later years, and that it may be withdrawn only once — after which he can never opt out again while he continues to have business income.

## Question 1 (b) OR — the Permanent Account Number [Rule 159]

### Six transactions in which quoting a PAN is mandatory

| # | Transaction | Monetary limit |
|---|---|---|
| 1 | Sale or purchase of a motor vehicle, other than a two-wheeler | Any amount |
| 2 | Opening an account with a banking company or a co-operative bank | Any amount, other than a Basic Savings Bank Deposit Account |
| 3 | Applying for the issue of a credit card or a debit card | Any amount |
| 4 | A time deposit with a bank, a post office or a non-banking financial company | Above ₹50,000 at a time, or above ₹5,00,000 in the year in the aggregate |
| 5 | Payment to a hotel or a restaurant against a bill, or in connection with foreign travel | Above ₹50,000 at a time |
| 6 | Sale or purchase of immovable property | ₹10,00,000 or more, or a stamp duty value of ₹10,00,000 or more |

Others in the Rule: the purchase of a bank draft or pay order for more than ₹50,000 in a day; a life insurance premium above ₹50,000 in the year; the sale or purchase of securities above ₹1,00,000; and the sale or purchase of goods or services above ₹2,00,000.

### Quoting a PAN and applying for one are different obligations

- The obligation to APPLY arises from the person's own position — total income above the maximum amount not chargeable to tax, a business or profession with turnover or gross receipts above ₹5,00,000, a person required to furnish a return, and the other cases in the section. It is an obligation owed once, and it is discharged by making the application in Form 49A within the prescribed time.
- The obligation to QUOTE arises from the TRANSACTION, not from the person. A person with no income at all who buys a car must quote a PAN, and if he has none he must furnish a declaration in Form No. 60.
- The person receiving the document — the bank, the registrar, the hotel — carries a parallel obligation to verify that the number has been quoted and to quote it in the statement he files.

## Question 2 (a) — income from salaries

### Working 1 — "salary" for house rent allowance [Rule 279]

Basic ₹9,60,000 + dearness allowance forming part of retirement benefits (60% of ₹2,40,000) ₹1,44,000 + commission at a fixed percentage of turnover ₹40,000 = ₹11,44,000.

### Exemption for house rent allowance — least of the three

| | | |
|---|---|---|
| Actual house rent allowance received (₹25,000 × 12) | | 3,00,000 |
| 50% of salary, Delhi being a specified city | | 5,72,000 |
| **Rent paid ₹3,60,000 less 10% of salary ₹1,14,400** | | **2,45,600** |
| Exempt — the least | | 2,45,600 |
| **Taxable house rent allowance** | | **54,400** |

### Working 2 — the other items

- Children education allowance: received ₹4,000 × 12 × 3 = ₹1,44,000; exempt ₹3,000 per month per child for two children only = ₹72,000; taxable ₹72,000 [Rule 280(2), Sl. No. 7].
- Hostel expenditure allowance: received ₹1,20,000; exempt ₹9,000 × 12 for one child = ₹1,08,000; taxable ₹12,000 [Sl. No. 8].
- Transport allowance: ₹36,000, fully taxable. The exemption at Sl. No. 10 is confined to a blind, deaf and dumb, or orthopaedically handicapped employee.
- Employer's contribution to the recognised provident fund: 16% of basic = ₹1,53,600; exempt up to 12% of salary (12% of ₹11,44,000 = ₹1,37,280); taxable ₹16,320.
- Interest credited at 12%: taxable to the extent it exceeds the notified rate of 9.5% — ₹1,32,000 × 2.5/12 = ₹27,500.
- Motor car above 1.6 litres, employer-owned, employer bearing the running expenses, used partly for private purposes: ₹7,000 per month plus ₹3,000 per month for the chauffeur = ₹1,20,000 [Rule 15(3)].
- Free lunch at ₹150 per meal is within the limit of ₹200 per meal and is therefore not a perquisite at all.

### Computation of income under the head "Salaries"

| | | |
|---|---|---|
| Basic salary (₹80,000 × 12) | | 9,60,000 |
| Dearness allowance (₹20,000 × 12) — taxable in full | | 2,40,000 |
| Commission at 1% on turnover of ₹40,00,000 | | 40,000 |
| House rent allowance — taxable portion | | 54,400 |
| Children education allowance — taxable portion | | 72,000 |
| Hostel expenditure allowance — taxable portion | | 12,000 |
| Transport allowance | | 36,000 |
| Employer's contribution to RPF in excess of 12% of salary | | 16,320 |

| | | |
|---|---|---|
| Interest on RPF in excess of 9.5% | | 27,500 |
| Motor car with chauffeur [Rule 15(3)] | | 1,20,000 |
| Free lunch — within ₹200 per meal | | Nil |
| GROSS SALARY | | 15,78,220 |
| Less: standard deduction under section 19(1), optional regime | | (50,000) |
| Less: tax on employment under section 19(1), Sl. No. 1 | | (2,500) |
| **INCOME FROM SALARIES** | | **15,25,720** |

## Question 2 (b) — house rent allowance and rent-free accommodation

### The exemption for house rent allowance [Schedule III, Sl. No. 11, with Rule 279]

The exemption is the LEAST of three amounts, computed separately for each period during which the salary, the allowance, the rent or the city remained unchanged:

- the house rent allowance actually received for the period;
- 50% of salary where the accommodation is at Delhi, Mumbai, Kolkata, Chennai, Bengaluru, Hyderabad, Ahmedabad or Pune, and 40% of salary anywhere else — it is the situation of the accommodation that decides the percentage, not the place of the office;
- the rent actually paid less one-tenth of salary. Where the rent paid is less than one-tenth of salary this figure is nil or negative and the exemption is NIL, however large the allowance.

"Salary" for the purpose means basic salary, plus dearness allowance only if it enters into retirement benefits, plus commission at a fixed percentage of turnover. Nothing else — no bonus, no other allowance, no perquisite. The exemption is not available at all where the employee lives in a house of his own or pays no rent, and it is not available under the default regime, section 202(2) excluding Schedule III (Table: Sl. No. 11).

### Rent-free accommodation owned by the employer [Rule 15(2)]

| Population of the city where the accommodation is situated (2011 census) | Value of the perquisite |
|---|---|
| Exceeding 40 lakh | 10% of salary |
| Exceeding 15 lakh but not exceeding 40 lakh | 7.5% of salary |
| Not exceeding 15 lakh | 5% of salary |

"Salary" here is wider than for house rent allowance: basic salary, dearness allowance entering into retirement benefits, bonus, commission and the taxable part of every allowance — but not any perquisite and not the employer's contribution to a provident fund. Where the accommodation is furnished, add 10% per annum of the original cost of the furniture, or the hire charges if it is hired. Any rent recovered from the employee is then deducted.

## Question 2 (a) OR — the year of retirement

Average salary of the ten months preceding the month of retirement = basic ₹60,000 + 50% of dearness allowance ₹6,000 = ₹66,000 per month. Completed years of service = 29 (the 7 months are ignored, he not being covered by the Payment of Gratuity Act).

### Gratuity — exempt to the extent of the least [section 19]

| | | |
|---|---|---|
| The notified lifetime ceiling | | 20,00,000 |

| | | |
|---|---|---|
| Gratuity actually received | | 18,00,000 |
| **Half a month's average salary for each completed year — ½ × ₹66,000 × 29** | | **9,57,000** |
| Exempt — the least | | 9,57,000 |
| **Taxable gratuity** | | **8,43,000** |

### Leave encashment — exempt to the extent of the least

| | | |
|---|---|---|
| The notified lifetime ceiling | | 25,00,000 |
| Leave salary actually received | | 7,20,000 |
| Ten months' average salary (10 × ₹66,000) | | 6,60,000 |
| **Cash equivalent of the leave to credit — 240 days at ₹2,200 a day** | | **5,28,000** |
| Exempt — the least | | 5,28,000 |
| **Taxable leave salary** | | **1,92,000** |

*Leave credit is capped at 30 days for each completed year: 30 × 29 = 870 days, less 400 availed = 470 days. His actual credit of 240 days is lower, so 240 days is taken.*

### Commuted pension

| | | |
|---|---|---|
| 60% of the pension commuted for | | 9,00,000 |
| Full value of the pension (₹9,00,000 × 100/60) | | 15,00,000 |
| Exempt — one-third of the full value, gratuity having been received | | 5,00,000 |
| **Taxable commuted pension** | | **4,00,000** |

### Computation of income under the head "Salaries"

| | | |
|---|---|---|
| Basic salary (₹60,000 × 9 months) | | 5,40,000 |
| Dearness allowance (₹12,000 × 9 months) | | 1,08,000 |
| Gratuity — taxable portion | | 8,43,000 |
| Leave salary — taxable portion | | 1,92,000 |
| Commuted pension — taxable portion | | 4,00,000 |
| Uncommuted pension (₹16,000 × 3 months) | | 48,000 |
| GROSS SALARY | | 21,31,000 |
| Less: standard deduction, optional regime | | (50,000) |
| **INCOME FROM SALARIES** | | **20,81,000** |

## Question 2 (b) OR — the recognised provident fund

| The item | The treatment |
|---|---|
| The employee's own contribution | Not income at all; it is paid out of taxed salary. It qualifies for the deduction under section 123, within the ceiling of ₹1,50,000, under the optional regime only |
| The employer's contribution | Exempt up to 12% of salary; the excess is added to the salary of the year in which it is contributed |

| The item | The treatment |
|---|---|
| Interest credited on the whole balance | Exempt up to the notified rate of 9.5% per annum; the excess is added to salary. The excess is found by apportioning the interest credited, not by recomputing it |
| The accumulated balance paid on retirement | Exempt where the employee has rendered five years of continuous service, or where the service ended by ill health, by the discontinuance of the employer's business, or by any other cause beyond his control |

"Salary" for both the 12% and the 9.5% means basic salary plus dearness allowance entering into retirement benefits plus commission at a fixed percentage of turnover.

### The two ceilings on an employer's contributions to retirement funds

- The FUND-WISE ceiling — 12% of salary for a recognised provident fund, and the amounts prescribed for an approved superannuation fund and for the notified pension scheme. Anything above the fund's own ceiling is salary of the year of contribution.
- The AGGREGATE ceiling of ₹7,50,000 — the total of the employer's contributions in the year to a recognised provident fund, an approved superannuation fund and the notified pension scheme taken together. The excess over ₹7,50,000 is a perquisite, and so is the annual accretion by way of interest, dividend or other amount on that excess.

