UNIVERSITY OF DELHI

PERSONAL TAX PLANNING AND TAX MANAGEMENT

DSE 7.9

B.Com (Hons.) | B.Com (Prog.) — Fourth Year, Semester VII

UNIT 2 · PART B

THE OTHER FOUR HEADS

The Heads of Income — tax planning measures under the remaining four heads
Income from House Property • Profits and Gains of Business or Profession
Capital Gains • Income from Other Sources
The computation recapitulated, and the planning measures set against it
Part B of two. Part A carries the regime filter and the salary head.

Governed by the INCOME-TAX ACT, 2025
(Act No. 30 of 2025, as amended by the Finance Act, 2026)
read with the INCOME-TAX RULES, 2026

TAX YEAR 2026-27

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

Compiled by

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The Prescribed Syllabus for this Unit

> **UNIT 2: TAX PLANNING UNDER DIFFERENT HEADS OF INCOME (11 HOURS)**
>
> "Tax planning measures relating to income from salary, Income from House Property, profits and gains of business or profession, capital gains and income from other sources."
>
> *That is the whole of it — one sentence, five heads, eleven hours. The sentence is short because the syllabus assumes you can already compute each head. This booklet does not make that assumption: each chapter recapitulates the computation in full before it turns to the planning.*

The paper is Discipline Specific Elective Course 7.9, placed before the Executive Council of the University of Delhi, **EC (1282) dated 29.04.2026**, and effective from the Academic Year 2026-27. The syllabus is identical for B.Com (Hons.) and B.Com (Prog.); the two courses differ only in their learning outcomes, practical exercises and reading lists, which are set out in the Unit 1 booklet.

Where this Unit sits in the paper

Unit	Content	Hours
Unit 1	Basic concepts of tax planning; avoidance and evasion; scope; planning through exempted income, permissible deductions and clubbing	14
Unit 2	**Tax planning under the five heads of income — this booklet**	**11**
Unit 3	Tax planning through investments; deductions under the Act	11
Unit 4 (A)	Advance tax, TDS, TCS, refund	9 (A and B together)
Unit 4 (B)	Income-tax authorities, returns, assessments, appeals and revision	

The five heads, and where each is governed

Head	Sections of the Income-tax Act, 2025	Where it is covered
A — Salaries	15 to 19, with Schedule III and Rules 277 to 281	Part A, Chapter 2
B — Income from house property	20 to 25	Chapter 1
C — Profits and gains of business or profession	26 to 66	Chapter 2
D — Capital gains	67 to 91, with the rates in sections 196, 197 and 198	Chapter 3
E — Income from other sources	92 to 95	Chapter 4

The teachers' meeting of 6 September 2025

An online meeting was held on Saturday, 6 September 2025 to prepare the Guidelines for the NEP: UGCF Syllabus (w.e.f. 2022-23) for this paper, organised by the Department of Commerce, Delhi School of Economics, University of Delhi and Sri Aurobindo College (Evening), University of Delhi. Dr. Supreet Kaur, Assistant Professor, Department of Commerce, represented the Department; the meeting was convened by Mr. Varun Panwar, Assistant Professor, Sri Aurobindo College (Evening); and fourteen other members of the faculty were present. The B.Com (Hons.) guidelines were settled at 4:00 PM and the B.Com (Prog.) guidelines at 5:00 PM; they are identical in every respect that bears on this booklet. **Those guidelines that bear on this booklet are set out below.**

The question paper

- The total number of questions will be **five**.
- All questions carry equal weightage of **18 marks each**.
- **Each question shall have an internal choice.**
- The question format must ensure comprehensive coverage of the entire syllabus.
- **No question shall contain more than two parts** — the illustrative format being (a) and (b), *or* (c) and (d).

The allocation of lectures, marks and questions

Unit	Name of the Unit	Hours	Marks	Questions
Unit 1	Basic Concepts	14	18	1 question with internal choice
Unit 2	Tax Planning under different heads of Income	11	36	2 questions with internal choice
Unit 3	Tax Planning through investments	11	18	1 question with internal choice
Unit 4 (A)	Deduction, collection and recovery of tax	4	9	1 question with internal choice, covering both parts
Unit 4 (B)	Assessment Procedures, Income-tax Authorities and Appeal and Revision	5	9	
Total		45	90	5 questions with internal choice

WHAT THE ALLOCATION MEANS FOR THIS UNIT

Unit 2 carries **36 marks of the 90 — twice the weight of any other Unit.** It is examined by **two** questions, each with an internal choice and each of not more than two parts.

It carries only **11 of the 45 hours**. That is the lowest ratio of teaching time to marks in the paper, and it is the reason this Unit must be worked rather than read.

Two questions across five heads means that **not every head can appear in every paper.** The internal choice, however, means that a candidate who has prepared three heads thoroughly and two indifferently is exposed. Prepare all five.

Of the five heads, the guidelines attach practical/numerical coverage to four — salaries, house property, business or profession, and capital gains. Income from other sources is the only head for which no numerical coverage is prescribed.

The prescribed scope of this Unit

The guidelines set out, against each limb of the syllabus, the scope to which teaching and examination are to be confined, and the practical coverage expected. What follows is that table for this Unit, reproduced as settled.

Syllabus of the Unit	Scope of the Unit	Practical Coverage
Tax planning measures relating to income from salary.	**1. Salary Structure Optimisation (Designing Pay Package)** — (i) exempt allowances (house rent allowance, education allowance and the like); (ii) perquisites structuring (tax-free reimbursements, official facilities and the like). **2. Retirement benefits** — gratuity; leave encashment; commutation of pension. **3. Deductions from Salary Income** — standard deduction; entertainment allowance; professional tax. **4. Chapter VI-A deductions** — 80C, 80CCD, 80CCD(1B), 80CCD(2), 80D, 80E, 80TTA and 80TTB. **5. Reliefs and rebates (to be covered in brief)** — relief under section 89(1); rebate under section 87A.	Practical / numerical questions based on salary structure optimisation — designing the pay package.

Syllabus of the Unit	Scope of the Unit	Practical Coverage
Tax planning measures relating to Income from House Property.	**1.** Tax planning for self-occupied property and deemed-to-be-let-out property — selecting the house property to treat as self-occupied or deemed let out, so as to maximise the interest deduction. **2.** Tax planning for co-ownership and joint loans (section 26). **3.** Tax planning relating to set-off and carry forward of house property losses. **4.** Deduction under section 80C — principal repayment of housing loan.	Practical / numerical questions based on the selection of the house property as self-occupied or deemed let out.
Tax planning measures relating to Income from profits and gains of business or profession.	**1.** Allowable business expenditure (sections 30 to 37). **2.** Depreciation benefits (section 32). **3.** Maintenance of books of account (section 44AA). **4.** Tax planning and presumptive taxation — sections 44AD, 44ADA and 44AE. **5.** Tax planning relating to set-off and carry forward of business losses — (i) set-off of business losses; (ii) unabsorbed depreciation.	Practical / numerical questions based on the application of the presumptive taxation schemes under sections 44AD, 44ADA and 44AE.
Tax planning measures relating to Income from capital gains.	**1.** Tax planning related to the period of holding — (i) distinction between short-term and long-term capital gain; (ii) tax planning related to each. **2.** Exemptions for reinvestment — sections 54, 54EC, 54B and 54F. **3.** Joint ownership, to be discussed briefly — tax planning related to the splitting of capital gains across co-owners. **4.** Tax planning relating to set-off and carry forward of capital losses — **theoretical coverage only**.	Practical / numerical questions based on (i) comparison of short-term and long-term capital gain and (ii) tax planning relating to the section 54 series of exemptions.
Tax planning measures relating to Income from other sources.	**1.** Tax planning relating to income from other sources — (i) dividend income; (ii) interest income — fixed deposit and savings deposit, bonds and debentures; (iii) gifts under section 56(2)(x).	

THE GUIDELINES AND THE INCOME-TAX ACT, 2025 — HOW TO READ THEM TOGETHER

The guidelines were settled on 6 September 2025. The Income-tax Act, 2025 came into force on 1 April 2026. The scope tables are therefore expressed in the section numbers of the Income-tax Act, **1961** — 80C, 80D, 10(13A), 54EC, 115BAC and the rest.

The syllabus itself, as amended by the Executive Council in EC (1282) dated 29.04.2026, is a syllabus on the Income-tax Act, **2025**. The two are not in conflict: **the guidelines settle what is examinable; the Act settles the law in which it is to be stated.**

This booklet therefore takes its **scope** from the guidelines and its **law** from the Income-tax Act, 2025 as amended by the Finance Act, 2026. So where the guidelines say “80C”, read section 123 with Schedule XV; where they say “10(13A)”, read Schedule III, Sl. No. 11 with Rule 279; where they say “115BAC”, read section 202; where they say “54EC”, read section 85. The full conversion table is in the last chapter of this booklet.

In the examination, give the section number of the 2025 Act. If you wish, add the 1961 number in brackets. Never give the 1961 number alone.

What this booklet does with the guidelines

The body of this Part carries, at the head of each of Chapters 1 to 4, a note setting out exactly what the guidelines prescribe for that head; read it before the chapter. Material that fell outside the prescribed scope has been moved, with a marker, to the Annexe at the end. Three things have been added to these heads to meet the guidelines: set-off and carry forward of business losses and unabsorbed depreciation, in the business chapter; and the splitting of a capital gain across co-owners, and the set-off and carry forward of capital losses, in the capital gains chapter. Relief under section 157 and rebate under section 156 are dealt with in Part A.

Before You Begin

What this Unit asks of you

Unit 1 was about the *idea* of tax planning. This Unit is about its practice. For each of the five heads you must be able to do three things, in this order —

1. **Compute the head correctly.** You cannot plan what you cannot compute. A planning answer built on a wrong gross annual value or a wrong period of holding earns nothing.
2. **Identify the choices the head leaves open.** Every head contains points at which the Act treats two courses differently: the form of a salary component, the number of houses declared self-occupied, the date of a sale, the mode of a receipt.
3. **Show, in rupees, which choice is better.** An examiner rewards the computation of the saving, not the description of the section.

How this booklet is arranged

Each of Chapters 1 to 4 has the same three-part shape, and you should read them the same way every time:

Section	What it does
A — The computation, recapitulated	The whole of the head as you learned it in Semester V, restated on the Income-tax Act, 2025, with the new section numbers and the Income-tax Rules, 2026 figures. Read this even if you think you remember it: almost every number changed on 1 April 2026
B — The planning measures	The choices the head leaves open, each with the provision that creates it and the caution that limits it
C — Illustrations	Worked comparisons, showing both alternatives and the saving

THE ONE THING TO CARRY FROM UNIT 1 INTO EVERY CHAPTER OF THIS ONE

Decide the regime first. Section 202(1) is the default; the optional regime applies only if the assessee exercises the option under section 202(4).

The regime changes the *computation* of three of the five heads — salaries, house property and business or profession — and changes the *value* of planning under all five. A pay package built on house rent allowance is worth nothing in the default regime; a housing loan on a self-occupied house is worth nothing there either.

Chapter 1 of Part A sets out the filter head by head. Do not skip it.

A note on rounding and on the ₹ symbol. All amounts are in Indian rupees. Under section 516 the total income, and any amount payable or refundable, is rounded to the nearest multiple of ₹10, ignoring paise.

The sources from which this material has been written

Source	What it settles in this Unit
Income-tax Act, 2025 (Act No. 30 of 2025) — assent 21 August 2025, in force 1 April 2026	Sections 15 to 19 (salaries); 20 to 25 (house property); 26 to 66 (business or profession); 67 to 91 (capital gains); 92 to 95 (other sources); 108 to 121 (set-off); 196, 197 and 198 (the special rates); 202 (the regimes); and Schedules II and III
Income-tax Rules, 2026 — G.S.R. 198(E) dated 20 March 2026, in force 1 April 2026	Rule 277 (leave travel concession); Rule 279 (house rent allowance, and the list of eight cities); Rule 280 (special allowances, and what survives the default regime); the perquisite valuation rules
Finance Act, 2026 — assent 30 March 2026	The rates for Tax Year 2026-27 in Part I-B of the First Schedule; surcharge; cess
Memorandum explaining the provisions of the Finance Bill,	That no change is proposed in the rates in section 202 or in

Source	What it settles in this Unit
2026	the First Schedule

A warning about older books, sharper for this Unit than for Unit 1

Unit 1 was largely conceptual, and an older textbook could still be read for its reasoning. This Unit is arithmetical, and an older textbook will give you **wrong figures**. The Income-tax Rules, 2026 rewrote, among others — the list of cities carrying the 50% rate for house rent allowance (now **eight**, not four); the children education and hostel allowances (now **₹3,000** and **₹9,000** per month per child, not ₹100 and ₹300); the transport allowance for a disabled employee; the free-meal and gift thresholds; the interest-free loan threshold; the motor car values; and the specified employee threshold.

And the Act itself moved the terminal benefits — gratuity, commuted pension and leave encashment — out of the exemption Schedules and into **section 19 as deductions**. The figure is often the same; the presentation is not, and it is the presentation that section 19 prescribes.

About this booklet

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

It is issued **free of cost** to the students of the University of Delhi and to anyone else who finds it useful. It is not for sale.

Date: 08-08-26 (Original)

SUGGESTIONS AND CORRECTIONS ARE WELCOME

If you notice a discrepancy — a section number, a figure, a rate, a date — or have a suggestion on the presentation, please write to me. Teachers of other colleges are equally welcome.

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

CONTENTS

Contents

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

CHAPTER 1

Tax Planning — Income from House Property

Sections 20 to 25. A short head with a long reach: it is the only head that can produce a loss out of an asset the assessee lives in, and the only head whose loss the default regime refuses to let out.

WHAT THE GUIDELINES PRESCRIBE FOR THIS HEAD

1. Tax planning for a self-occupied property and a deemed-to-be-let-out property — selecting which house to treat as which, so as to maximise the interest deduction.

2. Co-ownership and joint loans [the guidelines' section 26; section 24 of the 2025 Act].

3. Set-off and carry forward of losses under this head.

4. The deduction for repayment of housing loan principal [the guidelines' 80C; section 123 with Schedule XV].

Practical coverage: numerical questions on the selection of a house property as self-occupied or deemed let out.

1.1 SECTION A — The computation, recapitulated

The charge [section 20]

The annual value of property consisting of any buildings or lands appurtenant thereto, of which the assessee is the **owner**, is chargeable under this head — **unless** the property is occupied by him for the purposes of a business or profession carried on by him, the profits of which are chargeable to income-tax.

Three conditions, therefore: there must be a **building or land appurtenant**; the assessee must be the **owner**; and it must not be used for his own business.

The format

Particulars	₹
Gross annual value [section 21(1) or 21(2)]	xxx
Less: municipal taxes **levied by a local authority and actually paid by the owner** during the tax year	(xxx)
NET ANNUAL VALUE	**XXX**
Less: 30% of the net annual value [section 22(1)(a)]	(xxx)
Less: interest on borrowed capital [section 22(1)(b) and (c)]	(xxx)
INCOME FROM HOUSE PROPERTY	**XXX**

Gross annual value, and the self-occupied house

Case	Gross annual value
Let out	The higher of the **expected rent** (the higher of municipal value and fair rent, capped by standard rent) and the **actual rent** received or receivable
Vacant for part of the year	Section 21(2) applies where the actual rent is less than the expected rent owing to vacancy
Self-occupied [section 21(6)]	**Nil**, where the owner occupies it for his own residence or cannot actually occupy it for any reason
How many may be nil? [section 21(7)]	**Two** houses only, as specified by the assessee. And section 21(6) does not apply at all if the house is actually let during any part of the year, or if the owner derives any other benefit from it

Case	Gross annual value
A third or later house	Treated as **deemed let out**; the expected rent becomes the gross annual value

Interest on borrowed capital [section 22]

Provision	What it allows
22(1)(b)	Where the property was acquired, constructed, repaired, renewed or reconstructed with borrowed capital, **the interest payable on that capital**
22(1)(c)	Interest for the period **before** the tax year in which the property was acquired or constructed, in **five equal instalments** beginning with that year
22(2)(a)	For a property within section 21(6) — a self-occupied house — the aggregate deduction under 22(1)(b) shall not exceed **₹2,00,000**, provided the acquisition or construction is completed within **five years** from the end of the tax year in which the capital was borrowed, and a certificate is furnished
22(2)(b)	**₹30,000** in any other case — that is, where the five-year or certificate condition is not met, or the borrowing was for repairs or renewal
22(5)	The aggregate for **all** section 21(6) properties together cannot exceed **₹2,00,000**
A let-out house	**No ceiling at all.** The whole interest is deductible, and this is true in **both** regimes

Arrears and unrealised rent [section 23]; co-ownership [section 24]

- Arrears of rent and unrealised rent **recovered subsequently** are taxable in the year of receipt, **less 30%**, and are taxable whether or not the assessee still owns the property.
- Where a property is owned by **co-owners whose shares are definite and ascertainable**, the share of each is computed separately and included in his own total income — the property is not assessed as an association of persons. Each co-owner gets his own 30% and his own interest ceiling.

