DSC-5.1

INCOME TAX LAW AND PRACTICE

Two Mock Question Papers, with Solutions

B.Com. UGCF — DSC

Semester V · Unique Paper Code 2412093501

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. UGCF — DSC, 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.

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QUESTION PAPER — SET I

B.Com. UGCF — DSC · Paper M-7501 · 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-7501	Mock Paper SET I — Tax Year 2026-27
Unique Paper Code	2412093501	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. UGCF — DSC	
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) What is a Permanent Account Number? State four transactions in which quoting of the Permanent Account Number is mandatory under Rule 159 of the Income-tax Rules, 2026. **(6)**

(b) Ms. Kavita Rao, a citizen of India, had never left India until she went to Doha on 22 September 2026 to take up employment there. She did not return during the Tax Year 2026-27. Determine her residential status for the Tax Year 2026-27, and state how your answer would change in each of the following independent situations: **(12)**

- she had left on 5 October 2026 instead of 22 September 2026;
- she had left on 22 September 2026 not for employment but on a holiday, having been in India for 410 days during the four preceding tax years;
- she is a citizen of Qatar and not of India.

OR

1. (a) Define agricultural income under section 2(5). Give two examples each of income which is, and of income which is not, agricultural income. **(6)**

(b) Shri Ramesh Chandra, aged 45 years and resident in India, has a non-agricultural total income of ₹9,60,000 and net agricultural income of ₹1,80,000 for the Tax Year 2026-27. Compute his tax liability under the default regime of section 202, stating the conditions under which agricultural income is aggregated with non-agricultural income. **(12)**

2. (a) List any six incomes exempt under section 11 read with Schedule II of the Income-tax Act, 2025, with suitable examples. **(6)**

(b) Shri Suresh Menon is employed at Kochi, the population of which was 21 lakh according to the 2011 census. The following are his particulars for the Tax Year 2026-27: **(12)**

#	Particulars	Amount
i	Basic salary	₹45,000 p.m.
ii	Dearness allowance (forming part of retirement benefits)	₹9,000 p.m.
iii	Bonus	₹54,000
iv	Children education allowance for two children	₹3,500 p.m. per child
v	Transport allowance	₹2,000 p.m.
vi	Rent-free unfurnished accommodation owned by the employer	—
vii	A domestic servant engaged and paid by the employer	₹4,000 p.m.
viii	Free meals in the office at ₹250 per meal on 220 days	—
ix	Professional tax paid by him	₹2,400

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

OR

2. (a) Explain the treatment of gratuity received by an employee who is not covered by the Payment of Gratuity Act, 1972, under section 19 of the Income-tax Act, 2025. **(6)**

(b) Distinguish between an allowance and a perquisite. Explain the valuation of the perquisite in respect of a motor car owned by the employer under Rule 15(3), and of an interest-free loan under Rule 15(5), giving the monetary limits. **(12)**

3. (a) Explain the provisions of section 33 relating to depreciation. State the effect of an asset being put to use for less than 180 days in the year, and the conditions for additional depreciation. **(6)**

(b) The following is the Profit and Loss Account of Shri Anup Bhandari, a retail trader, for the year ended 31 March 2027: **(12)**

Particulars	₹	Particulars	₹
Opening stock	3,10,000	Sales	48,00,000
Purchases	26,50,000	Closing stock	3,80,000
Salaries	6,20,000	Dividend from an Indian company	90,000
Rent and taxes	1,80,000	Interest on a bank fixed deposit	60,000
Advertisement	95,000		
Depreciation	2,10,000		
General expenses	1,59,000		
Provision for bad debts	40,000		
Life insurance premium of the proprietor	36,000		
Net profit	10,30,000		
	53,30,000		53,30,000

Additional information:

- General expenses include ₹48,000 drawn by the proprietor for his household expenses.
- Advertisement includes ₹25,000 paid in cash on a single day to one person.
- Rent and taxes include ₹55,000 of income-tax paid.
- Depreciation allowable under section 33 is ₹1,65,000.

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

OR

3. (a) State, with reasons, whether the following are allowable in computing business income: (i) a provision for bad and doubtful debts; (ii) a payment of ₹40,000 made in cash on a single day to one person; (iii) under-valuation of closing stock. **(6)**

(b) Explain the scheme of presumptive taxation under section 58 of the Income-tax Act, 2025 for an eligible business, an eligible profession and the business of plying, hiring or leasing goods carriages. State the turnover limits, the rates and the consequences of opting out. Illustrate with figures of your own. **(12)**

4. (a) Explain the meaning of gross annual value and the manner of its computation in the case of a let-out property, taking a suitable example. **(6)**

(b) Shri Praveen Gokhale owns two house properties. The particulars for the Tax Year 2026-27 are as follows: **(12)**

Particulars	House I — Bhopal (let out)	House II — Gwalior (self-occupied)
Municipal value	₹2,40,000	₹3,00,000
Fair rent	₹3,00,000	—
Standard rent	₹2,76,000	—
Actual rent	₹26,000 p.m.	—
Municipal taxes paid by the owner during the year	₹24,000	₹30,000
Interest on capital borrowed for construction, for the year	₹1,65,000	₹1,40,000

Both loans were taken after 1 April 2020 for the construction of the respective houses, and each house was completed within five years from the end of the tax year in which the capital was borrowed. Compute his 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 his other income.

OR

4. (a) Explain the treatment of unrealised rent and of arrears of rent under section 23. **(6)**

(b) Explain, with the relevant section numbers, the position of a person who owns three house properties, all of which he occupies for his own residence. How many may be treated as self-occupied, what is the annual value of the remainder, and what are the ceilings on the deduction for interest? Illustrate your answer with figures of your own. **(12)**

5. (a) Explain the exemption available under section 85 in respect of investment in certain bonds. State the time limit, the monetary ceiling and the consequence of transferring the bonds before the lock-in period expires. **(6)**

(b) Shri Anand Vaidya, a resident individual aged 52 years, has not exercised the option under section 202(4). His particulars for the Tax Year 2026-27 are: **(12)**

- A plot of land at Nashik, purchased in September 2014 for ₹14,00,000 and sold on 20 July 2026 for ₹42,00,000. On 5 November 2026 he invested ₹8,00,000 in bonds of the Rural Electrification Corporation Ltd.
- 2,000 listed equity shares purchased on 8 August 2015 at ₹220 each and sold on 3 February 2027 at ₹480 each through a recognised stock exchange, securities transaction tax paid. The fair market value as on 31 January 2018 was ₹390 per share.
- 1,500 unlisted equity shares purchased on 10 October 2025 for ₹7,00,000 and sold on 15 December 2026 for ₹8,50,000.
- Business income ₹6,00,000; interest on a savings bank account ₹14,000; interest on bank fixed deposits ₹86,000.
- Interest of ₹36,000 earned by his minor son on a fixed deposit made out of a gift from the boy's grandmother. Shri Vaidya's total income is greater than that of his wife.

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

OR

5. (a) What is a capital asset under section 2(22)? Name four receipts or assets which are expressly excluded from the definition. **(6)**

(b) Explain the manner in which the cost of acquisition is determined in each of the following cases, giving the relevant section: (i) an asset acquired by gift or inheritance; (ii) bonus shares; (iii) right shares and the renunciation of a right; (iv) a capital asset acquired before 1 April 2001; (v) listed equity shares acquired before 1 February 2018. Illustrate any two of them with figures of your own. **(12)**

— END OF THE QUESTION PAPER —

QUESTION PAPER — SET II

B.Com. UGCF — DSC · Paper M-7502 · 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-7502	Mock Paper SET II — Tax Year 2026-27
Unique Paper Code	2412093501	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. UGCF — DSC	
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) Explain the meaning of "gross total income" and of "total income". Distinguish between the two, and name the five heads under which income is classified by section 13. **(6)**

(b) Ms. Neelam Bajaj, a foreign citizen, came to India for the first time on 1 September 2026 and left on 20 February 2027. Determine her residential status for the Tax Year 2026-27, and state how your answer would change in each of the following independent situations: **(12)**

- she had left on 5 March 2027 instead of 20 February 2027;
- she had come on 1 June 2026 and stayed in India for the rest of the year;
- she is a person of Indian origin who came to India on a visit, her income other than income from foreign sources being ₹18,00,000.

OR

1. (a) Explain the scheme of partial integration of agricultural income with non-agricultural income. State the two conditions which must be satisfied before it applies, and the three steps of the computation. **(6)**

(b) Shri Deepak Sabharwal, aged 35 years and resident in India, has a business income of ₹10,40,000 and net agricultural income of ₹2,20,000 for the Tax Year 2026-27. He pays ₹60,000 as life insurance premium on a policy on his own life and ₹24,000 as health insurance premium, both by cheque. 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)**

2. (a) Explain the tax treatment of each of the following: (i) house rent allowance; (ii) children education allowance; (iii) transport allowance; (iv) entertainment allowance. **(6)**

(b) Shri Girdhari Lal is employed at Jaipur, the population of which was 30 lakh according to the 2011 census. The following are his particulars for the Tax Year 2026-27: **(12)**

#	Particulars	Amount
i	Basic salary	₹40,000 p.m.
ii	Dearness allowance (60% forms part of retirement benefits)	₹10,000 p.m.
iii	Bonus	₹48,000
iv	House rent allowance (rent actually paid ₹15,000 p.m.)	₹12,000 p.m.
v	Children education allowance for two children	₹4,000 p.m. per child
vi	Medical allowance	₹1,500 p.m.
vii	Employer's contribution to a recognised provident fund; he contributes an equal amount	14% of basic salary
viii	A 1.4-litre motor car owned by the employer, used partly for official and partly for private purposes, the employer meeting all running expenses; no chauffeur is provided	—
ix	Professional tax paid by him	₹2,400

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

OR

2. (a) Explain the valuation of rent-free accommodation owned by the employer under Rule 15(2). State the three population slabs and the rate applicable to each, and what is taken as "salary" for this purpose. **(6)**

(b) Shri Ram Avtar retired from a private company on 31 August 2026 after 32 years and 4 months of service. He is not covered by the Payment of Gratuity Act, 1972. His basic salary was ₹45,000 p.m. and dearness allowance ₹15,000 p.m., 60% of which forms part of retirement benefits; both had been at these rates for the last twelve months of his service. On retirement he received: **(12)**

#	Particulars	₹
i	Gratuity	14,00,000
ii	Leave salary for 210 days of unavailed leave. He was entitled to 30 days' leave for each completed year of service and had availed 750 days during his service	4,20,000
iii	Commuted value of 50% of his pension	6,00,000
iv	Uncommuted pension from 1 September 2026	₹14,000 p.m.