## Question 3 (a) — profits and gains of business or profession

| | | |
|---|---|---|
| **Net profit as per the Profit and Loss Account** | | **11,40,000** |
| **ADD — items debited but not allowable** | | |
| Excessive payment to his brother [section 36(3)] | | 60,000 |
| Municipal tax on the let-out house property — not a business expense | | 40,000 |
| Income-tax paid [section 35(a)] | | 25,000 |
| Cash payment exceeding ₹10,000 in a day to one person [section 36(4)] | | 50,000 |
| Interest on capital borrowed for a machine not put to use — to be capitalised | | 75,000 |
| Depreciation debited in the books | | 3,60,000 |
| Provision for bad debts — only actual bad debts are allowed | | 60,000 |
| Donation to the Prime Minister's National Relief Fund — a Chapter VIII deduction, not a business expense | | 1,00,000 |
| Penalty for the infringement of a by-law [section 34(2)] | | 35,000 |
| Under-valuation of closing stock — ₹5,60,000 ÷ 0.80 = ₹7,00,000 | | 1,40,000 |
| Sales of March 2027 not recorded | | 1,20,000 |
| | | 10,65,000 |
| **LESS — items to be deducted** | | |
| Depreciation allowable under section 33 | | (2,85,000) |
| Dividend from an Indian company — other sources | | (1,20,000) |
| Interest on Government securities — other sources | | (45,000) |
| Rent from house property — a separate head | | (2,60,000) |
| | | (7,10,000) |
| **PROFITS AND GAINS OF BUSINESS OR PROFESSION** | | **14,95,000** |

*The recovery of a bad debt allowed earlier is chargeable under section 26(2) and has already been credited in the account, so no adjustment is called for. Bad debts of ₹90,000 actually written off are allowable and need no adjustment either.*

## Question 3 (b) — section 34(1) and the express disallowances

### The five conditions of section 34(1)

- The expenditure must not be of the kind described in sections 30 to 33 — that is, it must not already have its own section.
- It must not be capital expenditure.
- It must not be personal expenditure of the assessee.
- It must have been laid out or expended WHOLLY AND EXCLUSIVELY for the purposes of the business or profession. “Wholly” looks at the amount and “exclusively” at the purpose; where an item serves two purposes the business part alone is allowed.
- It must relate to a business or profession carried on by the assessee in the tax year, and the profits of that business must be chargeable under this head.

The section does not require the expenditure to have produced a profit, nor that it was necessary. Commercial expediency judged from the businessman’s point of view is enough.

### Three expenditures expressly disallowed

- Income-tax and any rate or tax levied on the profits of the business [section 35(a)] — the tax on the profit is an application of the profit, not a charge against it. The wealth tax and the tax paid abroad on the same income stand on the same footing.
- Any payment above ₹10,000 made otherwise than by an account-payee cheque, an account-payee draft or a prescribed electronic mode, where the aggregate of the payments to one person in a day exceeds that figure [section 36(4)]. The limit is ₹35,000 for the payment of the hire of a goods carriage.
- So much of a payment to a relative or to an associated concern as the Assessing Officer considers excessive or unreasonable having regard to the fair market value of the goods or services [section 36(3)]. Only the excess is disallowed, not the whole payment.

To these may be added a provision for an unascertained liability, a penalty or fine for the infringement of a law, and expenditure incurred for a purpose which is an offence or is prohibited by law [section 34(2)].

## Question 3 (a) OR — presumptive taxation [section 58]

Turnover is ₹1,00,00,000, of which only ₹4,00,000 — 4% — was received in cash. As cash receipts do not exceed 5% of turnover, the enhanced limit of ₹3 crore applies and he is eligible.

| | | |
|---|---|---|
| 6% of ₹96,00,000 received through banking channels | | 5,76,000 |
| 8% of ₹4,00,000 received in cash | | 32,000 |
| Presumptive profit of the trading business | | 6,08,000 |
| Goods carriages — four light vehicles at ₹7,500 per month each for 12 months | | 3,60,000 |
| Two heavy vehicles of 15 tonnes at ₹1,000 per tonne per month for 12 months | | 3,60,000 |
| Presumptive profit of the goods-carriage business | | 7,20,000 |
| **PROFITS AND GAINS OF BUSINESS OR PROFESSION** | | **13,28,000** |

*He owns not more than ten goods carriages at any time in the year, so section 58(2), Sl. No. 2 applies. Having declared income under section 58 he is not required to maintain books under section 62 or to get them audited under section 63. If he declares a lower income he loses that immunity and, having once opted out, cannot return to the scheme for the next five tax years.*

## Question 3 (b) OR — deductions allowed only on actual payment [section 37]

### The rule

Notwithstanding anything in the Act, and whatever the method of accounting, the sums listed in section 37(1) are deducted only in the tax year in which they are ACTUALLY PAID. Mercantile accounting gives no deduction for them on accrual.

### The sums covered

- any tax, duty, cess or fee payable under any law;
- any contribution by the employer to a provident fund, a superannuation fund, a gratuity fund or any other fund for the welfare of employees;
- any bonus or commission payable to an employee for services rendered;
- any interest on a loan or borrowing from a public financial institution, a State financial corporation, a State industrial investment corporation or a scheduled bank;
- any sum payable by the employer in lieu of leave at the credit of an employee;
- any sum payable to the Indian Railways for the use of railway assets; and any sum payable to a micro or small enterprise beyond the time allowed by section 15 of the Micro, Small and Medium Enterprises Development Act, 2006.

### The extension in sub-section (3), and the clause it does not reach

Where the sum is actually paid on or before the due date for furnishing the return under section 263(1) for that tax year, and the evidence of payment is furnished with the return, the deduction is allowed in the year of accrual. The extension does NOT reach the clause relating to a micro or small enterprise: a payment to such an enterprise is deductible only in the year of actual payment unless it was paid within the time allowed by section 15 itself.

## Question 4 (a) — income from house property

### House I — Nagpur, let out

Expected rent = higher of municipal value ₹3,60,000 and fair rent ₹4,20,000, that is ₹4,20,000, but capped at the standard rent of ₹3,90,000 → ₹3,90,000.

Rent for the year ₹4,56,000, less unrealised rent of one month ₹38,000, less vacancy of two months ₹76,000 = ₹3,42,000. Without the vacancy the rent would have been ₹4,18,000, which exceeds the expected rent; the shortfall is therefore wholly due to the vacancy, and section 21(2) makes the gross annual value the actual rent.

| | | |
|---|---|---|
| **Gross annual value [section 21(2)]** | | **3,42,000** |
| Less: municipal taxes actually paid by the owner (75% of ₹36,000) | | (27,000) |
| NET ANNUAL VALUE | | 3,15,000 |
| Less: thirty per cent of the net annual value [section 22(1)(a)] | | (94,500) |
| Less: interest on borrowed capital [section 22(1)(b)] | | (1,80,000) |
| **Income from House I** | | **40,500** |

*The 25% of the municipal taxes borne by the tenant is not deductible; only taxes borne and actually paid by the owner are.*

### House II — Pune, self-occupied

The capital was borrowed on 1 July 2022 and construction was completed on 15 August 2025, well within five years from the end of the tax year of borrowing, so the ceiling of ₹2,00,000 in section 22(2)(a) applies and not the ₹30,000 of section 22(2)(b).

Pre-construction interest of ₹6,00,000 for 1 July 2022 to 31 March 2025 is allowed in five equal instalments of ₹1,20,000 from the year of completion; the Tax Year 2026-27 takes the second instalment.

| | | |
|---|---|---|
| Net annual value of a self-occupied house [section 21(6)] | | Nil |
| Interest for the year | | 2,40,000 |
| Add: one-fifth of the pre-construction interest | | 1,20,000 |
| Total interest | | 3,60,000 |
| Deduction restricted to | | (2,00,000) |
| **Loss from House II** | | **(2,00,000)** |

### House III — Indore, the second self-occupied house

Section 21(7)(a) allows two houses to be treated as self-occupied, so both House II and House III may be so treated and the annual value of each is nil. Interest on a loan taken for repairs of a self-occupied house is subject to the ceiling of ₹30,000 in section 22(2)(b); but section 22(5) caps the aggregate deduction across all self-occupied houses at ₹2,00,000, and House II has already absorbed the whole of it. Nothing further is allowable, and the income from House III is NIL.

**Why not treat House III as deemed let out?**

If it were, the gross annual value would be the expected rent of ₹3,20,000, the net annual value ₹2,92,000, and after the thirty per cent deduction and the whole interest of ₹45,000 the income would be ₹1,59,400 — a positive figure added to her total income instead of a nil one. Treating both as self-occupied is plainly better.

### Income under the head "Income from house property"

| | | |
|---|---|---|
| House I — let out | | 40,500 |
| House II — self-occupied | | (2,00,000) |
| House III — self-occupied | | Nil |
| **LOSS FROM HOUSE PROPERTY** | | **(1,59,500)** |

*Under section 109(1)(b) a loss under this head may be set off against income under other heads only up to ₹2,00,000, so the whole of ₹1,59,500 may be set off this year. Under the default regime of section 202 the position is different: the interest on a self-occupied house is not allowable at all, and a loss under this head cannot be set off against any other head.*

## Question 4 (b) — interest on borrowed capital [section 22]

- Section 22(1)(b) allows the interest payable on capital borrowed for acquiring, constructing, repairing, renewing or reconstructing the property. It is allowed on the ACCRUAL basis, whether or not it has been paid, and it is allowed in full where the property is let out.
- Interest on a fresh loan taken to repay the original loan is deductible; a brokerage or commission for arranging the loan is not.
- PRE-CONSTRUCTION INTEREST — the interest of the period beginning with the borrowing and ending with 31 March immediately preceding the year in which the construction was completed or the property acquired — is allowed in FIVE equal annual instalments beginning with the year of completion or acquisition. It is in addition to the interest of the current year, and the two together are then tested against the ceiling.