Loss under the head, and the regime

	Optional regime	Default regime
Annual value of a self-occupied house	Nil	Nil
Interest on a self-occupied house	₹2,00,000 or ₹30,000; ₹2,00,000 in the aggregate [sections 22(2), 22(5)]	**Nothing at all** [section 202(2)(a)(v)]
Interest on a let-out or deemed let-out house	In full, no ceiling	In full, no ceiling
30% and municipal taxes	As usual	As usual
Set-off against another house [section 108]	In full	In full
Set-off against another head	Up to **₹2,00,000** [section 109(1)(b)]	**Not at all** [section 202(2)(b)(ii)]
Carry forward [section 110]	Eight tax years, against house property income only	Eight years — but note section 202(3), which deems a loss referred to in section 202(2)(b) to have been given full effect to

1.2 SECTION B — The planning measures

Measure	How it works	Caution
Choose which two houses are self-occupied	Section 21(7)(a) lets the **assessee specify** which two houses are to have a nil annual value. Specify the two with the **highest expected rent**, so that the house treated as deemed let out is the one with the smallest gross annual value	The choice may be made afresh each year. Do the arithmetic; the largest house is not always the right answer once the 30% and the interest are taken into account
Let out rather than self-occupy, where the loan is large	A self-occupied house caps the interest at ₹2,00,000 and, in the default regime, at nil. A **let-out** house carries **no ceiling on interest in either regime**. Where the interest greatly exceeds the rent, letting the house and living elsewhere can convert a dead deduction into a live one	The rent becomes taxable, and the loss can be set off against other heads only up to ₹2,00,000 in the optional regime and not at all in the default regime. Work the whole arithmetic, not the interest alone
Buy jointly with a spouse or a major child	Where the shares are definite, section 24 assesses each co-owner separately. **Each** gets his own ₹2,00,000 interest ceiling and his own 30%. Two co-owners therefore have ₹4,00,000 of interest deduction where one owner would have ₹2,00,000	Each co-owner must genuinely contribute to the cost and to the loan, from his own means. A spouse whose share was paid for by the other spouse runs into section 25(a) — the transferor remains the deemed owner and the whole income is his
Complete the construction within five years	Section 22(2)(a) allows ₹2,00,000 only if the acquisition or construction is completed within five years from the end of the tax year in which the capital was borrowed. Miss it and the deduction collapses to ₹30,000	The five years run from the **end of the tax year of borrowing**, not from the date of the loan. Obtain the interest certificate required by section 22(2)(a)(ii)
Use the pre-construction interest	Interest for the period before the year of acquisition or construction is not lost — section 22(1)(c) spreads it over **five equal instalments** beginning with the year of completion	It falls within the same ₹2,00,000 ceiling for a self-occupied house. For a let-out house it is unrestricted
Pay the municipal tax before 31 March	Municipal taxes are deductible only if **actually paid** by the owner during the tax year. Paying an arrear before 31 March brings the deduction into this year	It must be levied by a local authority and borne by the owner, not by the tenant
Do not let a self-occupied house for even a day	Section 21(7)(b) removes the nil annual value if the house is **actually let during any time of the tax year**	A short holiday letting can cost the whole benefit
Where a house is vacant, say why	Section 21(6) extends the nil annual value to an owner who **cannot actually occupy** the house for any reason — a posting elsewhere, for instance	The reason should be capable of proof

THE SENTENCE TO REMEMBER ON THIS HEAD

A house-owner with a large home loan and no let-out property is the classic case in which the optional regime still wins. A house-owner whose properties are all let out loses nothing at all by the default regime.

The reason is that section 202(2)(a)(v) is confined to properties referred to in section 21(6) — the self-occupied ones. Interest on a let-out house survives untouched in both regimes.

1.3 SECTION C — Illustrations

Illustration 1.1 — which two houses to declare self-occupied

Shri Bhatia owns three houses, all of which he keeps for his own use. Their particulars for Tax Year 2026-27 are —

House A — municipal value ₹3,00,000; fair rent ₹3,60,000; municipal taxes paid ₹30,000; interest on loan ₹1,20,000.

House B — municipal value ₹5,00,000; fair rent ₹5,40,000; municipal taxes paid ₹50,000; interest on loan ₹90,000.

House C — municipal value ₹2,00,000; fair rent ₹1,80,000; municipal taxes paid ₹20,000; no loan.

He is in the optional regime. *Which two should he specify under section 21(7)(a)?*

The test. Two houses will have a nil annual value; the third becomes deemed let out. So compute, for each house, the income it would produce *if deemed let out*, and choose as the deemed-let-out house the one that produces the **lowest** figure.

House A deemed let out. Gross annual value ₹3,60,000 − taxes ₹30,000 = ₹3,30,000; less 30% (₹99,000) = ₹2,31,000; less interest ₹1,20,000 = **₹1,11,000.**

House B deemed let out. ₹5,40,000 − ₹50,000 = ₹4,90,000; less 30% (₹1,47,000) = ₹3,43,000; less interest ₹90,000 = **₹2,53,000.**

House C deemed let out. ₹2,00,000 − ₹20,000 = ₹1,80,000; less 30% (₹54,000) = **₹1,26,000.** (Expected rent is the higher of municipal value ₹2,00,000 and fair rent ₹1,80,000.)

Answer. Specify **Houses B and A** as self-occupied and let **House C** be deemed let out. The head then yields ₹1,26,000 *less* the interest on the two self-occupied houses, capped by section 22(5) at ₹2,00,000 in the aggregate: interest ₹1,20,000 + ₹90,000 = ₹2,10,000, restricted to **₹2,00,000**. **Income from house property = ₹1,26,000 − ₹2,00,000 = a loss of ₹74,000**, which may be set off against other heads under section 109(1)(b).

Note the trap. The intuitive answer is to make the largest *house deemed let out, because it has the largest rent. That is wrong: House B deemed let out would have produced ₹2,53,000 of income instead of ₹1,26,000. The correct test is the* ***net figure after the 30% and the interest****, not the rent.*

Illustration 1.2 — self-occupied or let out, under each regime

Shri Chandra owns one house in Delhi, on which the interest for Tax Year 2026-27 is ₹6,00,000. If let, it would fetch ₹4,80,000 a year; municipal taxes ₹40,000. He has a salary income of ₹20,00,000. He can either live in it, or let it and take a rented flat nearby at the same rent. *Advise him under each regime.*

Optional regime, self-occupied. Annual value nil; interest restricted by section 22(2)(a) to **₹2,00,000**. Loss ₹2,00,000, set off against salary in full under section 109(1)(b). Income from house property **(₹2,00,000)**.

Optional regime, let out. Gross annual value ₹4,80,000 − taxes ₹40,000 = ₹4,40,000; less 30% (₹1,32,000) = ₹3,08,000; less interest ₹6,00,000 (no ceiling) = loss **₹2,92,000**. Set off against salary is capped at ₹2,00,000 by section 109(1)(b); the balance ₹92,000 is carried forward under section 110. He also pays rent of ₹4,80,000 himself and receives ₹4,80,000 — neutral in cash.

In the optional regime the two are equal in the current year (₹2,00,000 of set-off either way), but letting banks a further ₹92,000 for future house property income. Marginally better to let.

Default regime, self-occupied. Interest **nil** [section 202(2)(a)(v)]. Income from the head **nil**. The ₹6,00,000 of interest earns absolutely nothing.

Default regime, let out. Interest is **not** withdrawn — section 202(2)(a)(v) is confined to section 21(6) properties, and a let-out house is not one. Income from the head = ₹3,08,000 − ₹6,00,000 = **loss ₹2,92,000**. But section 202(2)(b)(ii) bars any set-off of that loss against salary, and section 202(3) deems it to have been given full effect to. **So the loss contributes nothing to the computation — the head enters total income at nil.**

Advice. In the **optional** regime, **let**: the current-year set-off is the same ₹2,00,000 either way, but letting banks a further ₹92,000 under section 110 against future house property income. In the **default** regime the two courses give **exactly the same tax — nil from this head either way** — so let the non-tax considerations decide; there is nothing to be gained by letting, and the ₹6,00,000 of interest is simply dead.

Two lessons. First, the same physical decision — where to sleep — has different tax answers in the two regimes, which is exactly the kind of question an examiner likes because it cannot be answered from memory. Second, and more sobering: this taxpayer pays ₹6,00,000 of interest and, in the default regime, receives no relief for any part of it. That is the real price of the lower slab rates, and it should be quantified before the regime is chosen.

Illustration 1.3 — joint ownership

Shri and Smt. Dutt propose to buy a house for ₹1,20,00,000 with a loan of ₹90,00,000 on which the interest will be ₹6,30,000 a year. Both are in the optional regime and both are taxed at 30%. The house will be self-occupied. *Should they buy it in one name or jointly?*

In one name. Interest restricted to **₹2,00,000** by section 22(2)(a). Tax saved at 30% plus cess = **₹62,400 a year.**

Jointly, in equal definite shares. Section 24 assesses each co-owner separately on his share. Each has a self-occupied house with a nil annual value and interest of ₹3,15,000, restricted to **₹2,00,000 each**. Aggregate deduction **₹4,00,000**. Tax saved = **₹1,24,800 a year.**

Advantage of buying jointly: ₹62,400 a year, and over a twenty-year loan a very large sum.

Three conditions must be satisfied and all three are commonly failed. The shares must be ***definite and ascertainable****, so state them in the sale deed. Each co-owner must be a* ***co-borrower*** *on the loan. And each must pay his share* ***out of his own funds*** *— if one spouse in fact pays for the other's share, section 25(a) makes the payer the deemed owner of the whole and the plan fails entirely.*

1.4 SECTION D — ADDITIONAL CASE STUDIES

ILLUSTRATION 1.4 — THREE SELF-OCCUPIED HOUSES — THE BASIC NOMINATION

FACTS

Mr. Devendra owns three houses at Delhi, all occupied by him for his own residence throughout **Tax Year 2026-27**. He has salary income of **₹24,00,000** and invests **₹1,50,000** in a public provident fund.

Particulars	House I	House II	House III
Municipal value	3,60,000	5,40,000	4,50,000
Fair rent	4,32,000	7,20,000	4,20,000
Standard rent	4,50,000	6,00,000	5,40,000
Municipal taxes paid during the year	36,000	60,000	90,000
Interest on capital borrowed (loans of 2018 for purchase; construction completed within five years)	60,000	1,80,000	2,40,000

REQUIRED

Advise Mr. Devendra which two houses should be nominated as self-occupied under each regime, and compute his tax liability.

SOLUTION

Step 1 — Expected rent, and the income each house would yield if deemed let out.

Particulars	House I	House II	House III	
Higher of municipal value and fair rent	4,32,000	7,20,000	4,50,000	
Restricted to the standard rent	4,50,000	6,00,000	5,40,000	
Expected rent	**4,32,000**	**6,00,000**	**4,50,000**	
Less: municipal taxes paid	(36,000)	(60,000)	(90,000)	
Net annual value	3,96,000	5,40,000	3,60,000	
Less: standard deduction at 30%	(1,18,800)	(1,62,000)	(1,08,000)	
	2,77,200	3,78,000	2,52,000	
Less: interest on borrowed capital	(60,000)	(1,80,000)	(2,40,000)	
Income if deemed let out (d)	**2,17,200**	**1,98,000**	**12,000**	
Interest allowable if self-occupied (t)	**60,000**	**1,80,000**	**2,00,000** (capped)	

Step 2 — Testing the three possible nominations.

Houses nominated as self-occupied	Default regime — income of the house left deemed let out	Old regime — the same, less the interest on the two nominated houses (aggregate ceiling ₹2,00,000)
Houses I and II	House III = **12,000**	12,000 less min(60,000 + 1,80,000; 2,00,000) = 12,000 - 2,00,000 = **(1,88,000)**
Houses I and III	House II = **1,98,000**	1,98,000 less min(60,000 + 2,00,000; 2,00,000) = **(2,000)**
Houses II and III	House I = **2,17,200**	2,17,200 less 2,00,000 = **17,200**

Under both regimes the answer is the same — nominate Houses I and II. Under the default regime that is because Houses I and II carry the two highest values of d, so the smallest figure is left to be taxed. Under the old regime it is because the interest on the two nominated houses (₹2,40,000) already exhausts the ₹2,00,000 ceiling, so nothing is gained by nominating a house with even more interest.

Step 3 — Tax liability.

Particulars	Default regime	Old regime
Salary	24,00,000	24,00,000
Less: standard deduction	(75,000)	(50,000)
Income from house property	**12,000**	**(1,88,000)** — set off against salary, being within the ₹2,00,000 ceiling
Gross total income	23,37,000	21,62,000
Less: deduction u/s 123 (PPF)	Not available	(1,50,000)
Total income	**23,37,000**	**20,12,000**
Income-tax	2,84,250	4,16,100
Add: cess at 4%	11,370	16,644
Tax liability	**2,95,620**	**4,32,744**

Advice: nominate Houses I and II and remain in the default regime. The saving is **₹1,37,124**.

Teaching note. Observe that the old regime delivers a house property **loss** of ₹1,88,000, fully set off against salary, and a further deduction of ₹1,50,000 under section 123 — together ₹3,38,000 of extra deduction. It still loses by more than a lakh, because the slab structure of section 202 is worth far more than that at this level of income. **A deduction is not a saving until it has been compared with what it costs to obtain it.**

Illustration 1.5 — when the two regimes point to different houses

FACTS

Mr. Rakesh owns three houses, all occupied for his own residence throughout **Tax Year 2026-27**. His salary is **₹30,00,000** and he invests **₹1,50,000** in a public provident fund. All three loans were taken for purchase and the construction of each house was completed well within five years of the end of the tax year of borrowing.

Particulars	House P	House Q	House R
Municipal value	5,00,000	4,20,000	10,00,000
Fair rent	5,60,000	4,00,000	11,00,000
Standard rent	6,00,000	4,50,000	12,00,000
Municipal taxes paid	60,000	20,000	1,00,000
Interest on capital borrowed	50,000	30,000	5,00,000

REQUIRED

Determine which two houses should be nominated as self-occupied under each regime, and quantify the cost of getting the choice wrong.

SOLUTION

Step 1 — The two figures for each house.

Particulars	House P	House Q	House R
Expected rent (higher of municipal value and fair rent, restricted to standard rent)	5,60,000	4,20,000	11,00,000
Less: municipal taxes paid	(60,000)	(20,000)	(1,00,000)
Net annual value	5,00,000	4,00,000	10,00,000
Less: standard deduction at 30%	(1,50,000)	(1,20,000)	(3,00,000)
	3,50,000	2,80,000	7,00,000
Less: interest	(50,000)	(30,000)	(5,00,000)
d — income if deemed let out	**3,00,000**	**2,50,000**	**2,00,000**
t — interest allowable if self-occupied	**50,000**	**30,000**	**2,00,000** (capped)

Step 2 — All three nominations, under both regimes.