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

3. (a) State, with reasons, whether the following are allowable in computing business income: (i) interest on capital contributed by the proprietor himself; (ii) a donation to an approved charitable trust debited to the Profit and Loss Account; (iii) expenditure on an advertisement in a souvenir published by a political party. **(6)**

(b) The following is the Profit and Loss Account of Smt. Kanta Devi, a retail trader, for the year ended 31 March 2027: **(12)**

Particulars	₹	Particulars	₹
Opening stock	2,80,000	Sales	40,20,000
Purchases	22,40,000	Closing stock	3,60,000
Salaries	4,60,000	Interest on a savings bank account	16,000
Rent	1,44,000	Rent from a residential house owned by her	1,80,000
Advertisement	78,000		
Depreciation	1,90,000		
Interest on loan	96,000		
Bad debts written off	55,000		
Provision for doubtful debts	45,000		
Donation to an approved charitable trust	50,000		
General expenses	1,86,000		
Net profit	7,52,000		
	45,76,000		45,76,000

Additional information:

- Depreciation allowable under section 33 is ₹1,45,000.
- General expenses include ₹36,000 spent on the education of her daughter.
- Advertisement includes ₹22,000 paid in cash on a single day to one person.
- Interest on loan includes ₹30,000 on a loan taken for the construction of the residential house.

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

OR

3. (a) Explain the meaning of a "block of assets" under section 2(23) and the manner in which depreciation is computed on a block. Illustrate with figures of your own. **(6)**

(b) Shri Harish Bansal, a chartered accountant, furnishes the following Receipts and Payments Account for the year ended 31 March 2027: **(12)**

Receipts	₹	Payments	₹
Balance b/d	80,000	Office rent	2,40,000
Audit fees	18,40,000	Salary to staff	4,80,000
Consultancy fees	6,20,000	Printing and stationery	65,000
Interest on bank fixed deposits	90,000	Subscription to professional journals	24,000
Gift from a client on Diwali	40,000	Computer purchased on 20 August 2026	1,20,000
		Motor car purchased on 5 January 2027	8,00,000

Receipts	₹	Payments	₹
		Motor car expenses	1,44,000
		Personal drawings	3,60,000
		Income-tax paid	90,000
		Balance c/d	3,47,000
	26,70,000		26,70,000

Additional information: half of the use of the motor car is personal; the rates of depreciation are 40% on the computer and 15% on the motor car. Compute his income under the head “Profits and gains of business or profession” for the Tax Year 2026-27.

4. (a) Explain the deduction for interest on borrowed capital under section 22(1)(b). State the ceilings applicable to a self-occupied house and the treatment of pre-construction interest. **(6)**

(b) Shri Mahender Singh owns two house properties. The particulars for the Tax Year 2026-27 are as follows: **(12)**

Particulars	House I — Rohtak (let out)	House II — Hisar (self-occupied)
Municipal value	₹3,00,000	₹2,40,000
Fair rent	₹3,60,000	—
Standard rent	₹3,30,000	—
Actual rent	₹32,000 p.m.	—
Vacancy	1 month	—
Unrealised rent (conditions of Rule 21 satisfied)	1 month	—
Municipal taxes paid by the owner during the year	₹30,000	—
Interest on capital borrowed, for the year	₹1,80,000	₹2,30,000

The loan on House II was taken on 1 July 2019 for the purchase of that house. Compute his 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 his other income.

OR

4. (a) Who is the "owner" of a house property? Explain the concept of deemed ownership under section 25, with two examples. **(6)**

(b) Shri Kamal Kishore and Smt. Sarita Kishore own a house at Jaipur in equal shares, their shares being definite and ascertainable. The particulars for the Tax Year 2026-27 are: municipal value ₹4,80,000; fair rent ₹5,40,000; standard rent ₹5,20,000. The house is let out at ₹46,000 per month. Municipal taxes levied were ₹48,000, of which ₹36,000 was paid during the year. Interest on a loan taken for construction was ₹2,00,000. They also paid repairs ₹30,000 and insurance ₹10,000. Compute the income of each co-owner under the head "Income from house property" for the Tax Year 2026-27. **(12)**

5. (a) Explain the exemption available under section 82 on the transfer of a residential house. State the conditions, the time limits and the amount of the exemption. **(6)**

(b) Smt. Rajni Sood, a resident individual aged 55 years, has exercised the option under section 202(4). Her particulars for the Tax Year 2026-27 are: **(12)**

- A residential house at Agra, purchased in July 2014 for ₹20,00,000 and sold on 15 September 2026 for ₹68,00,000. She purchased another residential house for ₹30,00,000 on 20 January 2027 and owns no other house.
- 1,000 listed equity shares purchased on 12 December 2025 for ₹3,20,000 and sold on 20 January 2027 for ₹4,60,000 through a recognised stock exchange, securities transaction tax paid.
- Gold jewellery purchased in June 2024 for ₹4,00,000 and sold in November 2026 for ₹5,60,000.
- Income from a business ₹5,20,000 and interest on a savings bank account ₹12,000.
- She deposited ₹1,50,000 in the Public Provident Fund and paid ₹26,000 by cheque as health insurance premium for herself and her husband.

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

OR

5. (a) Explain the meaning of "transfer" under section 2(109). Name four transactions which are not regarded as a transfer. **(6)**

(b) Shri Naresh Aggarwal, a resident individual aged 66 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 wholesale business	7,80,000
2	Loss from a speculation business	(60,000)
3	Income from a let-out house property, computed	1,90,000
4	Long-term capital gain on the sale of gold jewellery	3,20,000
5	Short-term capital loss on the sale of unlisted shares	(80,000)
6	Winnings from a crossword puzzle, gross	1,50,000
7	Family pension received during the year	3,60,000
8	Interest on a savings bank account	22,000
9	Interest earned by his minor son on a fixed deposit made out of a gift from the boy's grandfather	28,000

He deposited ₹1,20,000 in the Public Provident Fund during the year. His total income is greater than that of his wife. Compute his total income and his tax liability for the Tax Year 2026-27, and state the loss to be carried forward and the number of years for which it may be carried.

— END OF THE QUESTION PAPER —

SOLUTIONS — SET I

B.Com. UGCF — DSC · Paper M-7501 · Tax Year 2026-27

SOLUTIONS

B.Com. (Prog.) — DSC 5.1 · Mock Paper SET I · Paper M-7501 · 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) — the Permanent Account Number

A Permanent Account Number is a ten-character alphanumeric identifier allotted by the Income-tax Department in the form of a laminated card. It is permanent — it does not change with a change of address, of assessing officer or of status — and no person may hold more than one. The first three characters are a sequence of letters, the fourth denotes the status of the holder (P for an individual, C for a company, F for a firm, H for a Hindu undivided family), the fifth is the first letter of the surname or of the name of the entity, the next four are numerals and the tenth is a check letter. An Aadhaar number quoted in place of a PAN is accepted, and a person who has both must link the two.

Four transactions in which quoting a PAN is mandatory [Rule 159]

#	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	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
4	Sale or purchase of immovable property	₹10,00,000 or more, or a stamp duty value of ₹10,00,000 or more

A person who has no PAN and enters into such a transaction must furnish a declaration in Form No. 60.

Question 1 (b) — residential status [section 6]

Days in India from 1 April to 22 September 2026: 30 + 31 + 30 + 31 + 31 + 22 = 175 days.

- **Main case.** 175 days is less than 182, so section 6(2)(a) fails. She is a citizen of India who left India during the tax year for the purposes of employment outside India, so section 6(3)(b) makes the 60-day test in section 6(2)(b) inapplicable altogether. She is a NON-RESIDENT.
- **(i) Had she left on 5 October 2026.** Days in India would be 30 + 31 + 30 + 31 + 31 + 30 + 5 = 188, which is 182 or more. Section 6(2)(a) is satisfied and she is RESIDENT. She had never left India before, so she was resident in all ten preceding tax years and in India for far more than 730 days in the seven preceding years; neither limb of section 6(13)(a) is satisfied. She is RESIDENT AND ORDINARILY RESIDENT.

- **(ii) Had she left on a holiday.** Section 6(3)(b) would not apply, because she did not leave for employment. Section 6(2)(b) must then be tested: 175 days is 60 or more, and 410 days in the four preceding years is 365 or more. Both limbs are satisfied, so she is RESIDENT, and on the same reasoning as above ORDINARILY RESIDENT.
- **(iii) Were she a citizen of Qatar.** The relaxation in section 6(3)(b) is confined to a citizen of India, so it would not be open to her. Section 6(2)(b) would have to be tested on the facts of her stay in the four preceding years. Citizenship is otherwise irrelevant to residence — a foreign citizen who satisfies section 6(2) is resident, and may well be ordinarily resident.

Question 1 (a) OR — agricultural income [section 2(5)]

The definition

- any RENT OR REVENUE derived from land which is situated in India and is used for agricultural purposes;
- any income derived from such land by AGRICULTURE, or by a process ordinarily employed by a cultivator or receiver of rent in kind to render the produce fit to be taken to market, or by the sale of the produce so rendered fit;
- any income from a FARM BUILDING required as a dwelling house, a store house or an out-building, provided the land is assessed to land revenue or is situated outside the specified urban limits.

Three requirements run through the definition: the land must be SITUATED IN INDIA; it must be USED FOR AGRICULTURAL PURPOSES; and there must be some measure of HUMAN SKILL AND LABOUR spent on the land itself. Agricultural income is exempt under section 11 read with Schedule II, but it is taken into account for rate purposes under the partial integration in section 3(2) of the Finance Act, 2026.