### The ceilings for a self-occupied house [section 22(2) and (5)]

| Provision | The ceiling |
|---|---|
| Section 22(2)(a) | ₹2,00,000 where the capital was borrowed on or after 1 April 1999 for ACQUISITION OR CONSTRUCTION, the acquisition or construction is completed within five years from the end of the tax year in which the capital was borrowed, and the prescribed certificate is furnished |
| Section 22(2)(b) | ₹30,000 in every other case — a loan for repairs or renewal whenever taken, a loan for construction taken before 1 April 1999, and a loan for construction not completed within the five years |
| Section 22(5) | The AGGREGATE deduction in respect of ALL the self-occupied houses of the assessee cannot exceed ₹2,00,000. The ceiling is on the assessee, not on each house |

### The position under the default regime

Section 202(2)(a) computes the total income without the deduction under section 22(1)(b) in respect of a property referred to in section 21(6) — that is, a self-occupied house. Under the default regime the interest on a self-occupied house is therefore not deductible at all, neither ₹2,00,000 nor ₹30,000 nor one rupee. Section 202(2)(b)(ii) then forbids the set-off of any loss under this head against any other head, and section 202(3) deems that loss to have been given full effect to, so it is not carried forward either. Interest on a LET-OUT house remains fully deductible under both regimes.

## Question 4 (a) OR — co-ownership

Section 24 requires the income of a co-owned property to be computed as though it belonged to one owner and then apportioned, the shares here being definite and ascertainable.

₹8,000 per month towards furniture and amenities — ₹96,000 for the year — is not rent for the property and is taxable under "Income from other sources", not under this head. Repairs, insurance and collection charges are not separately deductible; they are covered by the thirty per cent of section 22(1)(a).

| | | |
|---|---|---|
| Expected rent — higher of ₹6,00,000 and ₹7,20,000, capped at the standard rent of ₹6,60,000 | | 6,60,000 |
| Actual rent (₹60,000 – ₹8,000) × 12 | | 6,24,000 |
| **GROSS ANNUAL VALUE — the higher of the two** | | **6,60,000** |
| Less: municipal taxes actually paid | | (45,000) |
| NET ANNUAL VALUE | | 6,15,000 |
| Less: thirty per cent | | (1,84,500) |
| Less: interest on borrowed capital | | (2,70,000) |
| | | **1,60,500** |
| Add: arrears of rent ₹1,20,000 less 30% [section 23] | | 84,000 |
| Add: unrealised rent recovered ₹80,000 less 30% [section 23] | | 56,000 |
| **INCOME FROM HOUSE PROPERTY** | | **3,00,500** |

| Co-owner | Share | Income from house property (₹) | Amenities, other sources (₹) |
|---|---|---|---|
| Shri Deepak Saxena | 3/5 | 1,80,300 | 57,600 |

| Co-owner | Share | Income from house property (₹) | Amenities, other sources (₹) |
|---|---|---|---|
| Shri Vinod Saxena | 2/5 | 1,20,200 | 38,400 |
| | | 3,00,500 | 96,000 |

## Question 4 (b) OR — the owner and the deemed owner

### Who is the owner [section 20]

Section 20 charges the annual value of property consisting of buildings and land appurtenant thereto, of which the assessee is the OWNER. The owner is the person entitled to receive the income from the property in his own right — the legal owner, not the beneficial occupier and not the person who put up the money. Where the title is in dispute the person in receipt of the income and in possession is assessed until the dispute is settled. Registration of the conveyance is not indispensable: a purchaser who has paid the price and taken possession under a contract is treated as the owner even before the deed is registered.

### Deemed ownership [section 25]

| The case | Who is treated as the owner |
|---|---|
| Transfer to a spouse otherwise than for adequate consideration and otherwise than under an agreement to live apart | The transferor. A house given to a wife as a gift remains the husband's for this head |
| Transfer to a minor child, not being a married daughter, otherwise than for adequate consideration | The transferor |
| The holder of an impartible estate | The holder, of all the properties comprised in the estate |
| A member of a co-operative society, company or association to whom a building is allotted or leased under a house building scheme | The member, though the society remains the legal owner |
| A person who has taken possession, or is allowed to retain possession, of a building in part performance of a contract of the nature referred to in section 53A of the Transfer of Property Act, 1882 | That person |
| A person who acquires rights in a building by a transaction referred to in section 269UA(f) of the 1961 Act — a lease for not less than twelve years | The lessee. A month-to-month lease and a lease for not more than a year are excluded |

## Question 5 (a) — capital gains, other sources and clubbing, with the tax liability

### The residential house at Jaipur

Held from June 2012 to September 2026, far beyond 24 months, so the gain is long-term. Section 197(3) gives a resident individual an option for land or building acquired before 23 July 2024: compute the gain without indexation and tax it at 12.5%, or pay tax at 20% on the indexed gain, whichever is lower. The gain that enters the total income is always the un-indexed figure; only the tax is capped.

| | | |
|---|---|---|
| Full value of the consideration | | 82,00,000 |
| Less: brokerage at 1% [section 72(1)(a)] | | (82,000) |

| | | |
|---|---|---|
| Net consideration | | 81,18,000 |
| Less: cost of acquisition | | (18,00,000) |
| Long-term capital gain without indexation | | 63,18,000 |
| Less: exemption under section 82 — a new residential house | | (40,00,000) |
| **CHARGEABLE LONG-TERM CAPITAL GAIN** | | **23,18,000** |

### The section 197(3) comparison

| | | |
|---|---|---|
| A — 12.5% of ₹23,18,000 (un-indexed) | | 2,89,750 |
| Indexed cost ₹18,00,000 × 384 ÷ 200 | | 34,56,000 |
| Indexed gain ₹81,18,000 – ₹34,56,000 – ₹40,00,000 | | 6,62,000 |
| B — 20% of ₹6,62,000 | | 1,32,400 |
| **TAX ON THE HOUSE — the lower of A and B** | | **1,32,400** |

### The other assets

| | | |
|---|---|---|
| Listed equity — sale 4,000 × ₹640 | | 25,60,000 |
| Cost under the grandfathering rule — the higher of ₹150 and the lower of the 31 January 2018 fair market value ₹300 and the sale price ₹640; 4,000 × ₹300 | | (12,00,000) |
| Long-term capital gain under section 198 | | 13,60,000 |
| Gold jewellery — held about 42 months, so long-term; ₹9,50,000 – ₹6,00,000 | | 3,50,000 |
| Listed equity held under 12 months — short-term under section 196; ₹7,20,000 – ₹5,00,000 | | 2,20,000 |

### Income from other sources, and the minor's income

- The winnings from the television game show must be GROSSED UP. ₹1,40,000 was received after deduction at 30%, so the income is ₹1,40,000 ÷ 0.70 = ₹2,00,000, and ₹60,000 has been deducted at source. No expenditure and no deduction is allowed against it [section 94], and it is charged at a flat 30% under section 194.
- The interest of ₹40,000 earned by the minor son is clubbed with the income of the parent whose total income is the greater [section 99(1)(c) with section 99(5)(b)] — here the father. The exclusion of ₹1,500 in Schedule III (Table: Sl. No. 17) is NOT available, section 202(2)(a) expressly excluding that entry from the default regime. The whole ₹40,000 is therefore included.
- Interest of ₹22,000 on the savings bank account is chargeable in full. The deduction of section 153 is a Chapter VIII deduction and is not among the four which survive section 202(2).

### Computation of total income

| | | |
|---|---|---|
| Profits and gains of business or profession | | 4,00,000 |
| Income from other sources — savings bank interest ₹22,000, winnings ₹2,00,000, minor son's interest clubbed ₹40,000 | | 2,62,000 |
| Long-term capital gain on the house (un-indexed, after section 82) | | 23,18,000 |
| Long-term capital gain on listed equity [section 198] | | 13,60,000 |
| Long-term capital gain on gold [section 197] | | 3,50,000 |
| Short-term capital gain on listed equity [section 196] | | 2,20,000 |
| **TOTAL INCOME** | | **49,10,000** |

### Computation of tax — the default regime

| | | |
|---|---|---|
| Income taxable at the slab rates — ₹4,00,000 + ₹22,000 + ₹40,000 = ₹4,62,000; nil up to ₹4,00,000, ₹62,000 at 5% | | 3,100 |
| Winnings — 30% of ₹2,00,000 [section 194] | | 60,000 |
| The house — the lower of A and B above | | 1,32,400 |
| Listed equity, long-term — 12.5% of (₹13,60,000 – ₹1,25,000) [section 198] | | 1,54,375 |
| Gold — 12.5% of ₹3,50,000 [section 197] | | 43,750 |
| Listed equity, short-term — 20% of ₹2,20,000 [section 196] | | 44,000 |
| INCOME-TAX | | 4,37,625 |
| Less: rebate under section 156 — the total income exceeds ₹12,00,000 | | Nil |
| Add: surcharge — the total income does not exceed ₹50,00,000 | | Nil |
| Add: health and education cess @ 4% | | 17,505 |
| **TAX PAYABLE (rounded off under section 516)** | | **4,55,130** |

*Tax of ₹60,000 having already been deducted at source on the winnings, ₹3,95,130 remains to be paid. The first ₹1,25,000 of long-term gain on listed equity is free under section 198. The basic exemption of ₹4,00,000 is fully absorbed by the slab-rate income, so nothing is left to set against the capital gains.*

## Question 5 (b) — section 82 and the Capital Gains Account Scheme

### Section 82 — a residential house into a residential house

- The assessee must be an individual or a Hindu undivided family.
- The asset transferred must be a LONG-TERM capital asset being buildings or land appurtenant thereto, the income of which is chargeable under the head "Income from house property".
- He must PURCHASE a residential house in India within one year before or two years after the date of transfer, or CONSTRUCT one in India within three years after that date.
- The exemption is the amount of the capital gain or the cost of the new house, whichever is LESS.
- Where the capital gain exceeds ₹2,00,00,000 the investment may be made in ONE residential house only. Where it does not exceed that figure the assessee may, at his option, invest in TWO residential houses — an option exercisable once in a lifetime and not thereafter.
- The cost of the new house taken into account is capped at ₹10,00,00,000.
- If the new house is transferred within three years of its purchase or construction, the exemption withdrawn is deducted from the cost of the new house in computing the gain on that later transfer.

### Section 89 — the Capital Gains Account Scheme

The two years for purchase and the three years for construction will usually run past the due date for filing the return. Section 89 bridges the gap. So much of the gain as has not been used before furnishing the return must be DEPOSITED, on or before the due date under section 263(1), in an account with a specified bank under the notified Scheme; the deposit is then treated as the amount used. The return must be accompanied by proof of the deposit. Where the amount deposited is not used for the new house within the period allowed, the unused part is charged as the income of the tax year in which the three years expire, and the assessee may withdraw it. The same machinery serves sections 83, 84 and 86.