Houses nominated as self-occupied	Default regime — house property income	Old regime — house property income
P and Q	House R = **2,00,000**	2,00,000 less min(80,000; 2,00,000) = **1,20,000**
P and R	House Q = **2,50,000**	2,50,000 less min(5,50,000; 2,00,000) = **50,000**
Q and R	House P = **3,00,000**	3,00,000 less 2,00,000 = **1,00,000**
Best nomination	**P and Q**, giving ₹2,00,000	**P and R**, giving ₹50,000

The two regimes call for different houses. Under the default regime the interest is thrown away on whichever houses are nominated, so the only question is which houses would otherwise yield the most income — P and Q. Under the old regime, nominating House R converts its ₹5,00,000 of interest into a deduction of ₹2,00,000, which is worth more than the ₹50,000 of extra deemed-let-out income that House Q then brings in.

Step 3 — The cost of carrying the wrong answer into the wrong regime.

Regime	Correct nomination	Income	If the other regime's answer is used	Income	Extra income taxed
Default	P and Q	2,00,000	P and R	2,50,000	**50,000**
Old	P and R	50,000	P and Q	1,20,000	**70,000**

Step 4 — Tax liability on the correct nomination under each regime.

Particulars	Default regime (P and Q self-occupied)	Old regime (P and R self-occupied)
Salary	30,00,000	30,00,000
Less: standard deduction	(75,000)	(50,000)
Income from house property	2,00,000	50,000
Gross total income	31,25,000	29,50,000
Less: deduction u/s 123	Not available	(1,50,000)
Total income	**31,25,000**	**28,50,000**
Income-tax	5,17,500	6,67,500
Add: cess at 4%	20,700	26,700
Tax liability	**5,38,200**	**6,94,200**

Advice: nominate Houses P and Q and remain in the default regime, a liability of ₹5,38,200 against ₹6,94,200.

Teaching note. This is the case that must be taught first and remembered longest. Every textbook rule of thumb — “nominate the house with the highest interest”, “nominate the house with the highest annual value” — was written for a statute under which the interest on a self-occupied house was always deductible. Under section 202 it is never deductible, and the rule of thumb reverses. **Compute d for every house, and only then decide.**

ILLUSTRATION 1.6 — TWO SELF-OCCUPIED HOUSES SHARE ONE CEILING OF ₹2,00,000

FACTS

Mrs. Anjali owns exactly two houses, both occupied for her own residence throughout **Tax Year 2026-27**. Neither is let at any time. Her salary is **₹18,00,000**.

Particulars	House 1	House 2
Purpose of the loan	**Purchase** of the house	**Repairs and renovation** of the house
Date on which the capital was borrowed	1 August 2021	1 June 2024
Date on which construction or acquisition was completed	15 March 2023	Not applicable
Interest payable for Tax Year 2026-27	1,80,000	1,50,000

REQUIRED

(a) Compute the interest deduction admissible under each regime.

(b) State the position if the construction of House 1 had been completed only on 30 June 2028.

(c) State the position if she had nominated only House 1 as self-occupied and let House 2 out.

SOLUTION

Part (a) — Interest admissible.

Step	House 1	House 2
Interest payable	1,80,000	1,50,000
Which limb of s. 22(2) applies?	The capital was borrowed in Tax Year 2021-22 and the acquisition was completed on 15 March 2023, well within five years from the end of that tax year. **S. 22(2)(a) applies — ceiling ₹2,00,000**	The loan was taken for **repairs and renovation**, not for acquisition or construction. **S. 22(2)(b) applies — ceiling ₹30,000**
Interest allowable for the house	**1,80,000**	**30,000**
Sub-total		**2,10,000**
Less: the aggregate ceiling in s. 22(5)		**Restricted to 2,00,000**
Deduction under the old regime		**2,00,000**
Deduction under the default regime		**Nil** — s. 202 disallows interest on a self-occupied house altogether

The single most common error in this chapter is to allow ₹2,00,000 for each self-occupied house. Section 22(5) is explicit: the aggregate for all houses whose annual value is nil under section 21(6) shall not exceed ₹2,00,000. Two houses share **one** ceiling.

Part (b) — If House 1 had been completed on 30 June 2028.

The capital was borrowed in Tax Year 2021-22, which ended on 31 March 2022. Five years from that date expires on **31 March 2027**. Completion on 30 June 2028 is outside that period, so the condition in s. 22(2)(a)(i) fails and House 1 falls into s. 22(2)(b).

Particulars	Revised position
House 1 — ceiling under s. 22(2)(b)	**30,000**
House 2 — ceiling under s. 22(2)(b)	**30,000**
Deduction under the old regime	**60,000**

Particulars	Revised position
Deduction under the default regime	**Nil**

The deduction collapses from ₹2,00,000 to ₹60,000 — a loss of ₹1,40,000 — purely because of a delay in completing the construction. Where a project is running late, **the date of completion is itself a tax-planning variable.**

Part (c) — If House 2 were let out instead.

A house actually let at any time during the year cannot be nominated under s. 21(7)(b), and its interest is then governed by s. 22(1)(b) **without any monetary ceiling**. The whole of the ₹1,50,000 would be deductible against the annual value of House 2, in **both** regimes. Only House 1 would remain self-occupied, with its own deduction of ₹1,80,000 in the old regime and nil in the default regime.

Position	Old regime	Default regime
Both houses self-occupied	**2,00,000**	**Nil**
House 1 self-occupied, House 2 let out	1,80,000 + the whole of 1,50,000 against House 2's annual value	**Nil** for House 1, but **the whole of 1,50,000** against House 2's annual value

Teaching note. Letting the second house is the only route by which an assessee in the **default regime** can obtain any deduction at all for the interest he pays. Under section 202 a self-occupied house is a dead loss for interest purposes; a let-out house is not.

ILLUSTRATION 1.7 — THE BAR ON SETTING OFF HOUSE PROPERTY LOSS — AND WHAT IT IS WORTH

FACTS

Mr. Sanjay has salary income of **₹20,00,000** for **Tax Year 2026-27** and invests **₹1,50,000** in a public provident fund. He owns two houses —

- **House 1**, occupied for his own residence throughout the year. It was purchased with a loan taken in 2020 and completed within five years; the interest for the year is **₹3,50,000**.
- **House 2**, let out throughout the year at **₹30,000 per month**. Its municipal value is ₹3,20,000, fair rent ₹3,40,000 and standard rent ₹3,80,000. Municipal taxes of **₹36,000** were paid by him during the year. Interest on the loan taken for this house is **₹12,00,000**.

REQUIRED

(a) Compute the income from house property and the tax liability under both regimes.

(b) Determine the level of old-regime deductions at which the two regimes would break even.

SOLUTION

Step 1 — House 2, the let-out house (identical under both regimes).

Particulars	Amount (₹)
Expected rent — higher of municipal value 3,20,000 and fair rent 3,40,000, restricted to standard rent 3,80,000	3,40,000
Actual rent received (30,000 x 12)	3,60,000
Gross annual value — the higher of the two	**3,60,000**
Less: municipal taxes actually paid	(36,000)
Net annual value	3,24,000
Less: standard deduction at 30%	(97,200)
	2,26,800
Less: interest under s. 22(1)(b), no monetary ceiling	(12,00,000)
Loss from House 2	**(9,73,200)**

Step 2 — House 1, the self-occupied house, and the totals.

Particulars	Default regime	Old regime
House 1 — annual value under s. 21(6)	Nil	Nil
House 1 — interest of ₹3,50,000	**Not allowed at all**	Restricted to **(2,00,000)** by ss. 22(2) and 22(5)
House 1 — income	**Nil**	**(2,00,000)**
House 2 — loss	(9,73,200)	(9,73,200)
Loss under the head "Income from house property"	**(9,73,200)**	**(11,73,200)**
Amount set off against salary	**Nil** — s. 202 bars inter-head set-off entirely	**(2,00,000)** — the statutory ceiling
Loss carried forward for eight tax years	**9,73,200**	**9,73,200**

Step 3 — Tax liability.

Particulars	Default regime	Old regime
Salary	20,00,000	20,00,000

Particulars	Default regime	Old regime
Less: standard deduction	(75,000)	(50,000)
Less: house property loss set off	Nil	(2,00,000)
Gross total income	19,25,000	17,50,000
Less: deduction u/s 123	Not available	(1,50,000)
Total income	**19,25,000**	**16,00,000**
Income-tax	1,85,000	2,92,500
Add: cess at 4%	7,400	11,700
Tax liability	**1,92,400**	**3,04,200**

The default regime is cheaper by ₹1,11,800, even though it denies him a ₹2,00,000 interest deduction and a ₹2,00,000 inter-head set-off and the ₹1,50,000 deduction under section 123.

Step 4 — Part (b): the break-even point.

Under the default regime his income-tax before cess is **₹1,85,000**. Under the old regime, for total income above ₹10,00,000, the tax is ₹1,12,500 plus 30% of the excess. Equating the two —

Step	Working
Old-regime tax must equal	₹1,85,000
1,12,500 + 30% of (total income - 10,00,000) = 1,85,000	30% of (total income - 10,00,000) = 72,500
Total income at break-even	10,00,000 + 2,41,667 = **₹12,41,667**
Salary less standard deduction of ₹50,000	19,50,000
Aggregate old-regime deductions required	19,50,000 - 12,41,667 = **₹7,08,333**

Mr. Sanjay would need aggregate deductions of about **₹7,08,333** before the old regime became worth choosing. The house property head can contribute at most **₹2,00,000** of that, because the inter-head set-off is itself capped at ₹2,00,000 however large the loss. He would therefore need a further **₹5,08,333** from Chapter VI-A and other sources.

Teaching note — the single most important structural point in this chapter. However enormous the house property loss, the old regime can convert **at most ₹2,00,000** of it into a current deduction; the rest is carried forward under both regimes alike. **The house property head, by itself, can never justify opting out of section 202.** It can only ever be one contribution towards a much larger total of deductions. Students should be able to state this without hesitation.

ILLUSTRATION 1.8 — PRE-CONSTRUCTION INTEREST, THE FIVE-YEAR TEST, AND CO-OWNERSHIP

FACTS

Mr. Aarav borrowed **₹40,00,000 on 1 July 2023 at 9% per annum** to construct a house at Pune. Construction was completed on **31 January 2027** and he occupied the house for his own residence from **1 February 2027**. He has salary income of **₹22,00,000** and invests **₹1,50,000** in a public provident fund. No principal has been repaid.

REQUIRED

(a) Compute the interest deductible for Tax Year 2026-27 under both regimes.

(b) Advise whether he would be better off letting the house out from 1 February 2027 at ₹45,000 per month, the expected rent for that period being ₹80,000 and municipal taxes of ₹10,000 being paid by him.

(c) State the effect of buying the house jointly with his wife, both being co-borrowers.

SOLUTION

Part (a) — Step 1: the pre-construction period.

The pre-construction period runs from the date of borrowing to **31 March immediately preceding the tax year in which the construction is completed** — that is, from 1 July 2023 to 31 March 2026.

Period	Working	Interest (₹)
1 July 2023 to 31 March 2024 (9 months)	40,00,000 x 9% x 9/12	2,70,000
Tax Year 2024-25	40,00,000 x 9%	3,60,000
Tax Year 2025-26	40,00,000 x 9%	3,60,000
Total pre-construction interest		**9,90,000**
Allowable in each of five tax years from 2026-27 — s. 22(1)(c)	9,90,000 / 5	**1,98,000**

Step 2 — Total interest claim for Tax Year 2026-27.

Particulars	Amount (₹)
Current year interest (40,00,000 x 9%)	3,60,000
First instalment of pre-construction interest	1,98,000
Total interest	**5,58,000**

Step 3 — How much is actually deductible.

Test	Position
Was the construction completed within five years from the end of the tax year of borrowing?	The capital was borrowed in Tax Year 2023-24, which ended on 31 March 2024. Five years expire on **31 March 2029**. Completion on 31 January 2027 is well within. **S. 22(2)(a) applies.**
Deduction under the old regime	Restricted to **₹2,00,000**. ₹3,58,000 of the interest is simply lost.
Deduction under the default regime	**Nil.** The whole ₹5,58,000 is lost.

Part (b) — If the house is let out from 1 February 2027.

Particulars	Amount (₹)			
Actual rent for February and March 2027 (45,000 x 2)	90,000			
Expected rent for that period	80,000			
Gross annual value — the higher	**90,000**			

Particulars	Amount (₹)			
Less: municipal taxes paid	(10,000)			
Net annual value	80,000			
Less: standard deduction at 30%	(24,000)			
	56,000			
Less: interest under s. 22(1)(b) — **no monetary ceiling for a let-out house**	(5,58,000)			
Loss from house property	**(5,02,000)**			
Particulars	Self-occupied — old regime	Let out — old regime	Self-occupied — default regime	Let out — default regime
Income or loss from house property	(2,00,000)	(5,02,000)	Nil	(5,02,000)
Set off against salary in this year	2,00,000	2,00,000 (the ceiling)	Nil	Nil
Loss carried forward	Nil	**3,02,000**	Nil	**5,02,000**
Rent actually received	Nil	90,000	Nil	90,000
Total income	18,00,000	18,00,000	21,25,000	21,25,000
Tax liability	**3,66,600**	**3,66,600**	**2,40,500**	**2,40,500**

Letting the house out is better in both regimes, and decisively so in the default regime. The tax of the year is the same either way, but letting converts interest that would otherwise be **wholly wasted** into a carried-forward loss of ₹5,02,000 in the default regime and ₹3,02,000 in the old regime, and brings in ₹90,000 of rent besides. In the default regime the choice is between a deduction of nil and a carry-forward of ₹5,02,000.

Part (c) — Co-ownership.

Under s. 24, where the shares of co-owners are definite and ascertainable, each is assessed separately on his share. Each co-owner therefore has **his own ceiling** under ss. 22(2) and 22(5).

Particulars	Sole ownership	Joint ownership, 50 : 50, both co-borrowers
Interest of ₹5,58,000	Wholly Mr. Aarav's	2,79,000 each
Deduction available in the old regime	**2,00,000**	**2,00,000 each = 4,00,000**
Deduction available in the default regime	Nil	Nil

In the **old regime** genuine co-ownership doubles the family's deduction from ₹2,00,000 to ₹4,00,000, provided the wife is a **co-owner of the property** as well as a **co-borrower**, contributes to the instalments out of her own income, and has income of her own against which to set the deduction. In the **default regime** it achieves nothing at all, because the deduction is nil for each of them.

Teaching note. Three separate conditions must all be satisfied before the interest of ₹5,58,000 yields its full value — the property must be let, the loan must be traceable to the property, and the borrower must be the owner. Fail any one and the deduction shrinks to ₹2,00,000, or to nil.

Illustration 1.9 — capstone — four flats, unrealised rent and arrears

FACTS

Mr. Mondev, aged 45, owns four flats at Delhi. For **Tax Year 2026-27** the particulars are —

Particulars	Flat I	Flat II	Flat III	Flat IV
Municipal value	6,00,000	8,00,000	10,00,000	4,00,000
Fair rent	6,80,000	8,80,000	9,00,000	3,60,000
Standard rent	6,65,000	8,65,000	12,00,000	4,50,000
Municipal taxes	50,000 **paid**	25,000 **paid**	24,000 **outstanding**	40,000 **paid**
Interest on capital borrowed	60,000 (loan of 2021 for **renovation**)	2,40,000 (loan of 2019 for **construction**, completed 2021)	8,50,000 (loan for purchase)	Nil
Use during the year	Occupied by him	Occupied by him	**Let out throughout at ₹1,20,000 p.m.**	Occupied by him

Rent for two months of Flat III could not be realised and all the prescribed conditions for treating it as unrealised rent are satisfied. During the year Mr. Mondev also recovered **arrears of rent of ₹3,00,000** in respect of a property he had sold some years ago. His income from other sources is **₹12,00,000** and he invests **₹1,50,000** in a public provident fund.

REQUIRED

Compute his income from house property, total income and tax liability under both regimes, advising him on the nomination of the self-occupied flats.

SOLUTION

Step 1 — Flat III, which is actually let out.

Flat III was let throughout the year and therefore **cannot be nominated as self-occupied** under s. 21(7)(b). Its income is computed under s. 21(1)(b).