Agricultural income	Not agricultural income
Income from the sale of a crop grown on land in India	Income from the sale of trees of spontaneous growth, no human skill having been spent on the land
Rent received from a tenant for the agricultural use of land	Income of a dairy, a poultry farm or the breeding of livestock
Income from growing flowers or creepers, and from a nursery where the seedlings are raised on land	Income from a stone quarry, a brick field or fisheries
Compensation received from an insurer for damage to a standing crop	Interest on arrears of rent of agricultural land, and dividend paid by a company out of its agricultural profits
Income of land in India used for agriculture, wherever received	Income of agricultural land situated OUTSIDE India

Question 1 (b) OR — partial integration

Net agricultural income of ₹1,80,000 exceeds ₹5,000 and the non-agricultural income of ₹9,60,000 exceeds ₹4,00,000, the maximum amount not chargeable to tax under the default regime. He is an individual, so section 3(2) of the Finance Act, 2026 applies.

Step 1 — tax on ₹9,60,000 + ₹1,80,000 = ₹11,40,000		
Nil up to ₹4,00,000; ₹4,00,000 @ 5%		20,000
₹3,40,000 @ 10%		34,000
Tax at Step 1		54,000
Step 2 — tax on ₹1,80,000 + ₹4,00,000 = ₹5,80,000; ₹1,80,000 @ 5%		9,000

Step 3 — tax on the non-agricultural income		**45,000**
Less: rebate under section 156(2)(a) — total income of ₹9,60,000 does not exceed ₹12,00,000, so the rebate is the lower of ₹60,000 and the tax of ₹45,000		(45,000)
Tax after rebate		Nil
TAX PAYABLE		**NIL**

Note how the exempt agricultural income still did work: without it the tax on ₹9,60,000 alone would have been ₹36,000, and the rebate would have wiped that out too. Here the rebate happens to absorb the whole liability, so nothing is payable.

Question 2 (a) — incomes exempt under section 11 with Schedule II

- AGRICULTURAL INCOME — rent or revenue from land situated in India and used for agricultural purposes, and income derived from such land by agriculture. Example: ₹4,00,000 received by a farmer from the sale of wheat grown on his field in Haryana.
- A SHARE IN THE INCOME OF A HINDU UNDIVIDED FAMILY received by a member as such — the family having already been taxed on it. Example: ₹80,000 received by a coparcener out of the family's business profits.
- A SHARE OF A PARTNER in the total income of a firm assessed as such. Example: a partner's 40% share of ₹10,00,000 of firm profits; his salary and interest from the firm are, however, taxable.
- PAYMENTS FROM A PROVIDENT FUND to which the Provident Funds Act, 1925 applies, and from the Public Provident Fund. Example: ₹9,00,000 withdrawn on maturity of a Public Provident Fund account.
- SCHOLARSHIPS granted to meet the cost of education, whoever grants them and whether or not the whole is spent on education. Example: a ₹1,20,000 merit scholarship from a university.
- AWARDS AND REWARDS instituted by the Central or a State Government, and those approved by the Central Government. Example: a State Government cash award of ₹5,00,000 to an Olympic medallist.

Also in the Schedule: the daily allowance of a Member of Parliament or of a State Legislature; a sum received under a life insurance policy, subject to the premium conditions; the gratuity, commuted pension and leave salary of a Government employee; and income of a member of a Scheduled Tribe in the specified areas.

Question 2 (b) — income from salaries

Kochi had a population of 21 lakh in the 2011 census — more than 15 lakh but not more than 40 lakh — so accommodation owned by the employer is valued at 7.5% of salary [Rule 15(2)].

"Salary" for this purpose is basic + dearness allowance forming part of retirement benefits + bonus + the taxable part of the allowances: ₹5,40,000 + ₹1,08,000 + ₹54,000 + ₹12,000 + ₹24,000 = ₹7,38,000.

Computation of income under the head "Salaries"

Basic salary (₹45,000 × 12)		5,40,000
Dearness allowance (₹9,000 × 12)		1,08,000
Bonus		54,000
Children education allowance — received ₹84,000, exempt ₹3,000 per month per child for two children ₹72,000		12,000
Transport allowance — no exemption for an employee who is not disabled		24,000
Rent-free unfurnished accommodation — 7.5% of ₹7,38,000		55,350
Domestic servant — he is a specified employee, his salary exceeding ₹4,00,000 [Rule 17]		48,000

Free meals — ₹250 per meal against the limit of ₹200; ₹50 × 220 days		11,000
GROSS SALARY		8,52,350
Less: standard deduction, optional regime		(50,000)
Less: tax on employment		(2,400)
INCOME FROM SALARIES		**7,99,950**

Question 2 (a) OR — gratuity where the Payment of Gratuity Act does not apply [section 19(1), Table, Sl. No. 6]

Gratuity received DURING SERVICE is taxable in full, whoever the employer. What follows applies to gratuity received on retirement, on becoming incapacitated, on termination, or by the widow or legal heirs on the death of the employee.

The exemption is the LEAST of three

- the notified lifetime ceiling of ₹20,00,000;
- the gratuity actually received;
- half a month's AVERAGE SALARY for each COMPLETED YEAR of service — that is, ½ × average salary × the number of completed years.

The three expressions that decide the answer

- AVERAGE SALARY means the average of the salary of the TEN MONTHS immediately preceding the month of retirement — not the last drawn salary.
- SALARY means basic salary plus that part of the dearness allowance which enters into retirement benefits plus commission at a fixed percentage of turnover. Nothing else.
- COMPLETED YEARS means completed years only; every fraction is IGNORED. Twenty-four years and eleven months is twenty-four years.

The ₹20,00,000 is a LIFETIME ceiling: exemption already claimed from a former employer is deducted from it. Where gratuity is received from more than one employer in the same year the computation is made on the aggregate. Gratuity received by the widow or legal heirs on the death of the employee is not charged under Salaries at all.

Question 2 (b) OR — allowance and perquisite; the car and the loan

Allowance	Perquisite
A fixed monetary sum paid in addition to salary	A benefit or amenity provided in kind, or an obligation of the employee met by the employer
Taxable on RECEIPT, whether or not spent	Taxable on the value determined by Rule 15, whether or not the employee could have converted it into money
Charged in full unless a provision exempts it; the exemption is usually the lower of the sum received and the sum spent	Certain perquisites are charged only in the hands of a SPECIFIED EMPLOYEE — a director, a person with a substantial interest, or an employee whose salary exceeds ₹4,00,000
Examples: dearness allowance, house rent allowance, children education allowance, transport allowance	Examples: rent-free accommodation, a motor car, a domestic servant, free education, an interest-free loan

A motor car owned by the employer [Rule 15(3)]

The use	Running expenses met by the employer	Met by the employee
Wholly official, with the prescribed records kept	Nil	Nil
Wholly private	The actual running and maintenance expenses PLUS 10% per annum of the cost of the car (or the hire charges), LESS anything recovered	10% per annum of the cost, less anything recovered
Partly official, partly private — engine capacity up to 1.6 litres	₹5,000 per month	₹2,100 per month
Partly official, partly private — engine capacity above 1.6 litres	₹7,000 per month	₹2,900 per month

Where a CHAUFFEUR is provided, add ₹3,000 per month. Where the car is owned by the employee and the employer meets the expenses, the perquisite is the actual expenditure less ₹5,000 or ₹7,000 per month (and less ₹3,000 for the chauffeur) if the car is used partly for official purposes.

An interest-free or concessional loan [Rule 15(5)]

- The value is the interest computed at the rate charged by the State Bank of India as on the FIRST DAY of the tax year for a loan of the same purpose and the same class, on the MAXIMUM OUTSTANDING MONTHLY BALANCE, less the interest actually paid by the employee.
- "Maximum outstanding monthly balance" is the aggregate outstanding balance on the LAST DAY of each month.
- NOTHING is charged where the loans in the aggregate do not exceed ₹20,000, or where the loan is for the medical treatment of a disease specified in the Rules — except so much of the loan as has been reimbursed under a medical insurance policy.
- The perquisite is charged whether or not the employee is a specified employee, being a benefit capable of being valued in money.

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

Net profit as per the Profit and Loss Account		**10,30,000**
ADD — items debited but not allowable		
Personal drawings included in general expenses [section 34(1)]		48,000
Cash payment exceeding ₹10,000 in a day to one person [section 36(4)]		25,000
Depreciation debited in the books		2,10,000
Provision for bad debts		40,000
Life insurance premium of the proprietor — personal		36,000
Income-tax included in rent and taxes [section 35(a)]		55,000
		4,14,000
LESS — items to be deducted		
Depreciation allowable under section 33		(1,65,000)
Dividend from an Indian company — other sources		(90,000)
Interest on a bank fixed deposit — other sources		(60,000)
		(3,15,000)

PROFITS AND GAINS OF BUSINESS OR PROFESSION		**11,29,000**

Question 3 (a) — depreciation [section 33]

- Depreciation is allowed on the WRITTEN DOWN VALUE OF A BLOCK OF ASSETS at the prescribed rate. A block is a group of assets of the same class carrying the same rate; the individual asset loses its identity within it.
- The written down value of a block is the opening written down value, plus the actual cost of assets acquired during the year, less the moneys payable in respect of assets sold, discarded, demolished or destroyed. It cannot fall below nil.
- The asset must be OWNED, wholly or partly, by the assessee and USED for the purposes of the business or profession.
- THE 180-DAY RULE. An asset ACQUIRED during the year and PUT TO USE for less than 180 days in that year gets HALF the normal rate in that year, and the full rate from the next. A car bought in December and used at once therefore earns 7.5% and not 15%.
- ADDITIONAL DEPRECIATION of 20% of the actual cost is allowed on NEW machinery or plant acquired and installed by a person 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 plant installed in an office or a residence, on office appliances or road transport vehicles, or where the whole cost is allowed in one year. Where the machinery is used for less than 180 days, half of the 20% is allowed in that year and the balance in the next. It is not available under the default regime.
- Depreciation which cannot be given effect to for want of profits is added to the depreciation of the following year under section 33(11), may be set off against any head except Salaries, and is carried forward indefinitely.