## Question 5 (a) OR — bonds, bonus shares, urban agricultural land and Chapter VIII

### The plot at Faridabad

| | | |
|---|---|---|
| Full value of the consideration | | 52,00,000 |
| Less: cost of acquisition | | (12,50,000) |
| Less: exemption under section 85 — bonds of the National Highways Authority of India within six months, within the ceiling of ₹50,00,000 | | (15,00,000) |
| **Chargeable gain, un-indexed** | | **24,50,000** |
| A — 12.5% of ₹24,50,000 | | 3,06,250 |
| Indexed cost ₹12,50,000 × 384 ÷ 200 = ₹24,00,000; indexed gain after section 85 ₹13,00,000 | | 13,00,000 |
| B — 20% of ₹13,00,000 | | 2,60,000 |
| **TAX ON THE PLOT — the lower** | | **2,60,000** |

### The bonus shares and the agricultural land

| | | |
|---|---|---|
| Bonus shares — 1,000 × ₹520; the cost of a bonus share allotted without payment is NIL | | 5,20,000 |
| They were allotted on 5 July 2021, so they are long-term and the grandfathering of 31 January 2018 has nothing to work on. Section 198 applies | | |
| Agricultural land 3 km from a municipality of 3,00,000 — the notified distance for that population is 6 km, so the land IS a capital asset. Held from September 2014, so long-term | | |
| Un-indexed gain ₹22,00,000 – ₹9,00,000 | | 13,00,000 |
| A — 12.5% of ₹13,00,000 | | 1,62,500 |
| Indexed cost ₹9,00,000 × 384 ÷ 240 = ₹14,40,000; indexed gain ₹7,60,000 | | 7,60,000 |
| B — 20% of ₹7,60,000 | | 1,52,000 |
| **TAX ON THE LAND — the lower** | | **1,52,000** |

### Chapter VIII, and the ceiling that governs it

Sections 196(4) and 197(5) require the gross total income to be REDUCED BY THE SPECIAL-RATE GAINS before Chapter VIII is applied. The deductions can therefore only ever come out of the ₹6,34,000 of interest income. They do, comfortably.

| | | |
|---|---|---|
| Section 123 — Public Provident Fund | | 1,50,000 |
| Section 126 — health insurance for himself and his family ₹31,000, restricted to | | 25,000 |
| Section 126 — health insurance for his parents, both senior citizens; ₹42,000, within the limit of ₹50,000 | | 42,000 |
| Section 133 — donation to the Prime Minister's National Relief Fund, 100% and no qualifying limit | | 50,000 |
| Section 153 — interest on the savings bank account, he being below sixty; ₹14,000 restricted to | | 10,000 |
| **TOTAL DEDUCTION UNDER CHAPTER VIII** | | **2,77,000** |

### Computation of total income

| | | |
|---|---|---|
| Income from other sources — fixed deposits ₹6,20,000 and savings bank ₹14,000 | | 6,34,000 |
| Long-term capital gain on the plot (un-indexed, after section 85) | | 24,50,000 |
| Long-term capital gain on the bonus shares [section 198] | | 5,20,000 |
| Long-term capital gain on the agricultural land [section 197] | | 13,00,000 |
| GROSS TOTAL INCOME | | 49,04,000 |
| Less: deductions under Chapter VIII | | (2,77,000) |
| **TOTAL INCOME** | | **46,27,000** |

### Computation of tax — the optional regime, age 50

| | | |
|---|---|---|
| Income taxable at the slab rates ₹6,34,000 – ₹2,77,000 = ₹3,57,000; nil up to ₹2,50,000, ₹1,07,000 at 5% | | 5,350 |
| The plot — the lower of A and B | | 2,60,000 |
| Bonus shares — 12.5% of (₹5,20,000 – ₹1,25,000) [section 198] | | 49,375 |
| The agricultural land — the lower of A and B | | 1,52,000 |
| INCOME-TAX | | 4,66,725 |
| Less: rebate under section 156(1) — the total income exceeds ₹5,00,000 | | Nil |
| Add: surcharge — the total income does not exceed ₹50,00,000 | | Nil |
| Add: health and education cess @ 4% | | 18,669 |
| **TAX PAYABLE (rounded off under section 516)** | | **4,85,390** |

## Question 5 (b) OR — the minor child [section 99(1)(c)]

- All the income of a minor child is included in the total income of a parent. The child's own return is not filed and the child's own exemption limit is never used.
- THE THREE CASES IN WHICH IT DOES NOT APPLY — income of a minor child suffering from a disability of the nature specified in section 154; income which arises to the minor on account of his own MANUAL WORK; and income which arises from an ACTIVITY INVOLVING HIS SKILL, TALENT OR SPECIALISED KNOWLEDGE AND EXPERIENCE. In the last two cases the minor is assessed in his own right; but the income earned by INVESTING those earnings is clubbed, because that income does not itself arise from the skill.
- WHICH PARENT — section 99(5)(b) charges the parent whose total income, excluding the income to be clubbed, is the GREATER. Where the marriage does not subsist, the parent who maintains the child. Once the income has been included in one parent's total income it continues to be included in that parent's income in later years unless the Assessing Officer, after hearing that parent, is satisfied that it should be otherwise.
- THE EXCLUSION — Schedule III (Table: Sl. No. 17) excludes so much of the clubbed income as does not exceed ₹1,500 in respect of EACH minor child. It is the lower of the income clubbed and ₹1,500; a child whose clubbed income is ₹900 yields an exclusion of ₹900, and a child whose income is not clubbed at all yields nothing.
- UNDER THE DEFAULT REGIME the exclusion is GONE. Section 202(2)(a) computes the total income without any exemption under Schedule III (Table: Sl. No. 5, 6, 7, 8, 11 or 17), and Sl. No. 17 is this exclusion. It survives only where the option under section 202(4) has been exercised.

# SOLUTIONS — SET II

B.Com. (Hons.) — UGCF · Paper M-7352 · Tax Year 2026-27

# SOLUTIONS

B.Com. (Hons.) — DSC 5.1 · Mock Paper SET II · Paper M-7352 · Tax Year 2026-27

## Question 1 (a) — residential status and scope of total income

### Step 1 — count the days

1 April to 12 August 2026: April 30 + May 31 + June 30 + July 31 + August 12 = 134 days.

### Step 2 — is he resident? [section 6]

Section 6(2)(a) requires 182 days and he was here for 134. He left India during the tax year FOR THE PURPOSES OF EMPLOYMENT outside India, and for such a citizen section 6(3)(b) substitutes "182 days" for the "60 days" of section 6(2)(b). The second test therefore also fails, and he is a NON-RESIDENT for the Tax Year 2026-27.

Section 6(3) is not attracted either. It deems a citizen of India whose income other than income from foreign sources exceeds ₹15,00,000 and who is not liable to tax in any other country to be resident. His income other than income from foreign sources is ₹4,20,000 + ₹90,000 + ₹3,60,000 + ₹2,80,000 = ₹11,50,000, which is below ₹15,00,000, so the deeming provision does not reach him.

### Step 3 — the computation of total income [section 5]

| # | Particulars | ROR (₹) | RNOR (₹) | NR (₹) |
|---|---|---|---|---|
| 1 | Salary for services rendered at Muscat, received at Muscat — foreign income | 18,00,000 | Nil | Nil |
| 2 | Salary from the Government of India to a citizen of India for services outside India — deemed to accrue in India [section 9] | 4,20,000 | 4,20,000 | 4,20,000 |
| 3 | Interest on a fixed deposit at Mumbai — Indian income | 90,000 | 90,000 | 90,000 |
| 4 | Business at Dubai controlled from Mumbai — foreign income from a business controlled in India | 3,60,000 | 3,60,000 | Nil |
| 5 | Business at Muscat controlled from Muscat | 2,40,000 | Nil | Nil |
| 6 | Dividend from a foreign company received at London | 1,50,000 | Nil | Nil |
| 7 | Income from a house property at Pune — Indian income | 2,80,000 | 2,80,000 | 2,80,000 |
| 8 | Untaxed foreign income of an earlier year merely brought into India — a remittance is not income | Nil | Nil | Nil |
| | TOTAL INCOME | 33,40,000 | 11,50,000 | 7,90,000 |

> His actual status is NON-RESIDENT, so his total income for the Tax Year 2026-27 is ₹7,90,000. The other two columns are asked for by way of contrast and must still be shown.

## Question 1 (b) — income deemed to accrue or arise in India [section 9]

- Income accruing or arising, directly or indirectly, through or from any BUSINESS CONNECTION in India, any property in India, any asset or source of income in India, or the transfer of a capital asset situate in India. Only so much of it as is reasonably attributable to the operations carried out in India is deemed to accrue here.
- SALARY earned in India — that is, for services rendered in India — including the rest period or leave preceding and succeeding the period of service in India and forming part of the contract.

- SALARY PAYABLE BY THE GOVERNMENT to a citizen of India for services rendered outside India. The allowances and perquisites paid outside India by the Government to such a person are separately exempt, but the salary itself is Indian income.
- A DIVIDEND paid by an Indian company outside India.
- INTEREST payable by the Government; or by a resident, except where it is on money borrowed and used for a business or profession carried on outside India or for earning income from a source outside India; or by a non-resident on money borrowed and used for a business carried on in India.
- ROYALTY and FEES FOR TECHNICAL SERVICES payable by the Government, or by a resident except where the right or service is used for a business outside India, or by a non-resident where it is used for a business in India.

### The two instances asked about

- GOVERNMENT SALARY FOR SERVICES OUTSIDE INDIA. It is deemed to accrue in India and is therefore chargeable whatever the residential status of the recipient — resident, not ordinarily resident or non-resident. The condition is that the recipient be a CITIZEN OF INDIA; a foreign national in the service of the Government of India abroad is outside the clause.
- A DIVIDEND PAID BY AN INDIAN COMPANY OUTSIDE INDIA. The place of payment is immaterial. It is Indian income and is charged in every case. A dividend from a FOREIGN company is foreign income, taxable only in the hands of a resident and ordinarily resident unless it is received in India in the first instance.

## Question 1 (a) OR — partial integration and the choice of regime

Net agricultural income of ₹3,60,000 exceeds ₹5,000 and the non-agricultural income exceeds the maximum amount not chargeable to tax. She is an individual. Section 3(2) of the Finance Act, 2026 therefore applies under both regimes.