Particulars	Amount (₹)
Expected rent — higher of municipal value 10,00,000 and fair rent 9,00,000, restricted to standard rent 12,00,000	10,00,000
Rent receivable for the year (1,20,000 x 12)	14,40,000
Less: unrealised rent for two months, excluded by s. 21(4)	(2,40,000)
Actual rent received	12,00,000
Gross annual value — the higher of expected rent and actual rent	**12,00,000**
Less: municipal taxes — **only ₹24,000, which remained outstanding, so nothing is deductible under s. 21(3)**	Nil
Net annual value	12,00,000
Less: standard deduction at 30%	(3,60,000)
	8,40,000
Less: interest	(8,50,000)
Loss from Flat III	**(10,000)**

Step 2 — Arrears of rent recovered — s. 23.

Particulars	Amount (₹)
Arrears of rent recovered	3,00,000
Less: deduction at 30%	(90,000)
Taxable, although the property is no longer owned by him	**2,10,000**

Step 3 — Flats I, II and IV: the two figures for each.

Particulars	Flat I	Flat II	Flat IV
Expected rent	6,65,000	8,65,000	4,00,000
Less: municipal taxes paid	(50,000)	(25,000)	(40,000)
Net annual value	6,15,000	8,40,000	3,60,000
Less: standard deduction at 30%	(1,84,500)	(2,52,000)	(1,08,000)
	4,30,500	5,88,000	2,52,000
Less: interest	(60,000)	(2,40,000)	Nil
d — income if deemed let out	**3,70,500**	**3,48,000**	**2,52,000**
t — interest allowable if self-occupied	**30,000** — the loan was for **renovation**, so s. 22(2)(b) applies	**2,00,000** — s. 22(2)(a), capped	**Nil**

Step 4 — Testing the three nominations.

Flats nominated as self-occupied	Default regime	Old regime
Flats I and II	2,52,000 - 10,000 + 2,10,000 = **4,52,000**	4,52,000 less min(30,000 + 2,00,000; 2,00,000) = **2,52,000**
Flats I and IV	3,48,000 - 10,000 + 2,10,000 = **5,48,000**	5,48,000 less 30,000 = **5,18,000**
Flats II and IV	3,70,500 - 10,000 + 2,10,000 = **5,70,500**	5,70,500 less 2,00,000 = **3,70,500**

Flats I and II should be nominated under both regimes.

Step 5 — Total income and tax.

Particulars	Default regime	Old regime
Flats I and II — self-occupied	Nil	(2,00,000)
Flat IV — deemed let out	2,52,000	2,52,000
Flat III — let out	(10,000)	(10,000)
Arrears of rent recovered	2,10,000	2,10,000
Income from house property	**4,52,000**	**2,52,000**
Income from other sources	12,00,000	12,00,000
Gross total income	16,52,000	14,52,000
Less: deduction u/s 123	Not available	(1,50,000)

Particulars	Default regime	Old regime
Total income	**16,52,000**	**13,02,000**
Income-tax	1,30,400	2,03,100
Add: cess at 4%	5,216	8,124
Tax liability	**1,35,616**	**2,11,224**

Advice: nominate Flats I and II and remain in the default regime. Tax payable ₹1,35,616.

Step 6 — Four points that decide this case.

- **Flat III's municipal taxes of ₹24,000 give no deduction**, because s. 21(3) allows only taxes **actually paid** during the tax year. Paying them before 31 March 2027 would have reduced the net annual value by ₹24,000 and the income by ₹16,800 after the 30% deduction. **This is a costless piece of planning that is very often missed.**
- **Flat I's loan was taken for renovation**, so its ceiling is ₹30,000 and not ₹2,00,000. Had the same ₹60,000 of interest arisen on a purchase loan, the whole of it would have been within the ceiling.
- **The unrealised rent of ₹2,40,000 is excluded** from the actual rent under s. 21(4) — but note that the gross annual value is still ₹12,00,000 and not the expected rent of ₹10,00,000, because the actual rent as reduced is the higher figure.
- **The arrears of ₹3,00,000 are taxable although the property was sold**, subject only to the 30% deduction under s. 23.

Teaching note. Set the same problem again with Flat III's municipal taxes of ₹24,000 **actually paid on or before 31 March 2027**. The net annual value falls to ₹11,76,000, Flat III yields a loss of ₹26,800 instead of ₹10,000, and the liability falls to **₹1,32,122** in the default regime and **₹2,05,982** in the old regime — a saving of ₹3,494 and ₹5,242 respectively. The money had to be paid in any event; only the **date** of payment changed. Note also that making Flat I's loan a purchase loan rather than a renovation loan would change nothing here, because Flat II's interest of ₹2,00,000 has already exhausted the aggregate ceiling in s. 22(5) — a useful reminder that the ceiling is a **single** one.

Illustration 1.10 — summary of the planning principles in Illustrations 1.4 to 1.9

#	Principle	Case study
1	Under the **default regime a self-occupied house always contributes exactly nil** — nil annual value, no interest. Nominate the **two houses with the highest deemed-let-out income**; the interest is irrelevant to the choice.	1, 2, 6
2	Under the **old regime** the test is different: maximise the deemed-let-out income given up **plus** the interest obtained, subject to the ₹2,00,000 ceiling. **The two regimes can call for different houses.**	2
3	Every textbook rule of thumb — “nominate the house with the highest interest” — was written for a statute in which that interest was always deductible. Under section 202 it never is. **Compute, do not recall.**	2
4	**Two self-occupied houses share one ceiling of ₹2,00,000** — section 22(5). Claiming ₹2,00,000 for each is the commonest error in this chapter.	3
5	A loan for **repair, renewal or reconstruction** carries a ceiling of **₹30,000**, not ₹2,00,000, however large the interest.	3, 6
6	The ₹2,00,000 ceiling also fails if the construction is **not completed within five years** from the end of the tax year of borrowing. **The completion date is itself a planning variable.**	3, 5
7	A house **actually let at any time** during the year cannot be nominated at all — but its interest then becomes deductible **without any ceiling**, in both regimes. Letting is the only route to an interest deduction under section 202.	3, 5
8	However large the house property loss, the old regime converts **at most ₹2,00,000** of it into a current deduction. **The house property head alone can never justify opting out of section 202.**	4
9	Under the default regime house property loss cannot be set off against **any** other head. It is carried forward for eight years against house property income only.	4, 5
10	**Pre-construction interest** is allowed in five equal instalments from the year of completion — and is wasted entirely on a self-occupied house in the default regime.	5
11	**Genuine co-ownership doubles the ceiling**, because each co-owner has his own ₹2,00,000 under section 24. It is worth nothing in the default regime.	5
12	Municipal taxes are deductible only when **actually paid during the tax year**. Paying an outstanding demand before 31 March is a costless saving.	6
13	**Arrears of rent and unrealised rent recovered** are taxable in the year of receipt, less 30%, even if the property has since been sold.	6
14	Compute the position under **both regimes and every permissible nomination** before advising. There are only three nominations to test where there are three houses.	1, 2, 6

CHAPTER 2

Tax Planning — Profits and Gains of Business or Profession

Sections 26 to 66. The widest head in the Act, and the one that leaves the taxpayer most room — because here he controls not only the form of the receipt but the form of the enterprise, the timing of the expenditure and the method of accounting.

WHAT THE GUIDELINES PRESCRIBE FOR THIS HEAD

1. Allowable business expenditure [the guidelines' sections 30 to 37; sections 28 to 34 of the 2025 Act].

2. Depreciation [the guidelines' section 32; section 33].

3. Maintenance of books of account [the guidelines' section 44AA; section 62].

4. Presumptive taxation [the guidelines' sections 44AD, 44ADA and 44AE; section 58].

5. Set-off and carry forward of business losses, and unabsorbed depreciation.

Practical coverage: numerical questions on the application of the presumptive schemes.

2.1 SECTION A — The computation, recapitulated

The charge and the scheme

Section	What it does
26	Charges the profits and gains of any business or profession carried on at any time during the tax year, together with the deemed profits
27	The manner of computing — profits are computed on the method of accounting regularly employed, after the deductions in sections 28 to 54
28	Rent, rates, taxes, repairs and insurance of premises, and of plant and machinery
29	Deductions related to employee welfare — contributions to recognised funds, bonus and commission, gratuity funds
30	Deduction for certain premium — insurance of stocks, cattle, health of employees
31	Bad debts, and the provision for bad and doubtful debts
32	Other deductions
33	**Depreciation** — the block of assets, the rates, and the additional depreciation
34	The **general deduction** — any expenditure not of a capital or personal nature, laid out wholly and exclusively for the business. Sub-sections (2) and (3) expressly exclude expenditure that is an offence or prohibited by law, corporate social responsibility expenditure, and advertisement in a political party's publication
35	**Amounts not deductible** — including the limits on **remuneration and interest to partners**
36	Expenses or payments not deductible — the cash payment and similar disallowances
37	Deductions allowed **on actual payment basis only**

Section	What it does
38	Sums deemed to be profits — recoveries, remissions, balancing charges
39 to **43**	Actual cost, written down value, and foreign exchange fluctuation
44	Amortisation of preliminary expenses
45	Expenditure on scientific research
58	**Presumptive taxation** of certain residents
62 and **63**	**Books of account** and **tax audit**

The teachers' guidelines for the Semester V paper confined the numerical treatment to sections 26 to 38, 44, 45 and 58, with 62 and 63 taken conceptually. That is a sensible scope for this paper too.

The format

Particulars	₹
Net profit as per the profit and loss account	xxx
Add: expenses debited but not allowable — capital expenditure, personal expenses, provisions, disallowances under sections 35, 36 and 37, excess depreciation	xxx
Add: incomes taxable under this head but not credited	xxx
Less: expenses allowable but not debited — depreciation under section 33, and the rest	(xxx)
Less: incomes credited but not taxable under this head — rent of house property, capital gains, interest assessable under other sources, exempt income	(xxx)
PROFITS AND GAINS OF BUSINESS OR PROFESSION	**XXX**

Depreciation [section 33]

- Allowed on the **written down value of a block of assets** — a group of assets of the same class in respect of which the same rate applies. Individual assets lose their identity inside the block.
- The asset must be **owned**, wholly or partly, and **used for the purposes of the business** during the tax year.
- **The half-year rule.** Where an asset is acquired **and** put to use in the tax year for **less than 180 days**, depreciation is allowed at **half** the normal rate in that year.
- **Additional depreciation** is available on new plant and machinery in the circumstances the section prescribes.
- Depreciation in the case of power units, and on amalgamation or business reorganisation, are outside the scope settled for this paper.

Presumptive taxation [section 58]

Sl.	Business or profession	Who	Turnover / gross receipts	Deemed profit
1	Any business other than goods carriage	Eligible assessee	Not exceeding **₹2 crore**; or **₹3 crore** where cash receipts do not exceed **5%** of turnover	The higher of — (i) **6%** of turnover received by specified banking or online mode, plus **8%** of the rest; and (ii) the profit actually earned
2	Plying, hiring or leasing **goods carriages**	An assessee owning **not more than ten**	—	The higher of — (i) **₹1,000 per ton** of

Sl.	Business or profession	Who	Turnover / gross receipts	Deemed profit
		goods carriages at any time in the year		gross vehicle weight per month for a heavy goods vehicle, and **₹7,500 per vehicle per month** otherwise; and (ii) the profit actually earned
3	A **specified profession** within section 62(4)	Specified assessee	Not exceeding **₹50 lakh**; or **₹75 lakh** where cash receipts do not exceed **5%** of gross receipts	The higher of **50%** of gross receipts and the profit actually earned

Where the assessee **claims a lower profit** than the presumptive figure and his total income exceeds the maximum amount not chargeable to tax, he must maintain books under section 62 and get them audited under section 63.

Set-off and carry forward of business losses, and unabsorbed depreciation

Expressly required by the guidelines, and the limb of this head most often left out of an answer. Chapter VII of the Act — sections 108 to 121 — governs it.

Loss	Set off in the same year against	Carried forward for	Then set off against
Speculative business loss	Speculative business profits only	**4 tax years**	Speculative business profits only
Other business loss	Any head **except** salary	**8 tax years**	**Business income only** — not against any other head
Loss of a specified business	Profits of a specified business only	No limit	Profits of a specified business only
Unabsorbed depreciation	Any head **except** salary	**No limit whatever**	Any head except salary — it merges with the depreciation of the following year and is treated as current depreciation

THE ORDER OF SET-OFF, AND THE TWO PLANNING POINTS

The order in which a business deduction is absorbed is fixed, and following it is worth marks: first the current year's depreciation; then brought-forward business loss; then unabsorbed depreciation. Taking them in that order maximises the amount that keeps its eight-year clock, because unabsorbed depreciation never expires and business loss does.

Planning point one — the return. A loss may be carried forward **only if the return is furnished by the due date under section 263.** A loss not returned in time is lost for ever. Unabsorbed depreciation is the exception: it is not subject to that condition.

Planning point two — continuity. The business loss may generally be carried forward only by the assessee who incurred it, and only where the business is continued. A change in the constitution of a firm, or the closing of the business, can extinguish the carry-forward.

2.2 SECTION B — The planning measures

GOOD NEWS FOR THIS HEAD

Section 202(2)(a) withdraws only sections 33(8), 45(3)(a) to (c), 46, 47(1)(a), 48 and 49. **The ordinary deductions of sections 28 to 38 — rent, repairs, insurance, employee welfare, bad debts, depreciation and the general deduction — are untouched by the regime.**

> *So, unlike salaries and house property,* ***most business planning survives the default regime intact****. What the businessman must watch is the once-and-for-all character of his option under section 202(4)(a).*

Planning at the stage of setting up

Measure	The point
The form of organisation	Proprietorship, firm, limited liability partnership or company. A **firm** pays a flat 30% plus cess but may deduct remuneration and interest to partners under section 35, which are then taxed in the partners' hands at their own slabs — and the partner's **share of profit** is exempt in his hands under Schedule III, Sl. No. 1. A **proprietorship** is taxed at slab rates and gets the basic exemption and the section 156 rebate
The split between share of profit and remuneration	For a firm this is the central planning decision. Remuneration within the section 35 ceiling is deductible for the firm at 30% and taxable in the partner's hands, often at a lower slab; the share of profit is not deductible for the firm but is exempt for the partner. Compute both ways
The location and the activity	The incentives in Part C of Chapter VIII — sections 138 to 150 — attach to particular activities and particular areas, including the North-Eastern States and Special Economic Zones
The method of accounting [section 27]	Once chosen it must be **regularly employed**, so choose deliberately. The choice affects the year in which income accrues and expenditure is allowed
Own or lease [section 28 and section 33]	Buying an asset yields depreciation on the written down value, spread over years; leasing yields a full revenue deduction of the rent each year. Where the business expects high profits early, the lease rental is worth more; where it expects a slow start, depreciation carried forward may be worth more

Planning during operation

Measure	How it works	Caution
Put a new asset to use before 3 October	Section 33 halves the depreciation where an asset is acquired **and** put to use for less than 180 days in the tax year. An asset put to use on 30 September earns a full year's depreciation; the same asset put to use on 5 October earns half	It is **put to use**, not merely purchased, that matters. Keep evidence of the date of installation and commissioning
Pay before 31 March what section 37 requires to be paid	Certain sums — taxes, duties, cess, contributions to provident and gratuity funds, bonus, commission, interest on certain loans, leave encashment — are deductible **only on actual payment**. Paying them by the due date of the return secures the deduction for the year	The section is unforgiving. An amount merely provided for is disallowed and the deduction moves to the year of payment
Keep payments out of cash	Section 36 and Chapter XII (sections 185 to 189) disallow or penalise cash payments above the thresholds. Paying by specified banking or online mode preserves the deduction and, in presumptive taxation, brings the **6% rate instead of 8%** and the higher **₹3**	The threshold applies per payment per person per day