Question 4 (b) — income from house property

House I — Bhopal, let out

Expected rent — higher of ₹2,40,000 and ₹3,00,000, capped at the standard rent of ₹2,76,000		2,76,000
Actual rent (₹26,000 × 12)		3,12,000
GROSS ANNUAL VALUE — the higher of the two		**3,12,000**
Less: municipal taxes actually paid by the owner		(24,000)
NET ANNUAL VALUE		2,88,000
Less: thirty per cent of the net annual value		(86,400)
Less: interest on borrowed capital		(1,65,000)
Income from House I		**36,600**

House II — Gwalior, self-occupied

Net annual value [section 21(6)]		Nil
Municipal taxes are not deductible where the annual value is nil		Nil
Less: interest, restricted to ₹2,00,000 under section 22(2)(a)		(1,40,000)
Loss from House II		**(1,40,000)**

Income under the head "Income from house property"

House I		36,600
House II		(1,40,000)
LOSS FROM HOUSE PROPERTY		**(1,03,400)**

The whole loss of ₹1,03,400 may be set off against income under other heads, being within the ceiling of ₹2,00,000 in section 109(1)(b). Anything not set off may be carried forward for eight tax years under section 110(2), but then only against income from house property.

Question 3 (a) OR — three items

- **A PROVISION FOR BAD AND DOUBTFUL DEBTS — NOT ALLOWABLE.** Section 32 allows a bad debt which has been WRITTEN OFF as irrecoverable in the accounts, and which was taken into account in computing the income of that or an earlier year. A provision is not a writing off; the debt is still on the books and the loss is not yet established. Nor does section 34(1) help, a provision for an unascertained liability not being expenditure laid out. It must be added back, and the deduction taken in the year the debt is actually written off. (A scheduled bank and certain financial institutions are separately allowed a provision, but no trader is.)
- **A CASH PAYMENT OF ₹40,000 ON A SINGLE DAY TO ONE PERSON — NOT ALLOWABLE.** Section 36(4) disallows the WHOLE of a payment, or of the aggregate of payments to one person in one day, exceeding ₹10,000 where it is made otherwise than by an account-payee cheque, an account-payee draft or a prescribed electronic mode. The whole ₹40,000 goes, not merely the ₹30,000 of excess. The limit is ₹35,000 for the payment of the hire of a goods carriage, and the Rules make exceptions for payment to a bank, to a cultivator for his produce, in a village with no bank, and on a day on which the banks were closed.
- **UNDER-VALUATION OF CLOSING STOCK — TO BE CORRECTED.** Stock must be valued consistently, at cost or at net realisable value, whichever is lower. Valuing the closing stock below that figure understates the profit by exactly the amount of the under-valuation, so the shortfall is ADDED BACK. Where the closing stock of ₹5,60,000 has been written down by 20%, the correct figure is ₹5,60,000 ÷ 0.80 = ₹7,00,000 and ₹1,40,000 is added. An under-valued OPENING stock has the opposite effect and is deducted.

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

Section 58 relieves a small assessee of books and of an audit by deeming a percentage of his turnover to be his income. It is available to a RESIDENT individual, Hindu undivided family or firm (not a limited liability partnership), and it is optional.

	Eligible business	Eligible profession	Goods carriages
Sub-section	58(2), Sl. No. 1	58(2), Sl. No. 3	58(2), Sl. No. 2
The limit	Turnover up to ₹2,00,00,000 — ₹3,00,00,000 where the cash receipts and cash payments each do not exceed 5% of the aggregate	Gross receipts up to ₹50,00,000 — ₹75,00,000 on the same 5% condition	Not more than TEN goods carriages owned at any time during the year
The rate	8% of turnover; 6% of so much of it as is received through a banking channel or an electronic mode by the due date under section 263(1)	50% of the gross receipts	A HEAVY goods vehicle: ₹1,000 per tonne of gross vehicle weight per month or part of a month. Any OTHER goods carriage: ₹7,500 per month or part of a month

	Eligible business	Eligible profession	Goods carriages
Who is shut out	A person carrying on a specified profession, earning a commission or brokerage, or carrying on an agency business; and a person carrying on the business of plying goods carriages	Only the eleven specified professions may use it	—

What the option carries with it

- The presumptive figure is the income of that business, and NO further deduction under sections 30 to 37 is allowed against it. Depreciation is deemed to have been allowed, and the written down value is reduced accordingly.
- The assessee need not maintain books under section 62 nor get them audited under section 63.
- The deductions of Chapter VIII remain available against the total income where the option under section 202(4) has been exercised.
- OPTING OUT. Where an assessee who has declared income under Sl. No. 1 declares, in any of the five succeeding years, an income LOWER than the presumptive figure, he loses the benefit of the section for the FIVE tax years succeeding that year; and for those years he must keep books under section 62 and get them audited under section 63 if his total income exceeds the maximum amount not chargeable to tax.

An illustration

A trading business with a turnover of ₹1,20,00,000, of which ₹1,14,00,000 was received through banking channels and ₹6,00,000 in cash — the cash being exactly 5%, the ₹3 crore limit applies		
6% of ₹1,14,00,000		6,84,000
8% of ₹6,00,000		48,000
Presumptive income of the business		7,32,000
A profession with gross receipts of ₹60,00,000, within the ₹75,00,000 limit — 50%		30,00,000
Three light goods vehicles owned throughout the year — 3 × ₹7,500 × 12		2,70,000
One heavy goods vehicle of 20 tonnes owned for 8 months — 20 × ₹1,000 × 8		1,60,000
Presumptive income of the goods-carriage business		4,30,000

A part of a month counts as a whole month for a goods carriage, and the weight taken is the GROSS VEHICLE WEIGHT, not the load carried. A vehicle is a heavy goods vehicle where its gross vehicle weight exceeds 12,000 kilograms.

Question 4 (a) — gross annual value

The gross annual value is the starting figure of the computation under section 21. It is not the rent actually received; it is the sum for which the property might reasonably be expected to let, tested against the rent actually received or receivable.

The steps [section 21]

- STEP 1 — find the EXPECTED RENT: the higher of the municipal value and the fair rent, but not more than the standard rent where the property is governed by a Rent Control Act.
- STEP 2 — find the ACTUAL RENT received or receivable for the year, excluding unrealised rent which satisfies the four conditions of Rule 21.
- STEP 3 — the gross annual value is the HIGHER of the two.

- STEP 4 — where the property was VACANT for part of the year and, owing to the vacancy, the actual rent is less than the expected rent, the gross annual value is the actual rent so reduced [section 21(3)].

An example

Municipal value		2,00,000
Fair rent		2,40,000
Standard rent		2,20,000
Expected rent — the higher of ₹2,00,000 and ₹2,40,000, capped at the standard rent		2,20,000
Actual rent (₹21,000 × 12)		2,52,000
GROSS ANNUAL VALUE — the higher of the two		**2,52,000**

Had the house been vacant for two months, the rent would have been ₹2,10,000; that being less than the expected rent solely because of the vacancy, the gross annual value would have been ₹2,10,000.

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

Unrealised rent of the year

Rent which the owner cannot realise is excluded from the rent received or receivable in computing the gross annual value, provided all four conditions of Rule 21 are satisfied: the tenancy is bona fide; the defaulting tenant has vacated or steps have been taken to compel him to vacate; he is not in occupation of any other property of the assessee; and the assessee has taken all reasonable steps to institute legal proceedings for recovery, or satisfies the Assessing Officer that they would be useless.

Recovery of unrealised rent, and arrears of rent

- Unrealised rent ALLOWED AS A DEDUCTION in an earlier year and subsequently realised is deemed to be the income of the year of realisation.
- ARREARS OF RENT received which were not charged in any earlier year are deemed to be the income of the year of receipt.
- In both cases a deduction of THIRTY PER CENT is allowed and nothing else — no municipal tax, no interest, no other expenditure.
- In both cases it does not matter whether the assessee still owns the property in the year of receipt.

Question 4 (b) OR — three houses, all self-occupied

- SECTION 21(6) makes the annual value of a house in the occupation of the owner for his own residence NIL. SECTION 21(7)(a) allows the nil value for not more than TWO houses, at the option of the assessee.
- SECTION 21(7)(b) computes the annual value of the REMAINING houses as if each had been let out — that is, at the expected rent, being the higher of the municipal value and the fair rent, capped at the standard rent. They are commonly called deemed let-out houses.
- For a deemed let-out house the municipal taxes actually paid and the thirty per cent of section 22(1)(a) are allowed, and the INTEREST IS ALLOWED IN FULL — no ceiling applies where the annual value is not nil.
- For the two treated as self-occupied the ceiling is ₹2,00,000 under section 22(2)(a), or ₹30,000 under section 22(2)(b); and section 22(5) caps the AGGREGATE across all self-occupied houses at ₹2,00,000.
- The option should be exercised in favour of the two houses whose annual values would otherwise be the HIGHEST, and it may be changed from year to year.

An illustration. Shri X occupies three houses. House A: municipal value ₹3,00,000, fair rent ₹3,60,000, interest ₹1,60,000. House B: municipal value ₹2,40,000, fair rent ₹2,70,000, interest ₹90,000. House C: municipal value ₹1,80,000, fair rent ₹2,10,000, municipal taxes paid ₹18,000, interest ₹70,000. All three loans were taken after 1 April 1999 for construction completed in time. The expected rents are ₹3,60,000, ₹2,70,000 and ₹2,10,000, so A and B are the two to treat as self-occupied.