### (i) Under the default regime — section 202

Section 202(2)(a) shuts out Chapter VIII except sections 124(1) and (2), 125(2) and 146. Neither the Public Provident Fund deposit, nor the health insurance premium, nor the donation gives her anything. Her total income stays at ₹11,20,000.

| | | |
|---|---|---|
| **Step 1 — tax on ₹11,20,000 + ₹3,60,000 = ₹14,80,000** | | |
| Nil up to ₹4,00,000; ₹4,00,000 @ 5% | | 20,000 |
| ₹4,00,000 @ 10% | | 40,000 |
| ₹2,80,000 @ 15% | | 42,000 |
| Tax at Step 1 | | 1,02,000 |
| Step 2 — tax on ₹3,60,000 + ₹4,00,000 = ₹7,60,000; ₹3,60,000 @ 5% | | 18,000 |
| **Step 3 — income-tax on the total income (₹1,02,000 – ₹18,000)** | | **84,000** |
| Less: rebate under section 156(2)(a) — the total income does not exceed ₹12,00,000; the lower of the tax and ₹60,000 | | (60,000) |
| Income-tax after the rebate | | 24,000 |
| Add: health and education cess @ 4% | | 960 |
| **TAX PAYABLE (rounded off under section 516)** | | **24,960** |

### (ii) Under the optional regime

| | | |
|---|---|---|
| Gross total income | | 11,20,000 |
| Less: section 123 — Public Provident Fund | | (1,20,000) |

| | | |
|---|---|---|
| Less: section 126 — health insurance for herself, she being a senior citizen; ₹46,000 within the limit of ₹50,000 | | (46,000) |
| Less: section 133 — donation to the Prime Minister's National Relief Fund, 100% and no qualifying limit | | (40,000) |
| **TOTAL INCOME** | | **9,14,000** |
| **Step 1 — tax on ₹9,14,000 + ₹3,60,000 = ₹12,74,000; being resident and 68, her exemption is ₹3,00,000** | | |
| ₹2,00,000 @ 5% | | 10,000 |
| ₹5,00,000 @ 20% | | 1,00,000 |
| ₹2,74,000 @ 30% | | 82,200 |
| Tax at Step 1 | | 1,92,200 |
| Step 2 — tax on ₹3,60,000 + ₹3,00,000 = ₹6,60,000; ₹2,00,000 @ 5% and ₹1,60,000 @ 20% | | 42,000 |
| **Step 3 — income-tax on the total income** | | **1,50,200** |
| Less: rebate under section 156(1) — the total income exceeds ₹5,00,000 | | Nil |
| Add: health and education cess @ 4% | | 6,008 |
| **TAX PAYABLE** | | **1,56,210** |

**Which regime**

The default regime costs her ₹24,960 and the optional regime ₹1,56,210. She should stay in the default regime and save ₹1,31,250. Her deductions of ₹2,06,000 are worth far less than the wider slabs and the rebate of ₹60,000 — which is the ordinary result wherever the total income is near ₹12,00,000.

Her income being from a profession, section 202(4) requires that any option to move out of the default regime be exercised on or before the due date under section 263(1); it then governs later years, and it may be withdrawn only once.

## Question 1 (b) OR — the residence of a Hindu undivided family, a firm and a company

| The person | When resident | When not ordinarily resident |
|---|---|---|
| Hindu undivided family | Where the CONTROL AND MANAGEMENT of its affairs is situated wholly or PARTLY in India during the tax year. Control wholly outside India makes it non-resident | Where the MANAGER (karta) does not satisfy either of the two conditions in section 6(13) — resident in India in at least two out of the ten preceding tax years, and in India for 730 days or more in the seven preceding tax years |
| Firm, association of persons, body of individuals | The same test — control and management wholly or partly in India | The status does not arise. A firm is either resident or non-resident |
| Company | An Indian company is ALWAYS resident. Any other company is resident if its PLACE OF EFFECTIVE MANAGEMENT is in India in that tax year | The status does not arise |

### Place of effective management

The place where the key management and commercial decisions necessary for the conduct of the business of the entity as a whole are IN SUBSTANCE MADE. It is the place where the decisions are made, not the place where they are carried out, and not the place where the board happens to meet if the meeting merely ratifies decisions made elsewhere. The test applies only to a foreign company; it is a test of substance and it is applied for the tax year as a whole.

## Question 2 (a) — income from salaries

### Working 1 — "salary" for the rent-free accommodation [Rule 15(2)]

Basic ₹8,40,000 + dearness allowance forming part of retirement benefits ₹1,68,000 + bonus ₹1,40,000 + commission at 2% of ₹25,00,000, that is ₹50,000 = ₹11,98,000. Mumbai's population exceeds 40 lakh and the flat is owned by the employer, so the value is 10% of that figure, ₹1,19,800. Furniture costing ₹4,00,000 adds 10% per annum, ₹40,000. Nothing is recovered from her, so the perquisite is ₹1,59,800.

### Working 2 — the other items

- THE DOMESTIC SERVANT. She engaged him; the employer merely pays his wages. That is the discharge of an obligation of the employee and is taxable IN FULL as a perquisite, ₹60,000, whether or not she is a specified employee. Had the employer engaged the servant, the perquisite would have been the cost to the employer and would have been taxable only in the hands of a specified employee.
- FREE EDUCATION IN THE EMPLOYER'S SCHOOL. The exemption is confined to a cost of ₹3,000 per month per child. Once the cost exceeds that figure the WHOLE of it is the perquisite, not merely the excess: ₹4,500 × 12 × 2 = ₹1,08,000.
- THE PROVIDENT FUND CONTRIBUTION. 15% of basic salary is ₹1,26,000. The exemption is 12% of SALARY, and salary here is basic + dearness allowance entering retirement benefits + commission on turnover = ₹10,58,000, of which 12% is ₹1,26,960. The contribution is within the ceiling and nothing is taxable — a useful reminder that the 12% is not 12% of basic pay.
- THE INTEREST CREDITED. ₹1,15,000 at 11.5% is taxable to the extent it exceeds the notified 9.5%: ₹1,15,000 × 2 ÷ 11.5 = ₹20,000.
- THE LEAVE TRAVEL CONCESSION. The journey was within India and the whole sum was spent on it; travel by air-conditioned first class rail is within Rule 277 and she has claimed nothing in the current block of four years. The whole ₹60,000 is exempt under Schedule III, Sl. No. 8. It would have been taxable in full under the default regime, which excludes that entry.

### Computation of income under the head "Salaries"

| | | |
|---|---|---|
| Basic salary (₹70,000 × 12) | | 8,40,000 |
| Dearness allowance (₹14,000 × 12) | | 1,68,000 |
| Bonus | | 1,40,000 |
| Commission at 2% on turnover of ₹25,00,000 | | 50,000 |
| Rent-free furnished accommodation [Rule 15(2)] | | 1,59,800 |
| Domestic servant engaged by her, paid by the employer | | 60,000 |
| Free education in the employer's school | | 1,08,000 |
| Employer's contribution to the recognised provident fund — within 12% of salary | | Nil |
| Interest on the recognised provident fund in excess of 9.5% | | 20,000 |
| Leave travel concession — exempt [Schedule III, Sl. No. 8] | | Nil |
| GROSS SALARY | | 15,45,800 |
| Less: standard deduction under section 19(1), Sl. No. 2, optional regime | | (50,000) |

| | | |
|---|---|---|
| Less: tax on employment [section 19(1), Sl. No. 1] | | (2,500) |
| **INCOME FROM SALARIES** | | **14,93,300** |

## Question 2 (b) — rent-free accommodation [Rule 15(2)]

| How the accommodation is provided | The value of the perquisite |
|---|---|
| OWNED by the employer | 10% of salary where the population of the city exceeds 40 lakh; 7.5% where it exceeds 15 lakh but not 40 lakh; 5% where it does not exceed 15 lakh — the population being that of the 2011 census, and the city being where the accommodation stands |
| TAKEN ON LEASE OR RENT by the employer | The LOWER of the actual lease rental paid or payable by the employer and 10% of salary, in each case for the period of occupation |
| Provided in a HOTEL | The LOWER of 24% of salary for the period and the actual charges paid or payable. Nothing at all is charged where the accommodation is provided for not more than fifteen days on the transfer of the employee from one place to another |

- FURNITURE. Where the accommodation is furnished, add 10% per annum of the original cost of the furniture owned by the employer, or the actual hire charges where it is hired. “Furniture” includes a television set, a refrigerator, an air-conditioner and other household appliances.
- RENT RECOVERED. Any rent actually paid by the employee is deducted from the value so found; if it equals or exceeds that value there is no perquisite.
- “SALARY” for this Rule is basic salary, dearness allowance entering into retirement benefits, bonus, commission and the TAXABLE part of every allowance — but no perquisite, and not the employer’s contribution to a provident fund.
- Accommodation in a REMOTE AREA provided to an employee working at a mining site, an onshore oil exploration site, a project execution site, a dam site, a power generation site or an offshore site is not a perquisite at all.

## Question 2 (a) OR — the year of retirement

He is covered by the Payment of Gratuity Act, 1972, so the gratuity falls under Sl. No. 5 of the Table to section 19(1) and not Sl. No. 6. “Wages” under that Act take in the WHOLE dearness allowance, so wages are ₹52,000 + ₹26,000 = ₹78,000 a month; and a part of a year exceeding six months counts as a full year, so 26 years and 8 months is 27 years. For the leave salary, which is governed by Sl. No. 14, the average salary of the ten months preceding the month of retirement is basic ₹52,000 + 40% of the dearness allowance ₹10,400 = ₹62,400.