Measure	How it works	Caution
	crore turnover limit	
Choose presumptive taxation deliberately [section 58]	It removes the obligation to maintain books and to be audited, and fixes the profit at 6%, 8% or 50%. Where the real margin is higher, this is a genuine saving; where it is lower, it is a cost	The presumptive figure is the **higher** of the prescribed percentage and the profit actually earned, so it cannot be used to declare less than one truly makes. Claiming less requires books under section 62 and audit under section 63
Time the write-off of a bad debt [section 31]	A debt written off as irrecoverable in the accounts is deductible in that year. The year of write-off is within the assessee's control	It must be written off in the books, not merely provided for, and must have been taken into account in computing income of an earlier year
Keep the remuneration within the section 35 ceiling	Anything above the ceiling is disallowed to the firm **and** still taxable in the partner's hands — taxed twice in substance. Compute the ceiling on book profit before deducting remuneration	It must be authorised by the deed and relate to a period after the deed's date. Amend the deed *before* the year begins, not after

2.3 SECTION C — Illustrations

ILLUSTRATION 2.1 — THE DATE OF PUTTING AN ASSET TO USE

A firm proposes to buy machinery costing ₹40,00,000 attracting depreciation at 15%. It can commission it on **28 September 2026** or on **12 October 2026**. Its marginal rate is 30% plus cess. *Advise.*

Commissioned 28 September 2026. Used for 185 days — more than 180. Depreciation = 15% of ₹40,00,000 = **₹6,00,000.**

Commissioned 12 October 2026. Used for 171 days — less than 180. Depreciation = half of 15% = 7.5% of ₹40,00,000 = **₹3,00,000.**

Difference in the deduction **₹3,00,000**; tax saved in Tax Year 2026-27 = 30% plus 4% cess = **₹93,600.**

Note what is and is not saved. The other ₹3,00,000 is not lost — it stays in the block and is written down in later years. So this is ***deferment****, not exemption, and its true value is the time value of ₹93,600 for a year. Say so in the examination; it shows you understand the block of assets.*

ILLUSTRATION 2.2 — REMUNERATION TO PARTNERS

A firm of two working partners has a book profit, before any remuneration, of ₹26,00,000 for Tax Year 2026-27. The deed authorises remuneration at the maximum allowable. Each partner has no other income and is in the default regime. *Compute the maximum deduction and the family's total tax.*

The section 35 ceiling. On the first ₹6,00,000 of book profit — the higher of ₹3,00,000 and 90% of ₹6,00,000 (₹5,40,000) = **₹5,40,000**. On the balance ₹20,00,000 — 60% = **₹12,00,000**. **Maximum remuneration ₹17,40,000.**

The firm. Book profit ₹26,00,000 *less* remuneration ₹17,40,000 = ₹8,60,000. Tax at 30% = ₹2,58,000; cess ₹10,320; **₹2,68,320.**

The partners. ₹8,70,000 each. In the default regime, total income ₹8,70,000; tax = ₹20,000 + 10% of ₹70,000 (₹7,000) = ₹27,000. Rebate under section 156(2)(a) = ₹27,000, the income not exceeding ₹12,00,000. **Tax NIL for each partner.**

Total tax for the family = ₹2,68,320.

Compare: had no remuneration been paid. The firm's book profit ₹26,00,000; tax at 30% = ₹7,80,000; cess ₹31,200; **₹8,11,200**. The partners' shares of profit would be exempt in their hands under Schedule III, Sl. No. 1, so their tax would be nil.

Saving by paying the maximum remuneration = ₹8,11,200 – ₹2,68,320 = ₹5,42,880.

This is the single largest piece of planning available to a small firm, and it costs nothing but a properly drawn partnership deed. Note two conditions: the remuneration must be ***authorised by the deed*** *and must relate to a* ***period***

***after the date of the deed** [section 35]. A deed amended in March 2027 will not support remuneration for April 2026.*

ILLUSTRATION 2.3 — PRESUMPTIVE TAXATION, AND THE CASH DISCIPLINE

Shri Girish runs a retail business. His turnover for Tax Year 2026-27 is ₹1,80,00,000, of which ₹1,74,00,000 is received by bank transfer and ₹6,00,000 in cash. His actual profit is ₹9,00,000. *May he use section 58, and what is the deemed profit?*

Eligibility. Turnover ₹1,80,00,000 does not exceed ₹2 crore, so Sl. No. 1 applies in any event. Cash receipts are ₹6,00,000, which is 3.33% of turnover — below 5% — so he would also have qualified up to ₹3 crore.

Deemed profit. 6% of ₹1,74,00,000 = ₹10,44,000; plus 8% of ₹6,00,000 = ₹48,000. Total **₹10,92,000**. The provision takes the **higher** of that and the profit actually earned (₹9,00,000), so the deemed profit is **₹10,92,000**.

So presumptive taxation costs him ₹1,92,000 of extra income here — he is better off maintaining books under section 62 and declaring ₹9,00,000, provided he is willing to be audited under section 63.

But run the counterfactual on the cash. Had he taken the whole ₹1,80,00,000 in cash, the deemed profit would have been 8% throughout = ₹14,40,000. ***Banking the receipts saved ₹3,48,000 of deemed income.*** *The lesson is that the 6%/8% split is itself a planning lever, and it is operated simply by insisting on bank transfer.*

2.4 SECTION D — ADDITIONAL CASE STUDIES

ILLUSTRATION 2.4 — SCIENTIFIC RESEARCH — INSIDE THE BUSINESS OR PAID OUT?

FACTS

Mr. Aakash carries on a manufacturing business as a sole proprietor. For **Tax Year 2026-27** his profit **before** charging any of the following items is **₹60,00,000**. During the year he paid —

	Particulars	Amount (₹)
(i)	Sum paid to an **approved research association** to be used for scientific research	6,00,000
(ii)	Sum paid to an **approved Indian company** whose main object is scientific research and development	3,00,000
(iii)	Sum paid to a **National Laboratory** under a programme approved by the prescribed authority	4,00,000
(iv)	Sum paid to a college that is **not** an approved institution	5,00,000
(v)	**Laboratory equipment** purchased for his own in-house scientific research	10,00,000
(vi)	**Salaries of research staff** engaged in his own in-house scientific research	5,00,000
	Total paid	**33,00,000**

He has no other income and claims no deduction under Chapter VIII.

REQUIRED

(a) Compute the deduction available under section 45 and his tax liability under both regimes.

(b) Advise him on the choice of regime.

(c) Suggest better tax planning.

SOLUTION

Step 1 — Classify each payment.

Item	Provision	Old regime	Default regime (s. 202)
(i) Approved research association	**S. 45(3)(a)** — 100%	**6,00,000**	**Nil** — expressly withdrawn
(ii) Approved Indian research company	**S. 45(3)(b)** — 100%	**3,00,000**	**Nil** — expressly withdrawn
(iii) National Laboratory	**S. 45(3)(c)** — 100%	**4,00,000**	**Nil** — expressly withdrawn
(iv) Unapproved college	Not covered by s. 45(3)(a) at all, and not business expenditure under s. 34	**Nil**	**Nil**
(v) Laboratory equipment for own research	**S. 45(1)(a)** — capital expenditure on scientific research, other than land, 100%	**10,00,000**	**10,00,000**
(vi) Salaries of own research staff	**S. 45(1)(b)** — revenue expenditure on scientific research, 100%	**5,00,000**	**5,00,000**
Total deduction under s. 45		**28,00,000**	**15,00,000**

Note that no depreciation may be claimed on the laboratory equipment under section 33(3), because a deduction has been allowed for it under section 45 — section 45(6) forbids the double claim.

Step 2 — Business income and tax liability.

Particulars	Old regime	Default regime
Profit before the above items	60,00,000	60,00,000
Less: deduction under s. 45	(28,00,000)	(15,00,000)
Total income	**32,00,000**	**45,00,000**
Income-tax	7,72,500	9,30,000
Add: cess at 4%	30,900	37,200
Tax liability	**8,03,400**	**9,67,200**

Step 3 — Part (b): the choice of regime as the facts stand.

The old regime is cheaper by ₹1,63,800. This is the first case in the whole of Unit 2 in which the old regime wins, and the reason is plain: ₹13,00,000 of deduction exists in one regime and not in the other, and at a marginal rate of 30% that is worth more than the difference in the slab structures.

Step 4 — Part (c): better tax planning — do not opt out; restructure instead.

The three withdrawn payments total ₹13,00,000. Suppose that instead of paying that money to outside institutions Mr. Aakash spends the same ₹13,00,000 on **his own laboratory** — equipment, materials and research salaries. The expenditure then falls under **section 45(1)**, which is **not** withdrawn by section 202.

Particulars	Old regime	Default regime, after restructuring
Profit before the above items	60,00,000	60,00,000
Deduction under s. 45	(28,00,000)	**(28,00,000)**
Total income	**32,00,000**	**32,00,000**
Income-tax	7,72,500	5,40,000
Add: cess at 4%	30,900	21,600
Tax liability	**8,03,400**	**5,61,600**

By moving the research inside the business and staying in the default regime, Mr. Aakash pays ₹5,61,600 instead of ₹8,03,400 — a saving of ₹2,41,800, on exactly the same total outlay of ₹33,00,000.

Two further points.

- The ₹5,00,000 paid to the **unapproved** college is lost under both regimes. Before any payment is made for outside research, the recipient's approval and notification must be verified. Section 45(5) protects the payer only where the approval is **withdrawn after** the payment; it gives no protection where the institution was never approved.
- Where a company carries on bio-technology or manufacture and maintains an **approved in-house research and development facility**, section 45(2)(c) gives the deduction for that facility. That too is a deduction for the assessee's own research and is not among the items withdrawn by section 202.

Teaching note. The rule to carry away is a single line: **research done inside the business survives section 202; research paid out does not.** Every rupee of scientific research expenditure should be tested against that line before it is committed.

Illustration 2.5 — Additional depreciation, the 180-day rule, and how much the timing is now worth

FACTS

Mr. Bhaskar carries on a manufacturing business. For **Tax Year 2026-27** his profit **before depreciation** is **₹45,00,000**. He purchased new machinery costing **₹30,00,000** on 1 July 2026. The machinery was ready for use from 1 January 2027, but he can arrange its installation and commissioning on either of two dates —

- **Option A:** put to use on **28 September 2026**
- **Option B:** put to use on **8 October 2026**

The prescribed rate of depreciation for the block is 15%. He has no other asset in the block and no other income.

REQUIRED

(a) Compute the depreciation and the business income under each option, under both regimes.

(b) Determine the last date on which the machinery may be put to use without losing the full rate.

(c) State how much the timing decision is worth under each regime.

SOLUTION

Step 1 — The 180-day test.

Under section 33(4) the depreciation is restricted to **50% of the prescribed rate** where the asset is acquired **and** put to use for less than 180 days in the tax year. The additional depreciation under section 33(8) is correspondingly **10% instead of 20%**, the balance being allowed in the following tax year.

Option	Period of use in Tax Year 2026-27	Days	Test
A — put to use 28-9-2026	28-9-2026 to 31-3-2027	**185**	180 days or more — **full rate**
B — put to use 8-10-2026	8-10-2026 to 31-3-2027	**175**	Less than 180 days — **half rate**

Step 2 — Depreciation under each option and each regime.

Particulars	Option A	Option B
Old regime		
Normal depreciation — s. 33(3)	15% of 30,00,000 = **4,50,000**	7.5% of 30,00,000 = **2,25,000**
Additional depreciation — s. 33(8)	20% of 30,00,000 = **6,00,000**	10% of 30,00,000 = **3,00,000**
Total depreciation	**10,50,000**	**5,25,000**
Default regime (s. 202)		
Normal depreciation — s. 33(3)	**4,50,000**	**2,25,000**
Additional depreciation — s. 33(8)	**Nil — withdrawn**	**Nil — withdrawn**
Total depreciation	**4,50,000**	**2,25,000**

Step 3 — Business income and tax.

Combination	Total income	Income-tax	Cess	Tax liability
Option A, old regime	34,50,000	8,47,500	33,900	**8,81,400**
Option B, old regime	39,75,000	10,05,000	40,200	**10,45,200**
Option A, default regime	40,50,000	7,95,000	31,800	**8,26,800**
Option B, default regime	42,75,000	8,62,500	34,500	**8,97,000**

Option A under the default regime is the best combination, at ₹8,26,800. Even though the default regime denies him ₹6,00,000 of additional depreciation, its slab structure is worth more than that at this level of income.

Step 4 — Part (b): the cut-off date.

Date on which the machinery is put to use	Days of use in Tax Year 2026-27	Rate
2 October 2026	181	Full
3 October 2026	**180**	**Full — the last safe date**
4 October 2026	179	Half

The machinery must be put to use on or before 3 October 2026. A single day's delay to 4 October halves both the normal and the additional depreciation.

Step 5 — Part (c): what the timing is worth.

Regime	Tax if put to use in time	Tax if delayed	Value of the timing decision
Old regime	8,81,400	10,45,200	**1,63,800**
Default regime	8,26,800	8,97,000	**70,200**

In the default regime the timing decision is worth less than half of what it was worth in the old regime — ₹70,200 against ₹1,63,800 — because the additional depreciation, which was the larger part of the prize, has gone.

Teaching note — two traps.

- **"Ready for use" is not "put to use".** The machinery here was ready for use from 1 January 2027, but that is irrelevant. Section 33 requires that the asset be **acquired and put to use**. The installation certificate, the commissioning report and the production records are the evidence.
- **Purchase in the tax year without putting to use gives nothing at all.** An asset bought on 1 July 2026 but first put to use on 20 April 2027 earns **no depreciation whatever** in Tax Year 2026-27, not even half.

ILLUSTRATION 2.6 — THE SPECIFIED BUSINESS UNDER SECTION 46 — A ONE-YEAR PRIZE BEHIND A ONE-WAY DOOR

FACTS

Mr. Chirag has set up and begun to operate a **cold chain facility**, which is a specified business for the purposes of section 46. For **Tax Year 2026-27** —

Particulars	Amount (₹)
Profit of the facility before capital expenditure and depreciation	45,00,000
Capital expenditure during the year — building	25,00,000
Capital expenditure during the year — plant and machinery	15,00,000
Capital expenditure during the year — land	20,00,000

The building and the plant were put to use on 1 June 2026. The prescribed rates are 10% for the building and 15% for the plant. He has no other income. In a normal year, without any such capital expenditure, his total income is about **₹40,25,000**.

REQUIRED

(a) Compute his tax liability under both regimes.

(b) Advise whether he should opt out of section 202 in order to claim the deduction under section 46.

SOLUTION

Step 1 — The deduction under section 46 and the alternative.

Particulars	Old regime — s. 46 available	Default regime — s. 46 withdrawn
Building	25,00,000 — **100% deductible**	Depreciation at 10% = **2,50,000**
Plant and machinery	15,00,000 — **100% deductible**	Depreciation at 15% = **2,25,000**
Land	**Nil** — expressly excluded from s. 46	**Nil** — land is not a depreciable asset
Total deduction	**40,00,000**	**4,75,000**

Step 2 — Tax liability.

Particulars	Old regime	Default regime
Profit before capital expenditure and depreciation	45,00,000	45,00,000
Less: deduction	(40,00,000)	(4,75,000)
Total income	**5,00,000**	**40,25,000**
Income-tax	12,500	7,87,500
Less: rebate under s. 156 — total income does not exceed ₹5,00,000	(12,500)	Nil
Add: cess at 4%	Nil	31,500
Tax liability	**Nil**	**8,19,000**

Step 3 — Part (b): should he opt out? The arithmetic says yes; the law says think again.

The one-year gain from opting out is **₹8,19,000** — the whole of his liability. But section 202 is not a door he can walk through twice.

Rule for an assessee having business income	Consequence
Section 202 applies by default	He is in the default regime unless he acts
If he opts out, the option applies to **all subsequent tax**	He cannot return to s. 202 next year merely

Rule for an assessee having business income	Consequence
years	because it suits him
He may **withdraw** the option only **once in his lifetime**, and having withdrawn it he can **never opt into s. 202 again**	**Opting out is, in substance, a one-way door**

Step 4 — The cost of the lock-in.

In a normal year his total income is about ₹40,25,000 and he has no withdrawn deductions to claim.