Houses A and B — annual value [section 21(6)]		Nil
Interest ₹1,60,000 + ₹90,000 = ₹2,50,000, restricted by section 22(5) to		(2,00,000)
Loss from the two self-occupied houses		(2,00,000)
House C — deemed let out; gross annual value, the expected rent		2,10,000
Less: municipal taxes actually paid		(18,000)
Net annual value		1,92,000
Less: thirty per cent		(57,600)
Less: interest, in full, no ceiling applying		(70,000)
Income from House C		64,400
LOSS FROM HOUSE PROPERTY		**(1,35,600)**

Had House A been left out of the option instead of House C, its expected rent of ₹3,60,000 would have entered the computation and the result would have been worse. Section 109(1)(b) allows ₹1,35,600 to be set off against other heads, the ceiling being ₹2,00,000; under the default regime neither the interest on the self-occupied houses nor the set-off would be available.

Question 5 (b) — capital gains, other sources, clubbing and the tax

The plot of land at Nashik

Full value of the consideration		42,00,000
Less: cost of acquisition		(14,00,000)
Long-term capital gain without indexation		28,00,000
Less: exemption under section 85 — bonds of the Rural Electrification Corporation within six months, within the ceiling of ₹50,00,000		(8,00,000)
CHARGEABLE LONG-TERM CAPITAL GAIN		**20,00,000**
A — 12.5% of ₹20,00,000 [section 197(1)(b)]		2,50,000
Indexed cost ₹14,00,000 × 384 ÷ 240 = ₹22,40,000; indexed gain ₹19,60,000, less section 85 ₹8,00,000		11,60,000
B — 20% of ₹11,60,000 [section 197(3)]		2,32,000
TAX ON THE PLOT — the lower of A and B		**2,32,000**

Section 197(3) is open to him because the asset is LAND, he is a resident individual, and he acquired it before 23 July 2024. The gain that enters the total income is the un-indexed ₹20,00,000 whichever limb wins.

The listed and the unlisted shares

Listed equity — sale 2,000 × ₹480		9,60,000
Cost under the grandfathering rule — the higher of ₹4,40,000 and the lower of the 31 January 2018 fair market value 2,000 × ₹390 and the sale price ₹9,60,000		(7,80,000)
Long-term capital gain under section 198		1,80,000
Unlisted shares — bought 10 October 2025, sold 15 December 2026, held about fourteen months. Unlisted shares need 24 months, so the gain is SHORT-TERM; ₹8,50,000 − ₹7,00,000		1,50,000

Section 196 applies only to listed equity, so this short-term gain on unlisted shares is charged at the ORDINARY SLAB RATES and not at 20%.

Income from other sources, and the minor son

Interest of ₹14,000 on the savings bank account and ₹86,000 on the fixed deposits is chargeable in full — the deduction of section 153 does not survive section 202(2)(a). The ₹36,000 earned by the minor son on a fixed deposit made out of his grandmother's gift is clubbed with the income of the father, his total income being the greater [section 99(1)(c) with section 99(5)(b)]. The exclusion of ₹1,500 in Schedule III (Table: Sl. No. 17) is not available under the default regime, so the whole ₹36,000 is included.

Computation of total income

Profits and gains of business or profession		6,00,000
Income from other sources — ₹14,000 + ₹86,000 + ₹36,000 clubbed		1,36,000
Short-term capital gain on unlisted shares (slab rates)		1,50,000
Long-term capital gain on the plot [section 197]		20,00,000
Long-term capital gain on listed equity [section 198]		1,80,000
TOTAL INCOME		**30,66,000**

Computation of tax — the default regime

Income taxable at the slab rates — ₹6,00,000 + ₹1,36,000 + ₹1,50,000 = ₹8,86,000		
Nil up to ₹4,00,000; ₹4,00,000 @ 5%		20,000
₹86,000 @ 10%		8,600
Tax at the slab rates		28,600
The plot — the lower of A and B		2,32,000
Listed equity — 12.5% of (₹1,80,000 – ₹1,25,000) [section 198]		6,875
INCOME-TAX		2,67,475
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%		10,699
TAX PAYABLE (rounded off under section 516)		**2,78,170**

Question 5 (a) — the bonds [section 85]

- The gain must be a LONG-TERM capital gain arising on the transfer of LAND OR BUILDING, or both.
- The whole or a part of the CAPITAL GAIN — not the net consideration — must be invested in the LONG-TERM SPECIFIED ASSET: bonds redeemable after five years issued by the National Highways Authority of India, the Rural Electrification Corporation Ltd., the Power Finance Corporation Ltd. or the Indian Railway Finance Corporation Ltd.
- THE TIME LIMIT is SIX MONTHS from the date of the transfer. The six months run from the transfer, not from the end of the tax year, and the Capital Gains Account Scheme is of no help here.
- THE CEILING is ₹50,00,000, and it applies to the investment made in the year of transfer AND in the following year taken together. An assessee cannot invest ₹50,00,000 in March and another ₹50,00,000 in April in respect of the same transfer.
- THE EXEMPTION is the amount of the capital gain or the amount so invested, whichever is LESS.

- THE LOCK-IN. If the bonds are transferred, or converted into money, or any loan or advance is taken on their security, within FIVE YEARS from the date of acquisition, the exemption is WITHDRAWN: the amount exempted is deemed to be the long-term capital gain of the year in which the bonds are transferred or the loan taken. Taking a loan against them is treated as a transfer.

Question 5 (a) OR — a capital asset [section 2(22)]

A capital asset means property of any kind held by an assessee, whether or not connected with his business or profession, and includes securities held by a Foreign Institutional Investor, a unit linked insurance policy to which the exemption does not apply, and any right in or in relation to an Indian company. The property need not be tangible; goodwill, a tenancy right, a route permit and a leasehold interest are all capital assets.

Four exclusions

- STOCK-IN-TRADE, consumable stores and raw materials held for the purposes of a business or profession — their sale gives business profit, not a capital gain. Securities held by a Foreign Institutional Investor are not excluded even where held as stock-in-trade.
- PERSONAL EFFECTS — movable property, including wearing apparel and furniture, held for the personal use of the assessee or of a member of his family dependent on him. But jewellery, archaeological collections, drawings, paintings, sculptures and any work of art are NOT personal effects and remain capital assets, however personal the use.
- RURAL AGRICULTURAL LAND in India — land not within the jurisdiction of a municipality or cantonment board having a population of 10,000 or more, and not within the notified distance from such limits: 2 kilometres where the population exceeds 10,000 but not 1,00,000; 6 kilometres where it exceeds 1,00,000 but not 10,00,000; 8 kilometres where it exceeds 10,00,000.
- SPECIFIED GOLD BONDS AND DEPOSIT CERTIFICATES — Gold Bonds, Special Bearer Bonds, 1991, and Gold Deposit Bonds and Deposit Certificates issued under the notified schemes.

Question 5 (b) OR — the cost of acquisition

The case	The cost	Section
An asset acquired by GIFT, WILL OR INHERITANCE, on a partition of a Hindu undivided family, or on the distribution of assets on a liquidation	The cost to the PREVIOUS OWNER who last acquired it by a mode other than these, increased by the cost of any improvement made by him or by the assessee. The previous owner's period of holding is added to the assessee's in deciding whether the asset is long-term	s. 73
BONUS SHARES	NIL, where allotted without payment on the basis of a holding of other shares. If allotted before 1 April 2001, the fair market value on that date at the assessee's option. The period of holding runs from the date of ALLOTMENT of the bonus shares, not of the original shares	s. 74
RIGHT SHARES, and the renunciation of a right	For the right shares subscribed for, the amount actually paid. For the RIGHT ENTITLEMENT renounced in favour of another, the cost is NIL and the whole consideration is a short-term capital gain. For the person who buys the renounced right and subscribes, the cost is what he paid to the renouncer PLUS what he paid the company	s. 74
An asset acquired BEFORE 1 APRIL 2001	At the option of the assessee, the actual cost or the FAIR MARKET VALUE on 1 April 2001. For land or building the fair market value so adopted cannot exceed the stamp duty value on that date	s. 72
LISTED EQUITY SHARES ACQUIRED BEFORE 1 FEBRUARY 2018	The HIGHER of (i) the actual cost and (ii) the LOWER of the fair market value on 31 January 2018 and the full value of the consideration on transfer — the grandfathering rule	s. 198

Two illustrations

Grandfathering — 1,000 listed shares bought in 2015 at ₹100, fair market value on 31 January 2018 ₹250, sold in 2026-27 at ₹400

Full value of the consideration (1,000 × ₹400)		4,00,000
Lower of the fair market value ₹2,50,000 and the consideration ₹4,00,000		2,50,000
Cost — the higher of the actual ₹1,00,000 and that figure		(2,50,000)
LONG-TERM CAPITAL GAIN		**1,50,000**

Had the share been sold at ₹200, the lower of ₹2,50,000 and ₹2,00,000 would be ₹2,00,000, the cost would be ₹2,00,000, and the gain would be nil — the rule can never turn a real gain into a loss.

A gift — a plot bought by the father in 2014-15 for ₹5,00,000, gifted to the son in 2022 and sold by the son in 2026-27 for ₹18,00,000

Full value of the consideration		18,00,000
Cost to the previous owner		(5,00,000)
Long-term capital gain without indexation		**13,00,000**

The father's period of holding is added to the son's, so the asset is long-term; and the indexation option of section 197(3), if taken, would run the index from 2014-15, the year in which the father acquired it.

SOLUTIONS — SET II

B.Com. UGCF — DSC · Paper M-7502 · Tax Year 2026-27

SOLUTIONS

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Question 1 (a) — gross total income and total income

- The income of a tax year is first classified under the FIVE HEADS in section 13 — Salaries; Income from house property; Profits and gains of business or profession; Capital gains; and Income from other sources. Each head is computed under its own sections and carries its own deductions.
- GROSS TOTAL INCOME [section 122(10)] is the aggregate of the income computed under the five heads, AFTER giving effect to the clubbing provisions of sections 96 to 100 and to the set-off of losses under sections 108 to 115, but BEFORE any deduction under Chapter VIII.
- TOTAL INCOME is the gross total income AS REDUCED by the deductions under Chapter VIII. It is on the total income that the tax is charged, and it is the total income that is rounded off under section 516.
- The deductions of Chapter VIII cannot exceed the gross total income [section 122(2)], so the total income can be nil but never negative. What cannot be used in the year is simply lost; there is no carry forward of an unabsorbed Chapter VIII deduction.