### Gratuity — exempt to the extent of the least [Sl. No. 5]

| | | |
|---|---|---|
| The notified lifetime ceiling | | 20,00,000 |
| Gratuity actually received | | 16,00,000 |
| Fifteen days’ wages for each completed year — ₹78,000 × 15 ÷ 26 × 27 | | 12,15,000 |
| Exempt — the least | | 12,15,000 |
| **TAXABLE GRATUITY** | | **3,85,000** |

### Leave encashment — exempt to the extent of the least [Sl. No. 14]

| | | |
|---|---|---|
| The notified lifetime ceiling | | 25,00,000 |

| | | |
|---|---|---|
| Leave salary actually received | | 8,40,000 |
| Ten months' average salary (10 × ₹62,400) | | 6,24,000 |
| Cash equivalent of the leave to credit — 300 days at ₹2,080 a day | | 6,24,000 |
| Exempt — the least | | 6,24,000 |
| **TAXABLE LEAVE SALARY** | | **2,16,000** |

*Leave credit is capped at 30 days for each completed year: 30 × 26 = 780 days, less 480 availed = 300 days. His actual credit of 300 days is the same, so 300 days is taken. Note that the 26 completed years are used here, not the 27 of the Payment of Gratuity Act.*

### Commuted pension

| | | |
|---|---|---|
| 40% of the pension commuted for | | 7,20,000 |
| Full value of the pension (₹7,20,000 × 100 ÷ 40) | | 18,00,000 |
| Exempt — one-third of the full value, gratuity having been received [Sl. No. 8] | | 6,00,000 |
| **TAXABLE COMMUTED PENSION** | | **1,20,000** |

### Computation of income under the head "Salaries"

| | | |
|---|---|---|
| Basic salary (₹52,000 × 8 months) | | 4,16,000 |
| Dearness allowance (₹26,000 × 8 months) | | 2,08,000 |
| Gratuity — taxable portion | | 3,85,000 |
| Leave salary — taxable portion | | 2,16,000 |
| Commuted pension — taxable portion | | 1,20,000 |
| Uncommuted pension (₹18,000 × 4 months) | | 72,000 |
| GROSS SALARY | | 14,17,000 |
| Less: standard deduction, optional regime | | (50,000) |
| Less: tax on employment | | (2,400) |
| **INCOME FROM SALARIES** | | **13,64,600** |

## Question 2 (b) OR — the two gratuity exemptions compared

| | Sl. No. 5 — covered by the Payment of Gratuity Act, 1972 | Sl. No. 6 — not covered |
|---|---|---|
| Who is covered | An employee of an establishment to which the Act of 1972 applies — broadly, a factory, mine, plantation, port, railway, shop or establishment employing ten or more persons | Every other non-Government employee. A Government employee's gratuity is wholly exempt under Sl. No. 4 and neither entry applies to him |
| The formula | Fifteen days' wages for each completed year, computed as last drawn wages × 15 ÷ 26 × the number of years | Half a month's average salary for each completed year — ½ × average salary × the number of years |
| Which salary | LAST DRAWN wages, and "wages" as defined in the Act of 1972 take in the WHOLE dearness allowance | The AVERAGE salary of the ten months immediately preceding the month of retirement, being basic plus only that dearness allowance which enters into retirement benefits, plus commission at a fixed percentage of turnover |

| | Sl. No. 5 — covered by the Payment of Gratuity Act, 1972 | Sl. No. 6 — not covered |
|---|---|---|
| A part of a year | A part exceeding six months is rounded UP to a full year | Every fraction is IGNORED. 24 years 8 months is 25 years under Sl. No. 5 and 24 years under Sl. No. 6 |
| The ceiling | ₹20,00,000, and it is a LIFETIME ceiling — the exemption already taken from an earlier employer is deducted | ₹20,00,000, on the same lifetime basis |

In both cases the exemption is the LEAST of the three figures — the ceiling, the amount actually received, and the amount worked out by the formula.

## Question 3 (a) — profits and gains of business or profession

| | | |
|---|---|---|
| **Net profit as per the Profit and Loss Account** | | **15,75,000** |
| **ADD — items debited but not allowable** | | |
| Cash payment exceeding ₹10,000 in a day to one person [section 36(4)] | | 1,20,000 |
| Advance income-tax [section 35(a)] | | 90,000 |
| Depreciation debited in the books | | 4,20,000 |
| Reserve for future losses — a provision for an unascertained liability | | 80,000 |
| Advertisement in a souvenir of a political party [section 36(6)] | | 60,000 |
| Legal expenses in defending a prosecution for an offence [section 34(2)] | | 30,000 |
| Employees' contribution to the provident fund not deposited by the due date under that Act | | 45,000 |
| Interest on the proprietor's own capital — a person cannot pay interest to himself | | 1,50,000 |
| Over-valuation of the opening stock — ₹5,50,000 ÷ 1.10 = ₹5,00,000 | | 50,000 |
| | | 10,45,000 |
| **LESS — items to be deducted** | | |
| Depreciation allowable under section 33 | | (3,45,000) |
| Interest on an income-tax refund — other sources | | (25,000) |
| Rent from the residential flat — a separate head | | (2,40,000) |
| Gift from a friend on his birthday — other sources [section 92(2)(m)] | | (1,00,000) |
| | | (7,10,000) |
| **PROFITS AND GAINS OF BUSINESS OR PROFESSION** | | **19,10,000** |

*The contribution to the approved scientific research association is allowable in full under section 45 and has already been debited, so no adjustment arises. Bad debts of ₹70,000 actually written off are allowable, and the bad debt recovered has been credited and is chargeable under section 26(2); neither needs an entry. The employees' contribution is a deduction under section 32 only if credited to the fund by the due date under the relevant Act — the extension in section 37(3) does not reach it, because the employees' contribution is first brought in as income.*

## Question 3 (b) — depreciation [section 33]

- Depreciation is allowed on the WRITTEN DOWN VALUE OF A BLOCK OF ASSETS, not asset by asset. A block is a group of assets falling within a class — buildings, machinery and plant, furniture, or intangible assets — in respect of which the same rate of depreciation is prescribed. The individual asset loses its identity once it enters the block; no profit or loss arises on the sale of one asset out of a block that survives.
- The written down value of the block is the opening written down value, PLUS the actual cost of assets acquired during the year, MINUS the moneys payable in respect of assets sold, discarded, demolished or destroyed, so far as they do not exceed the first two. The block cannot go below nil.
- The asset must be OWNED, wholly or partly, by the assessee and USED for the purposes of the business. Passive use — machinery kept ready for use — has been held to be use.
- THE 180-DAY RULE. Where an asset is acquired during the year and put to use for LESS THAN 180 DAYS in that year, the depreciation allowed is HALF the normal rate. The restriction applies in the year of acquisition only; the full rate applies from the following year. It operates on the asset, so the block is worked in two parts in that year.
- ADDITIONAL DEPRECIATION of 20% of the actual cost is allowed on new machinery or plant acquired and installed by an assessee engaged in the MANUFACTURE OR PRODUCTION of an article or thing, or in the generation, transmission or distribution of power. It is not allowed on second-hand machinery, on machinery installed in an office or a residence, on office appliances or road transport vehicles, or on machinery whose whole cost is allowed as a deduction in one year. Where the machinery is put to use for less than 180 days, half of the 20% is allowed in that year and the other half in the next. Additional depreciation is not available under the default regime, section 202(2)(a) excluding section 33(8).
- UNABSORBED DEPRECIATION [section 33(11)]. Depreciation which cannot be given full effect to for want of profits is added to the depreciation of the following year and is deemed to be part of it. It may be set off against income under ANY head except Salaries, it may be carried forward INDEFINITELY, and it survives even where the return was filed late. Section 112(3) requires the brought-forward business loss to be set off BEFORE it.

## Question 3 (a) OR — a profession, on the cash basis

The account is a Receipts and Payments Account, so the cash basis governs. The opening and closing balances are not income and not expenditure. Gifts from patients arise from the exercise of the profession and are professional receipts. Interest on the Post Office savings account and the dividend belong to “Income from other sources”; household expenses, the life insurance premium and the income-tax are not deductible at all.

### Depreciation [section 33]

| | | |
|---|---|---|
| Surgical equipment bought on 15 May 2026 — used for more than 180 days; 15% of ₹4,00,000 | | 60,000 |
| Motor car bought on 10 December 2026 — used for less than 180 days, so half of 15%, that is 7.5% of ₹9,00,000 = ₹67,500; two-thirds being the professional use | | 45,000 |
| Annual publications — 40% of ₹40,000 | | 16,000 |
| **TOTAL DEPRECIATION** | | **1,21,000** |

### Computation of income from the profession

| | | |
|---|---|---|
| Consultation fees | | 24,60,000 |
| Visiting fees | | 6,40,000 |
| Sale of medicines | | 8,90,000 |

| | | |
|---|---|---|
| Gifts from patients | | 70,000 |
| GROSS PROFESSIONAL RECEIPTS | | 40,60,000 |
| **LESS — expenses allowable** | | |
| Clinic rent | | (3,60,000) |
| Salary to staff | | (5,40,000) |
| Medicines consumed — ₹5,80,000 purchased less closing stock ₹1,20,000 | | (4,60,000) |
| Motor car expenses — two-thirds of ₹1,80,000 | | (1,20,000) |
| Telephone and internet | | (66,000) |
| Depreciation | | (1,21,000) |
| **PROFITS AND GAINS OF THE PROFESSION** | | **23,93,000** |

*The purchase price of the surgical equipment, the motor car and the books is capital expenditure and is not deductible; only the depreciation is. The one-third private use of the car cuts both the running expenses and the depreciation.*

## Question 3 (b) OR — books of account and the audit

### Books to be kept by a specified profession [section 62, Rule 24]

The specified professions are law, medicine, engineering, architecture, accountancy, technical consultancy, interior decoration, authorised representation, film artistry, company secretaryship and information technology. Where the gross receipts of such a profession exceed ₹1,50,000 in all three years immediately preceding the tax year — or, in a newly set up profession, are likely to exceed that figure — the following must be kept:

- a cash book;
- a journal, where the accounts are kept on the mercantile system;
- a ledger;
- carbon copies of bills exceeding ₹25,000, serially numbered, and carbon copies or counterfoils of receipts issued;
- original bills and receipts for expenditure exceeding ₹50,000, and signed payment vouchers for smaller sums where no bill is available.

A person carrying on medical practice must in addition keep a daily case register in Form No. 3C and an inventory of the stock of medicines and consumables held at the beginning and the end of the year. The books are to be kept at the principal place of business and preserved for six years from the end of the relevant tax year. Where the gross receipts do not exceed ₹1,50,000, such books as enable the Assessing Officer to compute the income are enough.

### When an audit is required [section 63]

| The person | The limit |
|---|---|
| A person carrying on BUSINESS | Total sales, turnover or gross receipts exceeding ₹1,00,00,000 — raised to ₹10,00,00,000 where cash receipts and cash payments each do not exceed 5% of the aggregate |
| A person carrying on a PROFESSION | Gross receipts exceeding ₹50,00,000 |
| A person who has opted out of section 58 | Where he declares an income lower than the presumptive figure and his total income exceeds the maximum amount not chargeable to tax |

The report must be obtained and furnished by one month before the due date for the return under section 263(1).