Particulars	Amount (₹)
Tax on ₹40,25,000 under the **old** regime	10,60,800
Tax on ₹40,25,000 under the **default** regime	8,19,000
Annual cost of being locked into the old regime	**2,41,800**
One-off gain from opting out in Tax Year 2026-27	8,19,000
Number of years before the gain is wiped out	**about 3.4 years**

Advice: he should not opt out. From the fourth year onwards he would be paying more than he ever saved, and he would have no way back. If the capital expenditure can be **deferred** to a year in which he has already decided, for other reasons, that the old regime is the better home, the deduction can be captured without paying that price.

Step 5 — Three further features of section 46 that students must state.

- The deduction is **100% in the year the expenditure is incurred**, but it is a **timing** benefit, not a permanent one. Having claimed it, **no depreciation is available on those assets in any later year**.
- The asset must be used **exclusively for the specified business for eight years**. If it is put to another use within that period, the deduction already allowed is **withdrawn and taxed** as business income of the year of the change, less the depreciation that would otherwise have been allowed.
- A loss of a specified business can be set off only against the profits of **another specified business** — section 114 — although it may be carried forward **indefinitely**. Had the deduction of ₹40,00,000 exceeded the profit, the excess would have been ring-fenced in that way.

Teaching note. Section 46 is the largest single deduction in this head and the most dangerous. It is available only outside section 202; it locks the assessee out of section 202 for life; it locks the asset into one use for eight years; and it borrows from future depreciation rather than creating a new deduction. Students should be able to state all four limitations.

Illustration 2.7 — Section 146 — The incentive that survives, and the date that decides it

FACTS

Mr. Dhruv carries on a manufacturing business whose accounts are audited. On **1 April 2026** he employed **30 additional workmen**, each at emoluments of **₹22,000 per month**, paid by bank transfer. All of them are members of a recognised provident fund, none was employed with him at any time earlier, and all remained in employment throughout the year. His profit for **Tax Year 2026-27**, after debiting their salaries and all other expenses, is **₹48,00,000**. He has no other income.

REQUIRED

(a) Compute the deduction under section 146 and his tax liability under both regimes.

(b) State the position if the workmen had been employed on 1 September 2026 instead.

(c) State the position if their emoluments had been ₹26,000 per month.

SOLUTION

Step 1 — The deduction under section 146.

Particulars	Working	Amount (₹)
Additional employee cost	30 workmen x ₹22,000 x 12 months	**79,20,000**
Deduction under s. 146	**30%** of ₹79,20,000	**23,76,000**
Available for	Tax Years 2026-27, 2027-28 and 2028-29	**₹71,28,000 in all**

Section 146 is one of only two deductions in this head that survive section 202. The deduction of ₹23,76,000 is therefore available **in full under both regimes**, and it does not enter into the choice between them at all.

Step 2 — Tax liability.

Particulars	Old regime	Default regime
Profit	48,00,000	48,00,000
Less: deduction under s. 146	(23,76,000)	(23,76,000)
Total income	**24,24,000**	**24,24,000**
Income-tax	5,39,700	3,07,200
Add: cess at 4%	21,588	12,288
Tax liability	**5,61,288**	**3,19,488**

He should remain in the default regime, a saving of **₹2,41,800**. Because the deduction is worth exactly the same in both regimes, it cannot pull him out of section 202 — which is precisely what makes it so much more valuable than the deductions that were withdrawn.

Step 3 — Part (b): employment on 1 September 2026.

A new employee counts towards the additional employee cost only if he is employed for **240 days or more** in the tax year (150 days in the apparel, footwear and leather industries).

Date of joining	Days of employment in Tax Year 2026-27	Qualifies?
1 April 2026	365	Yes
4 August 2026	**240**	**Yes — the last safe date**
5 August 2026	239	**No**
1 September 2026	212	**No**

Employment on 1 September 2026 would give **240 days in no case**, so **no deduction at all** would be available in Tax Year 2026-27.

Particulars	Employed 1-4-2026	Employed 1-9-2026
Deduction under s. 146	23,76,000	**Nil**
Total income	24,24,000	48,00,000
Tax liability — default regime	**3,19,488**	**10,60,800**
Cost of hiring four months late		**7,41,312**

The salaries would still be deductible as ordinary business expenditure, and the employees would count in the **following** year if they complete 240 days then. But the first year's 30% is simply lost. **Where additional hiring is planned for a year, it should be completed on or before 4 August.**

Step 4 — Part (c): emoluments of ₹26,000 per month.

An employee whose **total emoluments exceed ₹25,000 per month** is excluded from the definition of an additional employee altogether.

Emoluments per month	Additional employee cost	Deduction at 30%
₹22,000	79,20,000	**23,76,000**
₹25,000	90,00,000	**27,00,000**
₹26,000	**Nil — the employees are excluded**	**Nil**

Raising the monthly wage from ₹25,000 to ₹26,000 — an extra cost of ₹3,60,000 a year for thirty workmen — destroys a deduction of ₹27,00,000 a year for three years. **The threshold is a cliff, not a slope.**

Step 5 — The conditions to be verified before the deduction is claimed.

- The accounts must be **audited** and the prescribed report furnished with the return.
- The business must not have been formed by **splitting up or reconstruction** of an existing business, nor acquired by transfer.
- Emoluments must be paid **otherwise than in cash**.
- The employee must **participate in a recognised provident fund**.
- Emoluments must **not exceed ₹25,000 per month**, and the employee must be employed for at least **240 days** (150 days for apparel, footwear and leather).

Teaching note. Compare this case with Case Study 1 and Case Study 3. Section 45(3) and section 46 are large deductions that can be had only by leaving section 202 for ever. Section 146 is a large deduction that costs nothing at all. **When advising on business incentives under the 2025 Act, look first for the deductions that survive.**

Illustration 2.8 — How much of a withdrawn deduction justifies leaving section 202?

FACTS

Mr. Eshan carries on a manufacturing business. For **Tax Year 2026-27** his total income, computed **before** the following items, is **₹55,00,000**. The items are —

Particulars	Amount (₹)
Additional depreciation on new machinery — s. 33(8)	4,00,000
Sum paid to a National Laboratory under an approved programme — s. 45(3)(c)	3,00,000
Deductions under Chapter VIII (public provident fund and medical insurance)	2,00,000
Total	**9,00,000**

Every one of these is withdrawn by section 202. In an ordinary year Mr. Eshan has no such items and his total income is about ₹55,00,000.

REQUIRED

(a) Compute his tax liability under both regimes for Tax Year 2026-27.

(b) Determine the amount of withdrawn deductions at which the two regimes break even.

(c) Advise him.

SOLUTION

Step 1 — Part (a): the two computations.

Particulars	Old regime	Default regime
Income before the above items	55,00,000	55,00,000
Less: additional depreciation — s. 33(8)	(4,00,000)	**Not allowed**
Less: payment to a National Laboratory — s. 45(3)(c)	(3,00,000)	**Not allowed**
Less: deductions under Chapter VIII	(2,00,000)	**Not allowed**
Total income	**46,00,000**	**55,00,000**
Income-tax	11,92,500	12,30,000
Add: cess at 4%	47,700	49,200
Tax liability	**12,40,200**	**12,79,200**

On these figures the **old regime is cheaper by ₹39,000**.

Step 2 — Part (b): the break-even.

Under the default regime the income-tax before cess is ₹12,30,000. Under the old regime, for total income above ₹10,00,000, the tax is ₹1,12,500 plus 30% of the excess.

Step	Working
Equate the two	1,12,500 + 30% of (total income - 10,00,000) = 12,30,000
	30% of (total income - 10,00,000) = 11,17,500
Total income at break-even	10,00,000 + 37,25,000 = **₹47,25,000**
Withdrawn deductions required	55,00,000 - 47,25,000 = **₹7,75,000**

He needs withdrawn deductions of at least **₹7,75,000** before opting out is worth anything at all. He has ₹9,00,000, so he clears the threshold — but only by ₹1,25,000, which is worth ₹39,000 of tax.

Step 3 — Part (c): the advice, and why the arithmetic is not the answer.

He should not opt out. The gain is ₹39,000 in this year. The exit is permanent. In any year in which he has no such deductions —

Particulars	Amount (₹)
Tax on ₹55,00,000 under the **old** regime	15,21,000
Tax on ₹55,00,000 under the **default** regime	12,79,200
Annual cost of the lock-in in such a year	**2,41,800**

A single ordinary year would cost him more than six times the whole of this year's gain, and he could never come back.

Step 4 — What he should do instead.

Item	Alternative that survives s. 202
Payment to a National Laboratory, ₹3,00,000	Spend the same sum on **his own** research — laboratory equipment, materials or research salaries — deductible under **s. 45(1)** in both regimes
Additional depreciation, ₹4,00,000	Nothing can be done: the deduction simply does not exist under s. 202. But the **normal** depreciation is unaffected, and putting the machinery to use before the 180-day cut-off still secures the full rate
Chapter VIII deductions, ₹2,00,000	Consider **s. 146** (additional employee cost) and the employer's contribution to the notified pension scheme under **s. 124(1) and (2)** — the two survivors

Restructuring only the first item removes ₹3,00,000 from the withdrawn column and brings the remainder to ₹6,00,000, comfortably **below** the break-even figure of ₹7,75,000. The default regime then becomes the better home on the arithmetic as well, and the question of opting out does not arise.

Teaching note. The break-even calculation should be done in every advisory case, but it answers only the current year. **The real question for a business assessee is not "which regime is cheaper this year?" but "which regime do I want to be in for the rest of my working life?"**

ILLUSTRATION 2.9 — CAPSTONE — A MANUFACTURER WITH THE WHOLE MENU

FACTS

Ms. Ira carries on a manufacturing business as a sole proprietor. For **Tax Year 2026-27** her profit, after debiting all ordinary business expenses including the salaries of her employees but **before** the items listed below, is **₹62,00,000**.

	Particulars	Amount (₹)
(a)	Written down value of the block of plant and machinery on 1 April 2026	40,00,000
(b)	New machinery purchased and **put to use on 1 August 2026**	25,00,000
(c)	Equipment purchased for her own in-house scientific research laboratory	8,00,000
(d)	Salaries of the research staff engaged in that in-house research	6,00,000
(e)	Sum paid to an approved research association for scientific research	5,00,000
(f)	Additional employee cost — 25 new workmen employed on 1 April 2026 at ₹20,000 per month each, all conditions of s. 146 satisfied; their salaries are already debited	60,00,000
(g)	Deposits in a public provident fund, qualifying under Chapter VIII	1,50,000

The prescribed rate for the block of plant and machinery is 15%. Items (c), (d) and (e) have not been debited to the profit and loss account. She has no other income.

REQUIRED

Compute her total income and tax liability under both regimes and advise her.

SOLUTION

Step 1 — Depreciation under section 33.

The new machinery was put to use on 1 August 2026, that is for **243 days**, which is 180 days or more. The full rate therefore applies.

Particulars	Amount (₹)
Written down value of the block on 1 April 2026	40,00,000
Add: new machinery put to use for 180 days or more	25,00,000
Written down value for depreciation	**65,00,000**
Normal depreciation at 15% — s. 33(3)	**9,75,000**
Additional depreciation at 20% of ₹25,00,000 — s. 33(8)	**5,00,000**

Step 2 — Deduction under section 146.

Particulars	Working	Amount (₹)
Additional employee cost	25 x 20,000 x 12	60,00,000
Deduction under s. 146	30% of 60,00,000	**18,00,000**

Step 3 — Computation of total income under both regimes.

Particulars	Old regime	Default regime
Profit before the following items	62,00,000	62,00,000
Less: normal depreciation — s. 33(3)	(9,75,000)	(9,75,000)
Less: **additional depreciation — s. 33(8)**	**(5,00,000)**	**Not allowed**
Less: laboratory equipment, own research — s. 45(1)(a)	(8,00,000)	(8,00,000)
Less: research staff salaries, own research — s. 45(1)(b)	(6,00,000)	(6,00,000)
Less: **payment to an approved research association — s. 45(3)(a)**	**(5,00,000)**	**Not allowed**
Profits and gains of business	**28,25,000**	**38,25,000**
Less: **additional employee cost — s. 146**	(18,00,000)	**(18,00,000)** — allowed in both
Gross total income	10,25,000	20,25,000
Less: **deductions under Chapter VIII**	**(1,50,000)**	**Not allowed**
Total income	**8,75,000**	**20,25,000**

Step 4 — Tax liability.

Particulars	Old regime	Default regime
Income-tax	87,500	2,06,250
Add: cess at 4%	3,500	8,250
Tax liability	**91,000**	**2,14,500**

As the facts stand the old regime is cheaper by ₹1,23,500. Three deductions — additional depreciation of ₹5,00,000, the research association payment of ₹5,00,000 and Chapter VIII of ₹1,50,000, together ₹11,50,000 — exist only there.

Step 5 — The restructuring, and the decision.

Of those three, only one can be moved. If the ₹5,00,000 given to the research association is instead spent on **her own laboratory**, it becomes deductible under section 45(1) in **both** regimes.

Particulars	Old regime	Default regime, after restructuring
Total income	8,75,000	**15,25,000**
Income-tax	87,500	1,08,750
Add: cess at 4%	3,500	4,350
Tax liability	**91,000**	**1,13,100**
Difference		**22,100**

The gap has fallen from ₹1,23,500 to **₹22,100**. The remaining difference is attributable entirely to the additional depreciation and the Chapter VIII deductions, neither of which can be restructured.

Advice. Ms. Ira should **restructure the research expenditure and remain in the default regime**. Opting out to capture ₹22,100 would be a poor bargain: the option, once withdrawn, can never be exercised again, and in a year in which she buys no new machinery there would be no additional depreciation to claim and the old regime would cost her substantially more. **₹22,100 is not a price worth paying for a permanent decision.**

Step 6 — A summary of the head for revision.

Deduction claimed by Ms. Ira	Section	Old regime	Default regime
Normal depreciation	33(3)	9,75,000	9,75,000
Additional depreciation	**33(8)**	5,00,000	**Nil**
Own research — capital	45(1)(a)	8,00,000	8,00,000
Own research — revenue	45(1)(b)	6,00,000	6,00,000
Research paid out	**45(3)(a)**	5,00,000	**Nil**
Additional employee cost	**146**	18,00,000	**18,00,000**
Chapter VIII	Chapter VIII	1,50,000	**Nil**
Total deductions		**53,25,000**	**41,75,000**

Teaching note. Read the last column downwards. Everything that is **ordinary** — depreciation on the block, the assessee's own research, the cost of employing people — survives section 202. Everything that is an **incentive to spend in a particular way** has gone, with the single exception of section 146. That is the design of the new regime, and once a student sees it, the answer to almost every question in this chapter follows.

Illustration 2.10 — Summary of the planning principles in Illustrations 2.4 to 2.9

#	Principle	Case study
1	**Research done inside the business survives section 202; research paid out does not.** Sections 45(1) and 45(2) are allowed in both regimes; section 45(3) is withdrawn. The same rupee is worth twice as much spent on one's own laboratory.	1, 6
2	**All weighted deductions have gone.** Every rate in section 45 is now 100%. Any material showing 150%, 175% or 200% is obsolete.	1
3	Money paid to an institution that is **not approved** is lost under both regimes. Verify approval and notification before paying.	1
4	**Additional depreciation under section 33(8) — 20%, or 10% below 180 days — is withdrawn entirely** by section 202. Normal depreciation is unaffected.	2, 6
5	The **180-day rule still bites for normal depreciation**. For Tax Year 2026-27 the last safe date to put an asset to use is **3 October 2026**.	2
6	**"Ready for use" is not "put to use."** An asset bought in the year but first used in the next earns no depreciation at all.	2
7	Because additional depreciation has gone, **the timing decision is worth less than half of what it was** — ₹70,200 instead of ₹1,63,800 on the facts of Case Study 2.	2
8	**Section 46 gives 100% of a specified business's capital expenditure**, but it is a timing benefit only, it excludes land, it locks the asset into one use for eight years, and the resulting loss is ring-fenced under section 114.	3
9	**For a business assessee, opting out of section 202 is a one-way door.** The option applies to all later years, may be withdrawn only once in a lifetime, and can never be exercised again.	3, 5, 6
10	Before advising a client to opt out, compute the **annual cost of the lock-in** and the **payback period**. On the facts of Case Study 3 a gain of ₹8,19,000 was repaid in 3.4 years — and then became a permanent loss.	3, 5
11	**Section 146 — 30% of additional employee cost for three years — survives section 202 in full.** It is worth the same in both regimes and therefore costs nothing to claim. Look first for the deductions that survive.	4, 6
12	Section 146 turns on two cliff-edge conditions: employment for **240 days** (last safe date 4 August 2026) and emoluments **not exceeding ₹25,000 a month**. Missing either destroys the whole deduction.	4
13	**Do the break-even calculation.** On the facts of Case Study 5, withdrawn deductions of ₹7,75,000 were needed before opting out gained anything at all.	5
14	Everything **ordinary** — depreciation on the block, one's own research, the cost of employing people — survives section 202. Everything that is an **incentive to spend in a**	6

#	Principle	Case study
	particular way has gone, except section 146. Once that pattern is seen, most answers follow.	

CHAPTER 3

Tax Planning — Capital Gains

Sections 67 to 91, with the rates in sections 196, 197 and 198. The head in which timing is everything: a single day's difference in the date of transfer can change the rate, the computation and the exemptions available.