An example

Income from salaries		6,00,000
Income from house property (a loss)		(1,20,000)
Income from other sources		80,000
GROSS TOTAL INCOME		5,60,000
Less: deduction under section 123		(1,50,000)
TOTAL INCOME		**4,10,000**

Question 1 (b) — residential status [section 6]

Days in India from 1 September 2026 to 20 February 2027: September 30 + October 31 + November 30 + December 31 + January 31 + February 20 = 173 days.

- **Main case.** 173 days is less than 182, so section 6(2)(a) fails. Section 6(2)(b) requires 60 days in the tax year AND 365 days in the four preceding tax years; this being her first visit to India, she was here for nil days in those four years, so the second limb fails. She is a NON-RESIDENT for the Tax Year 2026-27.
- **Situation 1 — she leaves on 5 March 2027.** The stay becomes 173 + 8 days of February + 5 days of March = 186 days. Section 6(2)(a) is satisfied and she is RESIDENT. Section 6(13) then asks whether she was resident in India in at least two of the ten preceding tax years and in India for 730 days or more in the seven preceding tax years. She was in India for none of them, so both fail and she is RESIDENT BUT NOT ORDINARILY RESIDENT.
- **Situation 2 — she comes on 1 June 2026 and stays.** 1 June 2026 to 31 March 2027 is 304 days. She is RESIDENT under section 6(2)(a), and for the same reason as above RESIDENT BUT NOT ORDINARILY RESIDENT.
- **Situation 3 — a person of Indian origin on a visit, with ₹18,00,000 of income other than income from foreign sources.** Because her income other than income from foreign sources exceeds ₹15,00,000, section 6(5) substitutes "120 days" for the "60 days" of section 6(2)(b) instead of switching that test off. Her stay of 173 days clears the 120 days — but the second limb still requires 365 days in the four preceding tax years, and she has none. She remains a NON-RESIDENT.

> Situation 3 is the trap. The ₹15,00,000 rule alters the number of days required in the tax year; it does nothing at all to the requirement of 365 days in the four preceding years. A first-time visitor can never be caught by it.

Question 1 (a) OR — partial integration of agricultural income

The two conditions [Finance Act, 2026, section 3(2)]

- the NET AGRICULTURAL INCOME must exceed ₹5,000; and
- the TOTAL INCOME, excluding the net agricultural income, must exceed the maximum amount not chargeable to income-tax — ₹4,00,000 for a person taxed under section 202(1), and ₹2,50,000, ₹3,00,000 or ₹5,00,000 under the optional rates according to age.

It applies only to an individual, a Hindu undivided family, an association of persons, a body of individuals and an artificial juridical person. It does not apply to a firm or a company.

The three steps — Zn = Xn − Yn

- STEP 1 (Xn) — compute the tax on the AGGREGATE of the total income and the net agricultural income, as though both were chargeable.
- STEP 2 (Yn) — compute the tax on the net agricultural income INCREASED BY the maximum amount not chargeable to tax.
- STEP 3 (Zn) — the income-tax on the total income is Xn less Yn. The rebate under section 156, the surcharge and the cess are then applied to that figure.

The agricultural income is thus never taxed. It only pushes the non-agricultural income into a higher slab, and the exercise is sometimes called taxing agricultural income “for rate purposes”.

Question 1 (b) OR — the choice of regime

(i) Under the default regime — section 202

Neither the life insurance premium nor the health insurance premium gives anything: section 202(2)(a) shuts out the whole of Chapter VIII except sections 124(1) and (2), 125(2) and 146. His total income is ₹10,40,000, and the net agricultural income of ₹2,20,000 exceeds ₹5,000, so the partial integration applies.

Step 1 — tax on ₹10,40,000 + ₹2,20,000 = ₹12,60,000		
Nil up to ₹4,00,000; ₹4,00,000 @ 5%		20,000
₹4,00,000 @ 10%		40,000
₹60,000 @ 15%		9,000
Tax at Step 1		69,000
Step 2 — tax on ₹2,20,000 + ₹4,00,000 = ₹6,20,000; ₹2,20,000 @ 5%		11,000
Step 3 — income-tax on the total income		**58,000**
Less: rebate under section 156(2)(a) — the total income does not exceed ₹12,00,000; the lower of the tax and ₹60,000		(58,000)
TAX PAYABLE		**Nil**

(ii) Under the optional regime

Gross total income		10,40,000
Less: section 123 — life insurance premium		(60,000)
Less: section 126 — health insurance premium, within ₹25,000		(24,000)
TOTAL INCOME		**9,56,000**

Step 1 — tax on ₹9,56,000 + ₹2,20,000 = ₹11,76,000; being 35, his exemption is ₹2,50,000		
₹2,50,000 @ 5%		12,500
₹5,00,000 @ 20%		1,00,000
₹1,76,000 @ 30%		52,800
Tax at Step 1		1,65,300
Step 2 — tax on ₹2,20,000 + ₹2,50,000 = ₹4,70,000; ₹2,20,000 @ 5%		11,000
Step 3 — income-tax on the total income		**1,54,300**
Less: rebate under section 156(1) — the total income exceeds ₹5,00,000		Nil
Add: health and education cess @ 4%		6,172
TAX PAYABLE (rounded off under section 516)		**1,60,470**

Which regime

The default regime costs him NOTHING and the optional regime ₹1,60,470. He should stay in the default regime. His deductions of ₹84,000 are worth far less than the wider slabs and the rebate of ₹60,000, which here wipes out the whole liability.

Question 2 (a) — four allowances

The allowance	The treatment
HOUSE RENT ALLOWANCE [Schedule III, Sl. No. 11, with Rule 279]	Exempt to the extent of the LEAST of: the allowance received; 50% of salary where the accommodation is at Delhi, Mumbai, Kolkata, Chennai, Bengaluru, Hyderabad, Ahmedabad or Pune and 40% elsewhere; and the rent paid less one-tenth of salary. Nothing is exempt where no rent is paid. “Salary” is basic + dearness allowance entering retirement benefits + commission on turnover. Not available under the default regime
CHILDREN EDUCATION ALLOWANCE [Rule 280(2), Sl. No. 7]	Exempt up to ₹3,000 per month per child for a maximum of TWO children. A hostel expenditure allowance is separately exempt up to ₹9,000 per month per child for two children. Not available under the default regime
TRANSPORT ALLOWANCE [Rule 280(2), Sl. No. 10]	Exempt only for an employee who is blind, or deaf and dumb, or orthopaedically handicapped with a disability of the lower extremities — up to ₹3,200 per month, to meet the cost of travelling between residence and place of duty. For every other employee it is taxable IN FULL under both regimes
ENTERTAINMENT ALLOWANCE [section 19(1), Table, Sl. No. 1]	It is first included in salary in full. A GOVERNMENT EMPLOYEE then gets a deduction of the LEAST of: ₹5,000; one-fifth of basic salary; and the allowance actually received. No other employee gets anything. The deduction is not available under the default regime, section 202(2)(a) excluding section 19(1) (Table: Sl. No. 1)

Question 2 (b) — income from salaries

Working 1 — “salary” for house rent allowance [Rule 279]

Basic ₹4,80,000 + 60% of the dearness allowance of ₹1,20,000, that is ₹72,000 = ₹5,52,000. There is no commission on turnover.

Exemption for house rent allowance — the least of three

Actual house rent allowance received (₹12,000 × 12)		1,44,000
40% of salary, Jaipur not being one of the eight specified cities		2,20,800
Rent paid ₹1,80,000 less 10% of salary ₹55,200		1,24,800
Exempt — the least		1,24,800
TAXABLE HOUSE RENT ALLOWANCE		**19,200**

Working 2 — the other items

- CHILDREN EDUCATION ALLOWANCE: received ₹4,000 × 12 × 2 = ₹96,000; exempt ₹3,000 per month per child for two children = ₹72,000; taxable ₹24,000.
- MEDICAL ALLOWANCE: ₹18,000, taxable in full. An allowance is taxable unless a provision exempts it, and there is no exemption for a medical allowance.
- PROVIDENT FUND: the employer contributes 14% of basic salary, ₹67,200. The exemption is 12% of SALARY, and salary here is ₹5,52,000, of which 12% is ₹66,240. The excess of ₹960 is taxable.
- MOTOR CAR: engine capacity 1.4 litres, owned by the employer, employer meeting the running expenses, used partly for private purposes and no chauffeur — ₹5,000 per month under Rule 15(3), that is ₹60,000.

Computation of income under the head "Salaries"

Basic salary (₹40,000 × 12)		4,80,000
Dearness allowance (₹10,000 × 12) — taxable in full		1,20,000
Bonus		48,000
House rent allowance — taxable portion		19,200
Children education allowance — taxable portion		24,000
Medical allowance		18,000
Employer's contribution to the recognised provident fund in excess of 12% of salary		960
Motor car [Rule 15(3)]		60,000
GROSS SALARY		7,70,160
Less: standard deduction, optional regime		(50,000)
Less: tax on employment		(2,400)
INCOME FROM SALARIES		**7,17,760**

Question 2 (a) OR — 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

- It is the population of the city where the ACCOMMODATION stands that decides the rate, not the place of the office; and it is the 2011 census that governs.

- "SALARY" for this Rule means basic salary, dearness allowance entering into retirement benefits, bonus, commission and the TAXABLE part of every allowance. It does NOT include any perquisite, the employer's contribution to a provident fund, or any allowance which is exempt.
- Salary is taken only for the PERIOD OF OCCUPATION, and only from the employer providing the accommodation.
- Where the accommodation is FURNISHED, add 10% per annum of the original cost of the furniture owned by the employer, or the hire charges where it is hired.
- Any RENT ACTUALLY PAID by the employee is deducted; where it equals or exceeds the value there is no perquisite.
- The perquisite is charged to EVERY employee, not only to a specified employee, because it is an amenity capable of being valued in money.