## Question 4 (a) — income from house property

### House I — Kanpur, let out

Expected rent = the higher of the municipal value ₹4,80,000 and the fair rent ₹5,40,000, that is ₹5,40,000, capped at the standard rent of ₹5,10,000 → ₹5,10,000. The rent for the year is ₹6,24,000; less unrealised rent of one month ₹52,000 it is ₹5,72,000, which exceeds the expected rent. The shortfall is therefore wholly due to the vacancy of two months, and section 21(3) makes the gross annual value the actual rent.

| | | |
|---|---|---|
| Rent for the year (₹52,000 × 12) | | 6,24,000 |
| Less: unrealised rent of one month [Rule 21] | | (52,000) |
| Less: vacancy of two months | | (1,04,000) |
| GROSS ANNUAL VALUE [section 21(3)] | | 4,68,000 |
| Less: municipal taxes actually paid by the owner | | (36,000) |
| NET ANNUAL VALUE | | 4,32,000 |
| Less: thirty per cent of the net annual value [section 22(1)(a)] | | (1,29,600) |
| Less: interest on borrowed capital [section 22(1)(b)] | | (2,10,000) |
| **INCOME FROM HOUSE I** | | **92,400** |

*Of the ₹48,000 of municipal taxes levied, only the ₹36,000 actually paid during the year is deductible. The balance will be deductible in the year in which it is paid.*

### House II — Dehradun, self-occupied

The capital was borrowed on 1 October 2021 and construction was completed on 20 June 2025, within five years from the end of the tax year of borrowing, so the ceiling of ₹2,00,000 in section 22(2)(a) applies. Pre-construction interest of ₹4,50,000 for 1 October 2021 to 31 March 2025 is allowed in five equal instalments of ₹90,000 beginning with the Tax Year 2025-26, so the Tax Year 2026-27 takes the second.

| | | |
|---|---|---|
| Net annual value of a self-occupied house [section 21(6)] | | Nil |
| Interest for the year | | 1,90,000 |
| Add: one-fifth of the pre-construction interest | | 90,000 |
| Total interest | | 2,80,000 |
| Deduction restricted to | | (2,00,000) |
| **LOSS FROM HOUSE II** | | **(2,00,000)** |

### House III — Shimla, let out to a firm as a guest house

The purpose to which the tenant puts the property is immaterial; what is let is a building, and the income is charged under this head. There is no standard rent, so the expected rent is the higher of the municipal value ₹2,40,000 and the fair rent ₹2,88,000. The actual rent of ₹2,40,000 is lower, so the expected rent is the gross annual value.

| | | |
|---|---|---|
| Expected rent — the higher of ₹2,40,000 and ₹2,88,000 | | 2,88,000 |
| Actual rent (₹20,000 × 12) | | 2,40,000 |
| GROSS ANNUAL VALUE — the higher of the two | | 2,88,000 |
| Less: municipal taxes actually paid | | (24,000) |
| NET ANNUAL VALUE | | 2,64,000 |
| Less: thirty per cent | | (79,200) |

| | | |
|---|---|---|
| Less: interest on borrowed capital | | (60,000) |
| **INCOME FROM HOUSE III** | | **1,24,800** |

### Income under the head "Income from house property"

| | | |
|---|---|---|
| House I — let out | | 92,400 |
| House II — self-occupied | | (2,00,000) |
| House III — let out | | 1,24,800 |
| **INCOME FROM HOUSE PROPERTY** | | **17,200** |

*The head yields a positive figure, so no question of set-off arises. Under the default regime the answer would have been ₹2,17,200, the interest on the self-occupied house not being deductible at all.*

## Question 4 (b) — the self-occupied house [sections 21(6) and 21(7)]

- SECTION 21(6). Where the property, or a part of it, consists of a house which is IN THE OCCUPATION OF THE OWNER for the purposes of his own residence, or CANNOT ACTUALLY BE OCCUPIED BY HIM by reason of his employment, business or profession being carried on at another place and he resides at that other place in a building not belonging to him, the annual value is taken to be NIL. The house must not have been actually let during the year and no other benefit must have been derived from it.
- The second limb covers the man posted elsewhere. He need not have occupied the house at all; the requirement is that he resides at the other place in a building not his own. A house let for part of the year is outside the sub-section altogether for that year.
- SECTION 21(7)(a). The nil value may be claimed for not more than TWO houses, at the option of the assessee. The option may be changed from year to year, and it should be exercised in favour of the two houses whose annual values would otherwise be the highest.
- SECTION 21(7)(b). Where the assessee has more than two such houses, the annual value of the OTHERS is computed as if each had been let out — that is, on the expected rent. They are commonly called deemed let-out houses. Municipal taxes paid and the thirty per cent are then allowed on them, and the interest is allowed IN FULL, no ceiling applying to a house whose annual value is not nil.
- THE INTEREST. For a house whose annual value is nil the ceiling is ₹2,00,000 or ₹30,000 as the case may be, and section 22(5) caps the AGGREGATE for all such houses at ₹2,00,000. Since the annual value is nil, the arithmetic can only produce a loss, and it can never exceed ₹2,00,000 for all of them together.
- Under the DEFAULT REGIME none of this interest is deductible, so the income of a self-occupied house is simply nil.

## Question 4 (a) OR — one house, two units

The two units are identical, so every figure of the whole house is halved and each unit is computed on its own footing — Unit 1 as a self-occupied house and Unit 2 as a let-out house. Unit 1: municipal value ₹3,00,000, interest ₹1,60,000, municipal taxes ₹30,000. Unit 2: municipal value ₹3,00,000, fair rent ₹3,60,000, standard rent ₹3,30,000, interest ₹1,60,000, municipal taxes ₹30,000.

### Unit 2 — let out for nine months, vacant for three

Expected rent = the higher of ₹3,00,000 and ₹3,60,000, capped at the standard rent ₹3,30,000 → ₹3,30,000. The rent for a full year at ₹30,000 a month would be ₹3,60,000, which exceeds the expected rent, so the shortfall is wholly due to the vacancy and section 21(3) applies.

| | | |
|---|---|---|
| Rent for the year (₹30,000 × 12) | | 3,60,000 |
| Less: vacancy of three months | | (90,000) |
| GROSS ANNUAL VALUE [section 21(3)] | | 2,70,000 |

| | | |
|---|---|---|
| Less: municipal taxes actually paid — half of ₹60,000 | | (30,000) |
| NET ANNUAL VALUE | | 2,40,000 |
| Less: thirty per cent | | (72,000) |
| Less: interest on borrowed capital — half of ₹3,20,000 | | (1,60,000) |
| | | 8,000 |
| Add: arrears of rent ₹90,000 less thirty per cent [section 23] | | 63,000 |
| **INCOME FROM UNIT 2** | | **71,000** |

### Unit 1 — self-occupied

The capital was borrowed on 1 May 2019 for the PURCHASE of the house, so the ceiling of ₹2,00,000 in section 22(2)(a) applies. The interest attributable to this unit is ₹1,60,000, which is within it. Municipal taxes are not deductible where the annual value is nil.

| | | |
|---|---|---|
| Net annual value [section 21(6)] | | Nil |
| Less: interest on borrowed capital, within the ceiling of ₹2,00,000 | | (1,60,000) |
| **LOSS FROM UNIT 1** | | **(1,60,000)** |

### Income under the head "Income from house property"

| | | |
|---|---|---|
| Unit 2 — let out | | 71,000 |
| Unit 1 — self-occupied | | (1,60,000) |
| **LOSS FROM HOUSE PROPERTY** | | **(89,000)** |

*Section 109(1)(b) allows a loss under this head to be set off against income under other heads only up to ₹2,00,000, so the whole of ₹89,000 may be set off this year. Anything unabsorbed would be carried forward under section 110 for eight tax years, to be set off against income from house property alone. Under the default regime neither the deduction nor the set-off would have been available.*

## Question 4 (b) OR — unrealised rent and arrears of rent [section 23]

### Unrealised rent of the year — the four conditions of Rule 21

Rent which the owner cannot realise is EXCLUDED from the rent received or receivable in computing the gross annual value, but only if all four conditions are satisfied:

- the tenancy is bona fide;
- the defaulting tenant has vacated, or steps have been taken to compel him to vacate the property;
- the defaulting tenant is not in occupation of any other property of the assessee;
- the assessee has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent, or satisfies the Assessing Officer that such proceedings would be useless.

### Recovery of unrealised rent, and arrears of rent [section 23]

- Where unrealised rent ALLOWED AS A DEDUCTION in an earlier year is subsequently realised, it is deemed to be the income of the year in which it is realised.
- Where ARREARS OF RENT are received which were not charged to tax in any earlier year, they are deemed to be the income of the year of receipt.
- In BOTH cases a deduction of THIRTY PER CENT of the amount is allowed, and nothing else. No interest, no municipal tax, no other expenditure.
- In BOTH cases it is IMMATERIAL WHETHER THE ASSESSEE STILL OWNS THE PROPERTY in the year of receipt. He may have sold it years before; the receipt is still charged under this head.

- The charge is on the person who was the owner when the rent fell due and who bore the loss, and the amount is charged in the year of receipt whatever the method of accounting.

## Question 5 (a) — capital gains, clubbing, Chapter VIII and the tax

### The plot of land at Ludhiana

| | | |
|---|---|---|
| Full value of the consideration | | 58,00,000 |
| Less: brokerage at 2% [section 72(1)(a)] | | (1,16,000) |
| Less: cost of acquisition | | (16,00,000) |
| Long-term capital gain without indexation | | 40,84,000 |
| Less: exemption under section 85 — bonds of the Rural Electrification Corporation within six months, within the ceiling of ₹50,00,000 | | (12,00,000) |
| **CHARGEABLE LONG-TERM CAPITAL GAIN** | | **28,84,000** |
| A — 12.5% of ₹28,84,000 [section 197(1)(b)] | | 3,60,500 |
| Indexed cost ₹16,00,000 × 384 ÷ 240 = ₹25,60,000; indexed gain ₹31,24,000, less section 85 ₹12,00,000 | | 19,24,000 |
| B — 20% of ₹19,24,000 [section 197(3)] | | 3,84,800 |
| **TAX ON THE PLOT — the lower of A and B** | | **3,60,500** |

*Here limb A wins. Indexation is not always the better course; where the asset has appreciated sharply the un-indexed gain at 12.5% can cost less than the indexed gain at 20%. The gain that enters the total income is the un-indexed ₹28,84,000 either way.*

### The listed equity shares of Nova Ltd.

Purchased on 14 September 2025 and sold on 6 March 2027 — held for about eighteen months, so long-term, a listed security requiring only twelve months. Securities transaction tax was paid on both legs, so section 198 governs. Gain = 3,000 × (₹410 – ₹280) = ₹3,90,000, and the tax is 12.5% of ₹3,90,000 – ₹1,25,000, that is ₹33,125.