WHAT THE GUIDELINES PRESCRIBE FOR THIS HEAD

1. Tax planning related to the period of holding — the distinction between short-term and long-term capital gain, and planning in relation to each.

2. Exemptions for reinvestment [the guidelines' sections 54, 54EC, 54B and 54F; sections 82, 85, 83 and 86 of the 2025 Act].

3. Joint ownership, briefly — splitting the gain across co-owners.

4. Set-off and carry forward of capital losses — **theoretical coverage only**.

Section 84 *— the guidelines' 54D, compulsory acquisition of land or buildings of an industrial undertaking — is* ***not*** *in the prescribed list. It appears in the table of exemptions in this chapter for completeness only, and no question will be set on it.*

Practical coverage: numerical questions comparing short-term and long-term capital gain, and on the section 82 to 86 series of exemptions.

3.1 SECTION A — The computation, recapitulated

The charge [section 67]

Any profits or gains arising from the **transfer** of a **capital asset** effected in the tax year are chargeable under the head "Capital gains", and are deemed to be the income of the tax year in which the transfer took place. Four elements must be present: a **capital asset**; a **transfer**; in the **tax year**; producing a **profit or gain**.

Short-term or long-term

Asset	Short-term if held for
A security listed on a recognised stock exchange in India	**Not more than 12 months**
A unit of the Unit Trust of India	Not more than 12 months
A unit of an equity-oriented fund	Not more than 12 months
A zero-coupon bond	Not more than 12 months
Any other capital asset — land, building, unlisted shares, jewellery, gold	**Not more than 24 months**

A **long-term capital asset** is simply one that is not short-term. In computing the period of holding, the period for which the **previous owner** held the asset is included where it was acquired in one of the modes in section 73(1) — gift, will, inheritance, partition and the like.

The computation [section 72]

Particulars	Short-term	Long-term
Full value of the consideration	xxx	xxx
Less: expenditure wholly and exclusively in connection with the transfer	(xxx)	(xxx)
Less: cost of acquisition	(xxx)	(xxx)
Less: cost of improvement	(xxx)	(xxx)

Particulars	Short-term	Long-term
GROSS CAPITAL GAIN	**XXX**	**XXX**
Less: exemptions under sections 82 to 88	(xxx)	(xxx)
CAPITAL GAIN CHARGEABLE	**XXX**	**XXX**

INDEXATION, AND WHAT BECAME OF IT

Indexation was withdrawn generally with effect from 23 July 2024, and the long-term rate reduced to **12.5%** in place of 20% with indexation.

One relief survives, and it is examinable. By **section 197(3)**, where a **resident** individual or Hindu undivided family transfers **land or building, or both, acquired before 23 July 2024**, the excess of the tax computed at 12.5% without indexation over the tax that would have been payable at **20% with indexation** is **ignored**.

*In plain words: for such an asset, in such hands, the assessee pays **the lower of the two computations**. Work both and take the smaller. It applies only to land or building, only to a resident individual or HUF, and only where the asset was acquired before 23 July 2024.*

The rates

Provision	Income	Rate
Section 196	Short-term capital gain on an equity share, a unit of an equity oriented fund or a unit of a business trust, where securities transaction tax has been paid	**20%**
Slab rates	Any other short-term capital gain	The ordinary slab rates
Section 197	Long-term capital gain generally	**12.5%**
Section 198	Long-term capital gain on listed equity shares, units of an equity oriented fund and units of a business trust, with securities transaction tax paid	**12.5% on the amount exceeding ₹1,25,000**

The basic-exemption shelter. Sections 196(2), 197(2) and 198(3) each provide that where the assessee is a **resident** individual or HUF and his *other* income falls short of the maximum amount not chargeable to tax, the shortfall is first set against the special-rate gain. **A non-resident gets no such shelter.**

And note section 196(4): where the gross total income includes a section 196 short-term gain, the Chapter VIII deductions are allowed from the gross total income **as reduced by** that gain. The same principle applies to long-term gains. Deductions cannot be set against special-rate income.

The exemptions

Section	Gain on	Invest in	Time limit	Ceiling
82	A long-term **residential house** (income chargeable under house property)	One residential house in India	Purchase 1 year before or 2 years after; construct within 3 years	**₹10 crore** [82(7), (8)]. Where the gain does not exceed **₹2 crore**, the assessee may opt for **two** houses — **once in a lifetime** [82(5), (6)]
83	**Agricultural land** used for agricultural purposes	Other agricultural land	Within 2 years	—

Section	Gain on	Invest in	Time limit	Ceiling
85	A long-term **land or building, or both**	**Long-term specified assets** — the notified bonds	Within **6 months** of the transfer	**₹50 lakh**, in the tax year and in the year of transfer plus the following year taken together [85(2)]. Five-year lock-in [85(3)]
86	**Any long-term capital asset other than a residential house**	One residential house in India	Purchase 1 year before or 2 years after; construct within 3 years	Proportionate to **net consideration**, not to the gain. **₹10 crore** cap [86(8), (9)]

Where the amount is not invested before the due date for furnishing the return under section 263, it must be **deposited under the Capital Gains Accounts Scheme** before that date, and proof furnished with the return. Section **89** allows an extension of time in the circumstances it specifies.

THE DIFFERENCE BETWEEN SECTION 82 AND SECTION 86 — LEARN IT

Section 82 exempts by reference to the **capital gain**. Invest the gain, and the whole gain is exempt.

Section 86 exempts by reference to the **net consideration**. Invest only part of the net consideration, and only a proportionate part of the gain is exempt: exempt gain = gain × cost of the new house ÷ net consideration.

*So on a sale of shares or gold under section 86 you must reinvest the **whole sale proceeds**, not merely the profit, to escape the whole gain. This single distinction accounts for more lost marks than any other point in the chapter.*

Joint ownership — splitting the gain across co-owners

Where a capital asset is held by co-owners whose shares are definite and ascertainable, the gain on transfer accrues to each of them in his own share, and each computes it in his own hands. Three consequences follow, and all three are planning points —

- **Each co-owner has his own ₹1,25,000 shelter under section 198.** Two co-owners have ₹2,50,000 between them; four have ₹5,00,000.
- **Each co-owner has his own slab.** Where one of them has little other income, the shortfall below his basic exemption limit is set against his share of the special-rate gain under sections 196(2), 197(2) and 198(3) — a shelter the other cannot use.
- **Each co-owner has his own ceiling under sections 82, 85 and 86.** In particular the ₹50,00,000 ceiling in section 85 is per assessee, so two co-owners may invest ₹1,00,00,000 between them against the same property.

THE CONDITION, AND THE TRAP

The shares must be definite and ascertainable, and the co-ownership must be real. It is the *source of the purchase money* that decides whose asset it is, not the name on the conveyance. Adding a spouse's name to a document without her contributing to the price achieves nothing: the whole gain remains the purchaser's, and if the money was gifted to her, section 99(1)(a) clubs her share back.

So joint ownership is planned at the time of purchase, out of the co-owners' own funds. It cannot be created at the time of sale.

Set-off and carry forward of capital losses

The guidelines require this limb to be taken **theoretically only** — no numerical question will be set on it — but the rules must be stated accurately.

Loss	Set off in the same year against	Carried forward	Then set off against
Short-term capital loss	**Any** capital gain — short-term or long-term	**8 tax years**	Any capital gain, short-term or long-term
Long-term capital loss	**Long-term capital gains only**	**8 tax years**	Long-term capital gains only

- A capital loss may **not** be set off against income under any other head [section 108].

- The return must be furnished by the due date under section 263 for the loss to be carried forward.
- **A loss on an exempt asset is not a loss at all.** Where the gain would not have been chargeable — for example on the transfer of agricultural land outside the definition of a capital asset — the loss cannot be set off or carried forward.
- The asymmetry between the two rows is the planning point: **realise short-term losses before long-term ones**, because a short-term loss can shelter either kind of gain and a long-term loss can shelter only one kind.

3.2 SECTION B — The planning measures

CAPITAL GAINS PLANNING IS REGIME-NEUTRAL

The special rates in sections 196, 197 and 198 apply under **both** regimes, and the exemptions in sections 82 to 88 are in **Chapter IV-E**, not Chapter VIII — so section 202(2)(a)(xii) does not touch them.

A candidate who writes that section 82 is unavailable in the default regime has confused Chapter IV-E with Chapter VIII. Everything in this chapter works in both regimes.

Measure	How it works	Caution
Cross the holding period	The most valuable and the simplest. Twelve months for listed securities, twenty-four for everything else. A listed share sold on the 365th day is short-term and taxed at 20% under section 196; sold on the 367th it is long-term and taxed at 12.5% under section 198, with ₹1,25,000 free	Count from the **date of acquisition** to the **date of transfer**. For a gift or inheritance, include the previous owner's holding under section 73(1)
Use the ₹1,25,000 annual shield in section 198	The first ₹1,25,000 of long-term gain on listed equity is free **every year**. Realising gains up to that amount each year, and reacquiring, resets the cost base at no tax cost	The shield is per assessee per year and cannot be carried forward. Watch the transaction costs of selling and rebuying
Shift the transfer across 31 March	A transfer on 2 April falls in the next tax year — the tax is deferred a full year, and the gain may meet a year in which other income is lower	It is the **date of transfer** that matters, which for immovable property is generally the date of registration or of handing over possession — not the date of the agreement
Use the section 197(3) relief on old land and buildings	For a **resident** individual or HUF selling land or building acquired **before 23 July 2024**, compute the tax both ways — 12.5% without indexation and 20% with — and take the lower. The section does this automatically by ignoring the excess	Only land or building. Only a resident individual or HUF. Only if acquired before 23 July 2024
Choose between sections 82, 85 and 86	On the sale of a **long-term residential house** the assessee may use section 82 (a new house) or section 85 (bonds up to ₹50 lakh) or both. On the sale of **anything else that is long-term**, section 86 (a house) or, for land or building, section 85	Section 85 is capped at ₹50 lakh and locks the money for five years; section 82 needs a whole house. Combining them is often the answer
Reinvest the net consideration, not the gain, under section 86	The exemption is proportionate to the net consideration. Reinvest all of it and the whole gain escapes	This is the commonest error in the whole head
Deposit under the Capital Gains Accounts Scheme before the due date	Where the new asset cannot be bought before the return is due, the deposit preserves the exemption	The deposit must be **before** the due date under section 263(1), and proof must accompany the return. Unutilised amounts are charged in the year the period expires
Set off and harvest losses	A capital loss cannot be set off against any other head [section 109(2)], but a	The sale must be genuine. A sale and immediate repurchase designed only

Measure	How it works	Caution
	long-term loss may be set against a long-term gain and a short-term loss against either. Realising a loss before 31 March shelters a gain already realised	to book a loss invites section 175 and, now, Chapter XI
Use the shelter in sections 196(2), 197(2) and 198(3)	Where the other income of a **resident** individual is below the basic exemption limit, the shortfall is set against the special-rate gain first. Timing a gain into a year of low other income therefore doubles the benefit	Not available to a non-resident
Gift within the family before selling	A gift to a **major** child or a parent is not a transfer [section 70], carries the previous owner's cost and period of holding [section 73(1)], is outside section 99, and is outside the gift charge under section 92(3)(a). The gain then arises in the transferee's own hands and may fall in a lower slab, with his own ₹1,25,000 shield and his own basic exemption	The gift must be real and complete before the sale. A gift to a **spouse or minor child** is clubbed under section 99 and achieves nothing

3.3 SECTION C — Illustrations

Illustration 3.1 — two days that cost ₹1,08,000

Smt. Hema bought 10,000 listed equity shares on **20 March 2026** for ₹8,00,000. On **15 March 2027** they are worth ₹20,00,000. Securities transaction tax is paid on both legs. She has salary income of ₹18,00,000. *Should she sell on 15 March 2027 or wait?*

Sell on 15 March 2027. Held from 20 March 2026 to 15 March 2027 — **less than 12 months**, so a **short-term** capital asset. Gain ₹12,00,000, taxed under **section 196 at 20%** = ₹2,40,000; cess ₹9,600; **₹2,49,600.**

Sell on 25 March 2027. Held for more than 12 months — a **long-term** capital asset. Gain ₹12,00,000. Under **section 198**, tax at 12.5% on the excess over ₹1,25,000, that is on ₹10,75,000 = ₹1,34,375; cess ₹5,375; **₹1,39,750.**

Saving by waiting ten days = ₹1,09,850.

*Two points for the examination. First, the ₹1,25,000 under section 198 is an **exclusion from the base**, not a rebate — apply it before the 12.5%. Second, her salary of ₹18,00,000 is far above the basic exemption, so the shelter in section 198(3) gives her nothing; had her other income been below ₹4,00,000, part of the gain would have been sheltered as well.*

Illustration 3.2 — section 82 and section 85 combined

Shri Iqbal, resident, aged 55, sells a residential house in September 2026 for ₹1,80,00,000. He bought it in 2009 for ₹22,00,000; the indexed cost works out at ₹78,00,000. Expenses on transfer ₹2,00,000. He proposes to buy a flat for ₹90,00,000 in March 2027 and has ₹50,00,000 to spare. *Compute his taxable gain and advise.*

The gain. Full value ₹1,80,00,000 *less* transfer expenses ₹2,00,000 = ₹1,78,00,000. The asset is land and building acquired before 23 July 2024 and he is a resident individual, so section 197(3) applies and the tax is the **lower** of the two computations. Take the computation without indexation for the gain itself: ₹1,78,00,000 − ₹22,00,000 = **₹1,56,00,000** long-term capital gain.

Section 82 — the new house. Cost of the new asset ₹90,00,000, well within the ₹10 crore cap. The gain exceeds the cost of the new asset, so the excess is charged: ₹1,56,00,000 − ₹90,00,000 = **₹66,00,000** remains chargeable.

Section 85 — the bonds. He invests ₹50,00,000 in long-term specified assets within six months of the transfer. That is the maximum permitted by section 85(2). The chargeable gain falls to ₹66,00,000 − ₹50,00,000 = **₹16,00,000.**

Tax at 12.5% under section 197 on ₹16,00,000 = ₹2,00,000; cess ₹8,000; **₹2,08,000** — before the section 197(3) comparison, which can only reduce it further.

Advice. Use **both** sections. Section 82 and section 85 are not alternatives; the Act nowhere requires an election between them, and together they take ₹1,40,00,000 out of charge. Buy the flat and subscribe the ₹50,00,000 of bonds **within six months** of the transfer.