Question 2 (b) OR — the year of retirement

He is not covered by the Payment of Gratuity Act, 1972, so Sl. No. 6 of the Table to section 19(1) governs the gratuity. Average salary of the ten months preceding the month of retirement = basic ₹45,000 + 60% of the dearness allowance ₹9,000 = ₹54,000 a month. Completed years of service = 32; the four months are ignored.

Gratuity — exempt to the extent of the least

The notified lifetime ceiling		20,00,000
Gratuity actually received		14,00,000
Half a month's average salary for each completed year — ½ × ₹54,000 × 32		8,64,000
Exempt — the least		8,64,000
TAXABLE GRATUITY		**5,36,000**

Leave encashment — exempt to the extent of the least

The notified lifetime ceiling		25,00,000
Leave salary actually received		4,20,000
Ten months' average salary (10 × ₹54,000)		5,40,000
Cash equivalent of the leave to credit — 210 days at ₹1,800 a day		3,78,000
Exempt — the least		3,78,000
TAXABLE LEAVE SALARY		**42,000**

Leave credit is capped at 30 days for each completed year: 30 × 32 = 960 days, less 750 availed = 210 days, which is his actual credit.

Commuted pension

50% of the pension commuted for		6,00,000
Full value of the pension (₹6,00,000 × 100 ÷ 50)		12,00,000
Exempt — one-third of the full value, gratuity having been received		4,00,000
TAXABLE COMMUTED PENSION		**2,00,000**

Had he received no gratuity the exemption would have been one-HALF of the full value, ₹6,00,000, and nothing would have been taxable.

Computation of income under the head "Salaries"

Basic salary (₹45,000 × 5 months)		2,25,000
Dearness allowance (₹15,000 × 5 months)		75,000

Gratuity — taxable portion		5,36,000
Leave salary — taxable portion		42,000
Commuted pension — taxable portion		2,00,000
Uncommuted pension (₹14,000 × 7 months)		98,000
GROSS SALARY		11,76,000
Less: standard deduction, optional regime		(50,000)
INCOME FROM SALARIES		**11,26,000**

Question 3 (a) — three items

- **INTEREST ON CAPITAL CONTRIBUTED BY THE PROPRIETOR — NOT ALLOWABLE.** A proprietor and his business are the same person in law, and a man cannot pay interest to himself. There is no expenditure and no liability; the entry is an appropriation of profit. Where it has been debited it must be added back. The position is different for a FIRM, where section 34 read with section 35 allows interest to a partner up to 12% per annum if the partnership deed provides for it.
- **A DONATION TO AN APPROVED CHARITABLE TRUST — NOT ALLOWABLE UNDER THIS HEAD.** A donation is not laid out wholly and exclusively for the purposes of the business, so section 34(1) does not reach it. It is a deduction under section 133 in Chapter VIII, computed on the gross total income, and it must therefore be added back in computing business income and claimed separately. It gives nothing at all under the default regime.
- **ADVERTISEMENT IN A SOUVENIR OF A POLITICAL PARTY — NOT ALLOWABLE.** Section 36(6) expressly disallows any expenditure incurred on advertisement in any souvenir, brochure, tract, pamphlet or the like published by a political party. It must be added back. A CONTRIBUTION to a political party, as distinct from an advertisement, is a deduction under section 137 in Chapter VIII if paid otherwise than in cash.

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

Net profit as per the Profit and Loss Account		**7,52,000**
ADD — items debited but not allowable		
Depreciation debited in the books		1,90,000
Provision for doubtful debts — only a debt actually written off is allowed		45,000
Donation to a charitable trust — a Chapter VIII deduction, not a business expense		50,000
Education of her daughter — personal expenditure		36,000
Cash payment exceeding ₹10,000 in a day to one person [section 36(4)]		22,000
Interest on the loan taken for the residential house — not a business expense		30,000
		3,73,000
LESS — items to be deducted		
Depreciation allowable under section 33		(1,45,000)
Interest on the savings bank account — other sources		(16,000)
Rent from the residential house — a separate head		(1,80,000)

		(3,41,000)
PROFITS AND GAINS OF BUSINESS OR PROFESSION		**7,84,000**

Bad debts of ₹55,000 actually written off are allowable and need no adjustment. The interest of ₹30,000 on the house loan is deductible under section 22(1)(b) in computing the income from that house, not here.

Question 3 (a) OR — a block of assets [section 2(23)]

A block of assets means a group of assets falling within a class of assets — being buildings, machinery, plant or furniture, or intangible assets such as know-how, patents, copyrights, trademarks, licences and franchises — in respect of which the SAME PERCENTAGE of depreciation is prescribed. Depreciation is computed on the block and not on the individual asset, which loses its identity the moment it enters the block.

How the written down value of a block is worked out [section 33]

- take the written down value of the block at the beginning of the year;
- ADD the actual cost of any asset of that block acquired during the year;
- DEDUCT the moneys payable in respect of any asset of that block sold, discarded, demolished or destroyed during the year, together with the scrap value — but the deduction cannot exceed the total of the first two, so the block can never go below nil;
- apply the prescribed rate to the balance. Where an asset acquired during the year was put to use for less than 180 days, half the rate is applied to its cost.

An illustration — machinery, 15%

Written down value of the block on 1 April 2026		10,00,000
Add: machine bought on 5 May 2026 (used more than 180 days)		4,00,000
Add: machine bought on 1 January 2027 (used less than 180 days)		2,00,000
Less: sale proceeds of a machine sold in August 2026		(3,00,000)
Written down value before depreciation		13,00,000
Depreciation at 15% on ₹11,00,000		1,65,000
Depreciation at 7.5% on ₹2,00,000		15,000
TOTAL DEPRECIATION		**1,80,000**
WRITTEN DOWN VALUE CARRIED FORWARD		**11,20,000**

No profit or loss arises on the machine sold, the block having survived. A short-term capital gain under section 71 would arise only if the whole block ceased to exist or the sale proceeds exceeded the written down value plus the additions.

Question 3 (b) 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 neither income nor expenditure. A gift from a client on Diwali arises from the exercise of the profession and is a professional receipt. Interest on the bank fixed deposits belongs to "Income from other sources"; personal drawings and income-tax are not deductible.

Depreciation [section 33]

Computer bought on 20 August 2026 — used for more than 180 days; 40% of ₹1,20,000		48,000
Motor car bought on 5 January 2027 — used for less than 180 days, so half of 15%, that is 7.5% of ₹8,00,000 = ₹60,000; half being the professional use		30,000
TOTAL DEPRECIATION		**78,000**

Computation of income from the profession

Audit fees		18,40,000
Consultancy fees		6,20,000
Gift from a client		40,000
GROSS PROFESSIONAL RECEIPTS		25,00,000
LESS — expenses allowable		
Office rent		(2,40,000)
Salary to staff		(4,80,000)
Printing and stationery		(65,000)
Subscription to professional journals		(24,000)
Motor car expenses — half of ₹1,44,000		(72,000)
Depreciation		(78,000)
PROFITS AND GAINS OF THE PROFESSION		**15,41,000**

Question 4 (a) — interest on borrowed capital [section 22(1)(b)]

- The interest PAYABLE on capital borrowed for acquiring, constructing, repairing, renewing or reconstructing the property is deductible. It is allowed on the ACCRUAL basis, whether or not it has been paid, and there is no requirement that the loan be from a bank.
- For a LET-OUT house the interest is deductible IN FULL, however large, and may create a loss under the head.
- 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 for the period from the borrowing to 31 March immediately preceding the year of completion or acquisition — is allowed in FIVE equal annual instalments beginning with the year of completion or acquisition, in addition to the interest of the current year. The two are then tested together against the ceiling.

For a SELF-OCCUPIED house	The ceiling
Capital borrowed on or after 1 April 1999 for ACQUISITION OR CONSTRUCTION, completed within five years from the end of the tax year of borrowing, and the prescribed certificate furnished [section 22(2)(a)]	₹2,00,000
Every other case — a loan for repairs or renewal whenever taken, a loan taken before 1 April 1999, a construction not completed within five years [section 22(2)(b)]	₹30,000
The AGGREGATE for all self-occupied houses of the assessee [section 22(5)]	₹2,00,000

Under the default regime of section 202 no interest at all is deductible in respect of a self-occupied house, and the resulting position is neither set off nor carried forward.

Question 4 (b) — income from house property

House I — Rohtak, let out

Expected rent = the higher of the municipal value ₹3,00,000 and the fair rent ₹3,60,000, that is ₹3,60,000, capped at the standard rent of ₹3,30,000 → ₹3,30,000. The rent for the year is ₹3,84,000; less the unrealised rent of one month ₹32,000 it is ₹3,52,000, which exceeds the expected rent. The shortfall is therefore wholly due to the vacancy of one month, and section 21(3) makes the gross annual value the actual rent.

Rent for the year (₹32,000 × 12)		3,84,000
Less: unrealised rent of one month [Rule 21]		(32,000)
Less: vacancy of one month		(32,000)
GROSS ANNUAL VALUE [section 21(3)]		3,20,000
Less: municipal taxes actually paid by the owner		(30,000)
NET ANNUAL VALUE		2,90,000
Less: thirty per cent of the net annual value [section 22(1)(a)]		(87,000)
Less: interest on borrowed capital [section 22(1)(b)]		(1,80,000)
INCOME FROM HOUSE I		**23,000**

House II — Hisar, self-occupied

The capital was borrowed on 1 July 2019 for the PURCHASE of the house, so the ceiling of section 22(2)(a) applies and the interest of ₹2,30,000 is restricted to ₹2,00,000.

Net annual value [section 21(6)]		Nil
Less: interest, restricted to ₹2,00,000 under section 22(2)(a)		(2,00,000)
LOSS FROM HOUSE II		**(2,00,000)**

Income under the head "Income from house property"

House I — let out		23,000
House II — self-occupied		(2,00,000)
LOSS FROM HOUSE PROPERTY		**(1,77,000)**

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 ₹1,77,000 may be set off this year. Under the default regime the interest on House II would not have been deductible at all and the head would have shown a profit of ₹23,000.