### The minor daughter

- The ₹1,20,000 earned by the stage performance arises from an ACTIVITY INVOLVING HER SKILL AND TALENT and is not clubbed at all. She is assessed on it in her own right.
- The ₹60,000 of interest on the fixed deposit is not the fruit of her skill. It is clubbed with the income of the parent whose total income is the greater, that is her father. The option under section 202(4) having been exercised, Schedule III (Table: Sl. No. 17) survives and the lower of the income and ₹1,500 is excluded. The amount clubbed is therefore ₹58,500.

### Deductions under Chapter VIII

| | | |
|---|---|---|
| Section 123 — Public Provident Fund | | 1,50,000 |
| Section 126 — health insurance for himself and his family ₹28,000, restricted to | | 25,000 |
| Section 126 — health insurance for his parents, both senior citizens; ₹52,000 restricted to | | 50,000 |
| Section 129 — interest on a loan for the higher education of his son; no monetary ceiling | | 1,20,000 |
| Section 153 — interest on the savings bank account, he being below sixty; ₹16,000 restricted to | | 10,000 |
| **TOTAL DEDUCTION** | | **3,55,000** |

*Sections 196(4) and 197(5) require the gross total income to be reduced by the special-rate capital gains before Chapter VIII is applied, so the deductions must come out of the ₹10,54,500 of business income and other sources. They do.*

### Computation of total income

| | | |
|---|---|---|
| Profits and gains of business or profession | | 8,40,000 |
| Income from other sources — savings bank ₹16,000, fixed deposits ₹1,40,000, minor daughter's interest clubbed ₹58,500 | | 2,14,500 |
| Long-term capital gain on the plot (un-indexed, after section 85) | | 28,84,000 |
| Long-term capital gain on listed equity [section 198] | | 3,90,000 |
| GROSS TOTAL INCOME | | 43,28,500 |
| Less: deductions under Chapter VIII | | (3,55,000) |
| **TOTAL INCOME** | | **39,73,500** |

### Computation of tax — the optional regime, age 58

| | | |
|---|---|---|
| Income taxable at the slab rates — ₹10,54,500 – ₹3,55,000 = ₹6,99,500; nil up to ₹2,50,000, ₹2,50,000 at 5%, ₹1,99,500 at 20% | | 52,400 |
| The plot — the lower of A and B | | 3,60,500 |
| Listed equity — 12.5% of (₹3,90,000 – ₹1,25,000) [section 198] | | 33,125 |
| INCOME-TAX | | 4,46,025 |
| Less: rebate under section 156(1) — the total income exceeds ₹5,00,000 | | Nil |
| Add: surcharge — the total income does not exceed ₹50,00,000 | | Nil |
| Add: health and education cess @ 4% | | 17,841 |
| **TAX PAYABLE (rounded off under section 516)** | | **4,63,870** |

## Question 5 (b) — health insurance premia [section 126]

### The four limits

| For whom | The limit |
|---|---|
| The assessee, his spouse and his dependent children | ₹25,000 |
| The same, where the assessee or his spouse is a SENIOR CITIZEN — sixty at any time during the tax year | ₹50,000 |
| The parents of the assessee, whether or not dependent on him | ₹25,000 — a separate limit, over and above the first |
| The parents, where either of them is a senior citizen | ₹50,000 |

The maximum, therefore, is ₹1,00,000 — ₹50,000 for a senior citizen assessee and his family and ₹50,000 for senior citizen parents. The deduction is available to an individual and to a Hindu undivided family, and it is a Chapter VIII deduction and so not available under the default regime.

### The preventive health check-up

Payment for a preventive health check-up of the assessee, his spouse, his dependent children or his parents is deductible up to ₹5,000, WITHIN the limits above and not in addition to them. It alone may be paid in CASH.

### The mode of payment [section 126(9)]

The premium must be paid otherwise than by cash — cheque, draft, credit card, net banking or any electronic mode. A premium paid in cash gives no deduction whatever, the single exception being the preventive health check-up.

### The senior citizen with no insurance

Where a senior citizen has no health insurance in force, the MEDICAL EXPENDITURE actually incurred on him is deductible within the same ₹50,000. It applies both to the assessee's own family and to his parents, and the two limits are separate. The expenditure must be paid otherwise than in cash. Where a premium is paid in a lump sum for more than one year, the deduction of each year is the premium divided by the number of years covered.

## Question 5 (a) OR — set-off, carry forward and the default regime

### How each item is dealt with

- THE SELF-OCCUPIED HOUSE. Section 202(2)(a) computes the total income without the deduction under section 22(1)(b) in respect of a property referred to in section 21(6). The interest of ₹1,90,000 is therefore not deductible at all, there is no loss, and section 202(3) deems the matter closed — nothing is carried forward.
- THE SPECULATION LOSS of ₹1,80,000. Section 108(2) allows it to be set off only against the profits of another speculation business. There are none, so it is carried forward under section 113 for FOUR tax years.
- THE RACE-HORSE LOSS of ₹90,000. Section 108 confines it to income from the same activity. It is carried forward under section 115 for FOUR tax years.
- THE SHORT-TERM CAPITAL LOSS of ₹1,20,000 may be set off against a capital gain on any other capital asset, short-term or long-term [section 108(2)]. It is set off against the long-term gain on the gold jewellery, leaving ₹3,40,000.
- THE BROUGHT-FORWARD BUSINESS LOSS of ₹1,40,000, the return having been filed in time, is set off against the business income under section 112, leaving ₹8,20,000. It is not attributable to any deduction which section 202(2)(a) shuts out, so the default regime does not bar it.
- THE LOTTERY WINNINGS must be GROSSED UP: ₹2,80,000 ÷ 0.70 = ₹4,00,000, of which ₹1,20,000 has been deducted at source.
- THE PUBLIC PROVIDENT FUND deposit and the HEALTH INSURANCE premium give nothing. Neither section 123 nor section 126 survives section 202(2)(a). Nor does section 153, so the ₹18,000 of savings bank interest is charged in full.

### Computation of total income

| | | |
|---|---|---|
| Profits and gains of business or profession — ₹9,60,000 less the brought-forward loss of ₹1,40,000 | | 8,20,000 |
| Income from house property — the let-out shop | | 2,40,000 |
| Capital gains — long-term gain on gold ₹4,60,000 less the short-term capital loss ₹1,20,000 | | 3,40,000 |
| Income from other sources — savings bank interest ₹18,000 and lottery winnings, grossed up, ₹4,00,000 | | 4,18,000 |
| GROSS TOTAL INCOME | | 18,18,000 |
| Less: deductions under Chapter VIII — none survives section 202(2) | | Nil |
| **TOTAL INCOME** | | **18,18,000** |

### Computation of tax — the default regime

| | | |
|---|---|---|
| **Income taxable at the slab rates — ₹18,18,000 less ₹3,40,000 and ₹4,00,000 = ₹10,78,000** | | |
| Nil up to ₹4,00,000; ₹4,00,000 @ 5% | | 20,000 |
| ₹2,78,000 @ 10% | | 27,800 |
| Tax at the slab rates | | 47,800 |
| Long-term capital gain on gold — 12.5% of ₹3,40,000 [section 197] | | 42,500 |
| Lottery winnings — 30% of ₹4,00,000 [section 194] | | 1,20,000 |
| INCOME-TAX | | 2,10,300 |
| Less: rebate under section 156 — the total income exceeds ₹12,00,000 | | Nil |
| Add: health and education cess @ 4% | | 8,412 |
| **TAX PAYABLE (rounded off under section 516)** | | **2,18,710** |
| Less: tax deducted at source on the lottery | | (1,20,000) |
| **BALANCE PAYABLE** | | **98,710** |

*Section 202(1) has no age bands, so his being 63 makes no difference to the slabs. Being 63 would have given him ₹3,00,000 of exemption and the ₹50,000 of section 153 under the optional regime.*

### Losses to be carried forward

| | | |
|---|---|---|
| Loss of the speculation business [section 113] — four tax years, to be set off against speculation profits only | | 1,80,000 |
| Loss from owning and maintaining race horses [section 115] — four tax years, against income from the same activity only | | 90,000 |



## Question 5 (b) OR — set-off and carry forward

### The order

- STAGE ONE — INTER-SOURCE SET-OFF [section 108]. A loss from one source is set off against income from another source UNDER THE SAME HEAD. Two prohibitions: a speculation loss goes only against speculation profits, and a long-term capital loss goes only against a long-term capital gain. A short-term capital loss may go against any capital gain. Losses of a specified business under section 46 and of the activity of owning and maintaining race horses are likewise confined to their own income.
- STAGE TWO — INTER-HEAD SET-OFF [section 109]. What remains is set off against income under any OTHER head of the same year. Three prohibitions: a loss under the head Capital gains cannot go against any other head; a loss of a business or profession cannot go against Salaries; and a loss under the head Income from house property can go against other heads only up to ₹2,00,000 in the year.
- STAGE THREE — CARRY FORWARD. Only what survives both stages is carried forward, and it then loses its inter-head freedom altogether.

| The loss | Section | In a later year, against | Years |
|---|---|---|---|
| Income from house property | 110 | Income from house property | 8 |
| Short-term capital loss | 111 | Any capital gain | 8 |
| Long-term capital loss | 111 | A long-term capital gain only | 8 |
| Business, not speculation | 112 | Any business or profession | 8 |
| Speculation business | 113 | Speculation profits only | 4 |
| Specified business [section 46] | 114 | Any specified business | No limit |

| The loss | Section | In a later year, against | Years |
|---|---|---|---|
| Owning and maintaining race horses | 115 | The same activity | 4 |
| Unabsorbed depreciation | 33(11) | Any head except Salaries | No limit |

- Section 121 requires the return to have been filed within the time allowed by section 263(1) before a loss may be carried forward. A house property loss and unabsorbed depreciation are outside section 121 and survive a late return.
- Section 112(3) requires a brought-forward business loss to be set off BEFORE unabsorbed depreciation, because the business loss has only eight years to run and the depreciation has for ever.