Question 4 (a) OR — the owner and the deemed owner

Section 20 charges the annual value 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 occupier and not the person who found the money. Where the title is in dispute the person in receipt of the income and in possession is assessed meanwhile. A purchaser who has paid the price and taken possession under a contract is treated as the owner even before the conveyance is registered.

Deemed ownership [section 25]

- a person who transfers a house to his SPOUSE otherwise than for adequate consideration and otherwise than under an agreement to live apart;

- a person who transfers a house to a MINOR CHILD, not being a married daughter, otherwise than for adequate consideration;
- the HOLDER OF AN IMPARTIBLE ESTATE, in respect of all the properties comprised in it;
- a MEMBER OF A CO-OPERATIVE SOCIETY, company or association to whom a building is allotted or leased under a house building scheme;
- a person who has taken or retained POSSESSION IN PART PERFORMANCE of a contract of the nature referred to in section 53A of the Transfer of Property Act, 1882;
- a person who acquires rights in a building under a LEASE for a term of not less than twelve years, a month-to-month lease being excluded.

Two examples

- A husband gifts a flat at Jaipur to his wife. She receives the rent, but the husband is the deemed owner and the income is computed and charged in his hands under section 25.
- A member of a co-operative housing society is allotted a flat under a house building scheme and pays the instalments. The society is the legal owner, but the member is the deemed owner and is charged on the annual value.

Question 4 (b) OR — co-ownership

Section 24 requires the income of a co-owned property to be computed as though the property belonged to ONE OWNER and then apportioned between the co-owners, their shares being definite and ascertainable. Repairs and insurance are NOT separately deductible; they are covered by the thirty per cent of section 22(1)(a).

Expected rent — the higher of ₹4,80,000 and ₹5,40,000, capped at the standard rent of ₹5,20,000		5,20,000
Actual rent (₹46,000 × 12)		5,52,000
GROSS ANNUAL VALUE — the higher of the two		5,52,000
Less: municipal taxes actually paid during the year		(36,000)
NET ANNUAL VALUE		5,16,000
Less: thirty per cent		(1,54,800)
Less: interest on borrowed capital		(2,00,000)
INCOME FROM HOUSE PROPERTY		**1,61,200**

Only ₹36,000 of the ₹48,000 of municipal taxes levied was paid during the year; the balance will be deductible in the year of payment.

Co-owner	Share	Income from house property (₹)
Shri Kamal Kishore	1/2	80,600
Smt. Sarita Kishore	1/2	80,600
		1,61,200

Question 5 (a) — section 82, 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”. It need not have been self-occupied.

- 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. The cost taken into account cannot exceed ₹10,00,00,000.
- Where the capital gain exceeds ₹2,00,00,000 the investment must be in ONE house. Where it does not, the assessee may at his option invest in TWO residential houses — an option available ONCE in a lifetime.
- So much of the gain as has not been used before furnishing the return must be deposited under the CAPITAL GAINS ACCOUNT SCHEME [section 89] on or before the due date under section 263(1), and proof furnished with the return.
- If the NEW house is transferred within THREE YEARS of its purchase or construction, the exemption allowed is deducted from its cost in computing the gain on that later transfer.

Question 5 (b) — capital gains, Chapter VIII and the tax

The residential house at Agra

Full value of the consideration		68,00,000
Less: cost of acquisition		(20,00,000)
Long-term capital gain without indexation		48,00,000
Less: exemption under section 82 — a new residential house		(30,00,000)
CHARGEABLE LONG-TERM CAPITAL GAIN		**18,00,000**
A — 12.5% of ₹18,00,000		2,25,000
Indexed cost ₹20,00,000 × 384 ÷ 240 = ₹32,00,000; indexed gain ₹36,00,000, less section 82 ₹30,00,000		6,00,000
B — 20% of ₹6,00,000 [section 197(3)]		1,20,000
TAX ON THE HOUSE — the lower of A and B		**1,20,000**

The shares and the jewellery

Listed equity — bought 12 December 2025, sold 20 January 2027; held over twelve months, so LONG-TERM. ₹4,60,000 – ₹3,20,000		1,40,000
Tax under section 198 — 12.5% of (₹1,40,000 – ₹1,25,000)		1,875
Gold jewellery — bought June 2024, sold November 2026; held about twenty-nine months, so LONG-TERM. ₹5,60,000 – ₹4,00,000		1,60,000
Tax under section 197 — 12.5% of ₹1,60,000		20,000

Section 197(3) is confined to LAND OR BUILDING, so the jewellery gets no indexation option; it is charged at 12.5% on the un-indexed gain.

Computation of total income

Profits and gains of business or profession		5,20,000
Income from other sources — interest on the savings bank account		12,000
Long-term capital gain on the house (un-indexed, after section 82)		18,00,000
Long-term capital gain on listed equity [section 198]		1,40,000
Long-term capital gain on gold [section 197]		1,60,000
GROSS TOTAL INCOME		26,32,000
Less: section 123 — Public Provident Fund		(1,50,000)
Less: section 126 — health insurance ₹26,000, restricted to		(25,000)

Less: section 153 — interest on the savings bank account, she being below sixty; ₹12,000 restricted to		(10,000)
TOTAL INCOME		**24,47,000**

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 ₹1,85,000 of deductions must come out of the ₹5,32,000 of business income and interest. It does.

Computation of tax — the optional regime, age 55

Income taxable at the slab rates — ₹5,32,000 − ₹1,85,000 = ₹3,47,000; nil up to ₹2,50,000, ₹97,000 at 5%		4,850
The house — the lower of A and B		1,20,000
Listed equity [section 198]		1,875
Gold jewellery [section 197]		20,000
INCOME-TAX		1,46,725
Less: rebate under section 156(1) — the total income exceeds ₹5,00,000		Nil
Add: health and education cess @ 4%		5,869
TAX PAYABLE (rounded off under section 516)		**1,52,590**

Question 5 (a) OR — transfer [section 2(109)]

"Transfer", in relation to a capital asset, includes the SALE, EXCHANGE or RELINQUISHMENT of the asset; the EXTINGUISHMENT of any rights in it; its COMPULSORY ACQUISITION under any law; its CONVERSION INTO STOCK-IN-TRADE by the owner; the maturity or redemption of a zero-coupon bond; the allowing of POSSESSION of immovable property in part performance of a contract of the nature referred to in section 53A of the Transfer of Property Act, 1882; and any transaction which has the effect of transferring or enabling the enjoyment of immovable property.

Four transactions not regarded as a transfer

- the distribution of capital assets on the TOTAL OR PARTIAL PARTITION of a Hindu undivided family;
- a transfer under a GIFT, a WILL or an IRREVOCABLE TRUST;
- a transfer of a capital asset by a HOLDING COMPANY TO ITS WHOLLY-OWNED INDIAN SUBSIDIARY, or by a subsidiary to its Indian holding company holding the whole of the share capital;
- a transfer in a scheme of AMALGAMATION or DEMERGER, where the amalgamated or resulting company is an Indian company.

Also outside the definition: the conversion of debentures into shares; the transfer of a capital asset by an individual under a Gold Deposit Scheme; and the transfer of agricultural land in India effected before 1 March 1970. Where a transaction is not a transfer, no capital gain arises at that point; the charge is postponed, and the cost to the previous owner is carried into the hands of the transferee.

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

How each item is dealt with

- THE SPECULATION LOSS of ₹60,000 can be set off only against the profits of another speculation business [section 108(2)]. There are none, so it is carried forward under section 113 for FOUR tax years.
- THE SHORT-TERM CAPITAL LOSS of ₹80,000 may be set off against a capital gain on any other asset, short-term or long-term. It goes against the long-term gain on the gold, leaving ₹2,40,000.

- THE FAMILY PENSION carries a deduction under section 93(1)(d) of one-third or a monetary cap, whichever is less. Under the DEFAULT regime the cap is ₹25,000 (it is ₹15,000 in any other case). One-third of ₹3,60,000 is ₹1,20,000, so the deduction is ₹25,000 and ₹3,35,000 is chargeable.
- THE WINNINGS of ₹1,50,000 are charged at a flat 30% under section 194. No expenditure, no allowance and no Chapter VIII deduction may be set against them.
- THE MINOR SON'S ₹28,000 is clubbed with the father's income, his total income being the greater. The ₹1,500 exclusion in Schedule III (Table: Sl. No. 17) is NOT available under the default regime.
- THE PUBLIC PROVIDENT FUND deposit gives nothing — section 123 does not survive section 202(2)(a) — and neither does section 153, so the ₹22,000 of savings bank interest is charged in full.

Computation of total income

Profits and gains of business or profession		7,80,000
Income from house property		1,90,000
Capital gains — ₹3,20,000 less the short-term capital loss ₹80,000		2,40,000
Income from other sources — family pension ₹3,35,000, savings bank interest ₹22,000, winnings ₹1,50,000, minor son's income ₹28,000		5,35,000
GROSS TOTAL INCOME		17,45,000
Less: deductions under Chapter VIII — none survives section 202(2)		Nil
TOTAL INCOME		**17,45,000**

Computation of tax — the default regime

Income taxable at the slab rates — ₹17,45,000 less ₹2,40,000 and ₹1,50,000 = ₹13,55,000		
Nil up to ₹4,00,000; ₹4,00,000 @ 5%		20,000
₹4,00,000 @ 10%		40,000
₹1,55,000 @ 15%		23,250
Tax at the slab rates		83,250
Long-term capital gain on gold — 12.5% of ₹2,40,000 [section 197]		30,000
Winnings — 30% of ₹1,50,000 [section 194]		45,000
INCOME-TAX		1,58,250
Less: rebate under section 156 — the total income exceeds ₹12,00,000		Nil
Add: health and education cess @ 4%		6,330
TAX PAYABLE (rounded off under section 516)		**1,64,580**

Section 202(1) has no age bands, so his being 66 makes no difference to the slabs. Under the optional regime he would have had ₹3,00,000 of exemption, the ₹50,000 of section 153 and the ₹1,20,000 of section 123 — but a family pension deduction of only ₹15,000.

Loss to be carried forward

Loss of the speculation business [section 113] — FOUR tax years, to be set off against the profits of a speculation business only		60,000