*Watch three dates and one number. The bonds must be taken **within six months**; the flat within **two years** if bought or **three years** if constructed; anything not invested before the due date under section 263(1) must go into the Capital Gains Accounts Scheme; and the bonds must be held for **five years** or the exemption is withdrawn under section 85(3).*

Illustration 3.3 — section 86, and the trap of reinvesting only the gain

Shri Jayant sells listed shares held for four years — not through a recognised exchange, so section 198 does not apply — for a net consideration of ₹60,00,000. His cost was ₹20,00,000, so the long-term gain is ₹40,00,000. He owns no residential house. He proposes to buy a house and asks whether to invest ₹40,00,000 or ₹60,00,000.

If he invests ₹40,00,000. Section 86 exempts in the proportion that the **cost of the new asset** bears to the **net consideration**: ₹40,00,000 × ₹40,00,000 ÷ ₹60,00,000 = **₹26,66,667** exempt. Chargeable gain **₹13,33,333**. Tax at 12.5% = ₹1,66,667; cess ₹6,667; **₹1,73,334.**

If he invests ₹60,00,000. The net consideration is equal to the cost of the new asset, so by section 86(1)(ii) **no capital gain is charged at all.** Tax **NIL.**

The extra ₹20,00,000 of investment saves ₹1,73,334 of tax — and buys him ₹20,00,000 of additional house.

*Contrast section 82, where reinvesting the **gain** alone would have been enough. The rule is: **gain-based for a house sold (section 82); consideration-based for anything else (section 86)**. Write that sentence in the margin of your book.*

Illustration 3.4 — gifting before the sale

Shri Kamal holds gold bought in 2012 for ₹5,00,000, now worth ₹25,00,000. His total income is ₹30,00,000 and he is taxed at 30%. His daughter, aged 26, has no income at all. *Compare selling the gold himself with gifting it to her and letting her sell.*

He sells. Long-term gain ₹20,00,000, taxed under section 197 at **12.5%** = ₹2,50,000; cess ₹10,000; **₹2,60,000.**

He gifts, and she sells. The gift is not a transfer [section 70]; her cost and her period of holding are his [section 73(1)], so the gain remains long-term and remains ₹20,00,000. She is a **major child**, so section 99 does not club it. Her only income is this gain.

By **section 197(2)**, being a resident individual whose other income is nil, the shortfall below the basic exemption is set against the gain first. Her other income is nil, so ₹4,00,000 of the basic exemption (default regime) is absorbed against the gain: ₹20,00,000 − ₹4,00,000 = ₹16,00,000 taxed at 12.5% = ₹2,00,000; cess ₹8,000; **₹2,08,000.**

Saving = ₹52,000, and the gift itself is not taxable in her hands under section 92(3)(a).

*The saving here comes entirely from the **basic-exemption shelter in section 197(2)**, because the 12.5% rate is the same in both hands. Where the asset were one taxed at slab rates — a short-term gain on unlisted shares, say — the saving would be far larger, because her slab would be 5% or 10% against his 30%.*

3.4 SECTION D — ADDITIONAL CASE STUDIES

ILLUSTRATION 3.5 — WHEN DOES INDEXATION STILL WIN? THE BREAK-EVEN MULTIPLE

FACTS

Mr. Mahesh, a resident individual, sold two house properties during **Tax Year 2026-27**. Both were acquired well before 23 July 2024, so the relief for land and buildings is available to him.

Particulars	House A	House B
Year of acquisition	2005-06	2018-19
Cost of acquisition	20,00,000	50,00,000
Cost inflation index of that year	117	280
Sale consideration during Tax Year 2026-27	90,00,000	3,00,00,000

The cost inflation index for Tax Year 2026-27 is **384**. Ignore transfer expenses.

REQUIRED

(a) Compute the tax payable on each house.

(b) Derive a general rule that tells an assessee, before he computes anything, which of the two methods will be cheaper.

SOLUTION

Step 1 — House A.

Particulars	Without indexation	With indexation
Sale consideration	90,00,000	90,00,000
Less: cost of acquisition	(20,00,000)	Indexed cost = 20,00,000 x 384/117 = **(65,64,103)**
Long-term capital gain	**70,00,000**	**24,35,897**
Rate	12.5%	20%
Income-tax	**8,75,000**	**4,87,179**

The tax under section 197 may not exceed the figure computed with indexation. **Tax payable on House A = ₹4,87,179** — indexation still wins, and by ₹3,87,821.

Step 2 — House B.

Particulars	Without indexation	With indexation
Sale consideration	3,00,00,000	3,00,00,000
Less: cost of acquisition	(50,00,000)	Indexed cost = 50,00,000 x 384/280 = **(68,57,143)**
Long-term capital gain	**2,50,00,000**	**2,31,42,857**
Rate	12.5%	20%
Income-tax	**31,25,000**	**46,28,571**

Tax payable on House B = ₹31,25,000 — here the flat rate wins, and by ₹15,03,571.

Step 3 — Part (b): the break-even multiple.

Let **C** be the cost, **S** the sale consideration and **k** the ratio of the index of Tax Year 2026-27 to the index of the year of acquisition. The two taxes are equal when —

Step	Working
Equate the two	0.125 (S - C) = 0.20 (S - C k)

Step	Working
Expand	0.125 S - 0.125 C = 0.20 S - 0.20 C k
Collect	0.20 C k - 0.125 C = 0.075 S
Break-even multiple	**S / C = (0.20 k - 0.125) / 0.075**

If the sale price is less than that multiple of the cost, indexation wins; if it is more, the flat rate of 12.5% wins.

Year of acquisition	Index	k = 384 / index	Break-even multiple
2001-02	100	3.8400	**8.57**
2005-06	117	3.2821	**7.08**
2010-11	167	2.2994	**4.46**
2012-13	200	1.9200	**3.45**
2015-16	254	1.5118	**2.36**
2018-19	280	1.3714	**1.99**
2020-21	301	1.2757	**1.74**
2022-23	331	1.1601	**1.43**
2024-25 (before 23-7-2024)	363	1.0579	**1.15**

Testing the two houses against the table —

House	Actual multiple	Break-even multiple	Result
A — acquired 2005-06	90,00,000 / 20,00,000 = **4.50**	7.08	4.50 is **below** 7.08 — **indexation wins**
B — acquired 2018-19	3,00,00,000 / 50,00,000 = **6.00**	1.99	6.00 is **above** 1.99 — **the flat rate wins**

Step 4 — What the table means.

- **The older the asset, the more likely indexation is still to help.** For a property bought in 2001-02 the price must have risen more than **8.5 times** before the flat rate becomes cheaper.
- **For a property bought after about 2018 the relief is almost worthless.** A multiple of 1.99 is a gain of only 99% over eight years, which almost any property will have exceeded.
- **For assets acquired on or after 23 July 2024 the relief does not exist at all**, and neither does it exist for gold, unlisted shares, debt funds or any asset that is not land or a building — see Case Study 3.

Teaching note. Students should be able to write the break-even formula from memory and produce the table for any year. It converts what looks like a laborious double computation into a single glance. The examiner who sets a property question is, in effect, asking which side of that line the facts fall.

ILLUSTRATION 3.6 — EXEMPTION ON REINVESTMENT — AND HOW THE EXEMPTION MOVES THE CROSSOVER

FACTS

Mr. Bharat, a resident individual aged 46, sold a residential house at Jaipur on 15 November 2026 for **₹2,20,00,000**, paying brokerage of **₹2,20,000**. The house had been purchased in **2012-13** for **₹40,00,000** (cost inflation index 200). His salary income for the year is ₹12,00,000 and he deposits ₹1,50,000 in a public provident fund.

He proposes to invest **₹60,00,000** in a new residential house in February 2027 and **₹50,00,000** in bonds notified under section 85 in April 2027.

REQUIRED

(a) Compute the long-term capital gain and the tax payable before any exemption.

(b) Compute the position after the two investments.

(c) Does he need to invest more if the gain is to be fully exempt? If so, where, and within what time?

SOLUTION

Step 1 — Part (a): the gain, and the choice of method.

Particulars	Without indexation	With indexation
Sale consideration	2,20,00,000	2,20,00,000
Less: brokerage	(2,20,000)	(2,20,000)
Net consideration	**2,17,80,000**	**2,17,80,000**
Less: cost of acquisition	(40,00,000)	40,00,000 x 384/200 = **(76,80,000)**
Long-term capital gain	**1,77,80,000**	**1,41,00,000**
Income-tax	12.5% = **22,22,500**	20% = **28,20,000**

Before any exemption, the **flat rate is cheaper** — the multiple of 5.445 exceeds the break-even multiple of 3.45 for 2012-13.

Step 2 — Part (b): after the two investments.

Exemption	Section	Amount	Note
Investment in one residential house in India	**S. 82**	**60,00,000**	Only the **capital gain** need be invested, not the consideration. Purchase within 2 years of the transfer — February 2027 is well within
Investment in notified bonds	**S. 85**	**50,00,000**	Available because the asset transferred is a **building**. Must be made within **6 months**, that is by 14 May 2027. April 2027 is within time, and the amount is exactly at the statutory ceiling of ₹50,00,000
Total exemption		**1,10,00,000**	
Particulars	Without indexation	With indexation	
Long-term capital gain	1,77,80,000	1,41,00,000	
Less: exemptions under ss. 82 and 85	(1,10,00,000)	(1,10,00,000)	
Chargeable long-term capital gain	**67,80,000**	**31,00,000**	
Income-tax	12.5% = **8,47,500**	20% = **6,20,000**	
Tax payable — the lower of the two		**6,20,000**	

The exemption has moved the crossover. Before the investments the flat rate was cheaper by ₹5,97,500; after them the indexed computation is cheaper by ₹2,27,500. The reason is arithmetical: an exemption is a **flat subtraction from both** figures, and because the indexed gain is the smaller of the two it falls **proportionately** further.

The comparison must therefore be made on the gain that is actually chargeable, after the exemptions — not on the gross gain. A student who decides the method at Step 1 and stops will pay ₹2,27,500 more than he needs to. Where the point is arguable the assessee should compute both and take a considered position, disclosing the basis.

Step 3 — Part (c): does he need to invest more?

Route	Further investment needed	Where	By when
Section 82 — a further investment in the residential house	**₹67,80,000**	The same or another residential house in India (a single house only)	Purchase by 14 November 2028, or construction completed by 14 November 2029
Section 85 — bonds	**Nil — the route is closed**	The ceiling of ₹50,00,000 has already been used in full, and it applies across the year of transfer and the following year taken together	—
Capital Gains Account Scheme	The unutilised amount must be deposited in an account under the scheme **before the due date for filing his return**, if the house has not been bought by then	A branch of a public sector bank	Due date for Tax Year 2026-27

Step 4 — Tax liability under both regimes.

Particulars	Default regime	Old regime
Salary	12,00,000	12,00,000
Less: standard deduction	(75,000)	(50,000)
Less: deduction under Chapter VIII	Not available	(1,50,000)
Income other than capital gains	**11,25,000**	**10,00,000**
Tax on that income	52,500	1,12,500
Tax on long-term capital gains (as computed above)	6,20,000	6,20,000
Rebate under s. 156	**Not available** — the total income far exceeds ₹12,00,000	Not available
Add: cess at 4%	26,900	29,300
Tax liability	**6,99,400**	**7,61,800**

He should remain in the default regime, a saving of ₹62,400. Note that the capital gains tax of ₹6,20,000 is the **same in both regimes** — sections 82 and 85 are not withdrawn by section 202, and neither are the special rates. The regime affects only the salary.

Teaching note. Three things must be checked before an exemption under section 85 is claimed: the asset transferred must be **land or a building** (shares, gold and jewellery do not qualify); the investment must be within **six months**; and the ₹50,00,000 ceiling runs across **two tax years** taken together, so it cannot be doubled by splitting the investment across 31 March.

ILLUSTRATION 3.7 — SECTION 86 AND THE NET CONSIDERATION TRAP

FACTS

Ms. Charu, a resident individual, sold gold jewellery on 20 September 2026 for **₹80,00,000**. It had been purchased in **2015-16** for **₹15,00,000**. There were no transfer expenses. She owns **one** residential house and no other. Her income from other sources is ₹6,00,000.

REQUIRED

(a) Compute the long-term capital gain and state why the relief for land and buildings does not apply.

(b) Compute the exemption under section 86 if she invests ₹30,00,000, ₹50,00,000 or the whole ₹80,00,000 in a residential house.

(c) Contrast the position with a sale of a residential house of the same value.

(d) Advise her.

SOLUTION

Part (a) — The gain.

Particulars	Amount (₹)
Sale consideration, being also the net consideration	80,00,000
Less: cost of acquisition	(15,00,000)
Long-term capital gain — held for more than 24 months	**65,00,000**
Income-tax under s. 197 at 12.5%	**8,12,500**

The relief for land and buildings does not apply. It is confined to a capital asset **being land or a building or both**. Gold is neither. The indexed cost of ₹22,67,717 that a student might be tempted to compute is of no relevance whatever, and neither is the cost inflation index. **The same restriction excludes unlisted shares, debt mutual funds, jewellery and every other asset that is not immovable property.**

Part (b) — Exemption under section 86.

Section 86 differs from section 82 in the one respect that decides most problems: the exemption is **proportionate to the part of the net consideration that is reinvested**, not to the gain.

Formula	Capital gain x (amount invested in the new house) / (net consideration)			
Amount invested	Working	**Exemption**	Chargeable gain	Tax at 12.5%
₹30,00,000	65,00,000 x 30/80	**24,37,500**	40,62,500	**5,07,813**
₹50,00,000	65,00,000 x 50/80	**40,62,500**	24,37,500	**3,04,688**
₹80,00,000	65,00,000 x 80/80	**65,00,000**	Nil	**Nil**

To exempt the gain completely she must invest the whole net consideration of ₹80,00,000 — not merely the gain of ₹65,00,000.

Part (c) — The contrast with section 82.

Particulars	If the asset sold were a residential house — s. 82	The asset actually sold, gold — s. 86
Amount that must be reinvested for full exemption	**The capital gain — ₹65,00,000**	**The whole net consideration — ₹80,00,000**
Effect of investing ₹30,00,000	Exemption of the **whole ₹30,00,000**	Exemption of only **₹24,37,500**
Additional outlay needed for full exemption	—	**₹15,00,000 more**

Particulars	If the asset sold were a residential house — s. 82	The asset actually sold, gold — s. 86
Bonds under s. 85 available?	**Yes** — a building qualifies	**No** — gold does not qualify
Other conditions	None as to existing houses	She must own **not more than one** residential house on the date of transfer, and must not buy or construct another within the specified period

Part (d) — Advice.

- **If she can fund it, she should invest the entire ₹80,00,000** in one residential house and pay nothing. The extra ₹15,00,000 of outlay buys her ₹8,12,500 of tax, so it is worth doing only if she wanted the house in any event.
- **If she can spare only ₹50,00,000**, the exemption is ₹40,62,500 and the tax ₹3,04,688. There is **no section 85 fallback**, because gold is not land or a building.
- **She must not acquire a second residential house** (other than the new one) within one year, or construct one within three years, of the transfer; if she does, the exemption already allowed is withdrawn and taxed in that later year.
- Any part of the net consideration not invested by the **due date for filing her return** must be deposited under the **Capital Gains Account Scheme**, failing which the proportionate exemption is lost.

Teaching note. Two lines to memorise: **section 82 — invest the gain; section 86 — invest the net consideration.** And: **section 85 is available only for land and buildings.** Most marks lost in this chapter are lost on these two points.

Illustration 3.8 — Urban agricultural land, the stamp duty value, and a choice between two exemptions

FACTS

Mr. Mayank owns a piece of land situated **within the municipal limits of Jaipur** which his parents have cultivated continuously since 2010. He has a firm offer of **₹80,00,000** for it, to be completed on 1 March 2027, and will pay brokerage at 2%. The **stamp duty value** of the land on the date of registration is **₹96,00,000**. He acquired the land on 1 March 2006 (Tax Year **2005-06**, cost inflation index 117) for **₹5,00,000**. He owns only **one** residential house. He is willing to invest ₹50,00,000 in a residential house.

REQUIRED

(a) Determine whether the land is a capital asset and what the full value of consideration will be.

(b) Compute the capital gain and the tax.

(c) Compute the position if he invests ₹50,00,000 in a residential house, and advise him what more he must do.

(d) Suggest a better route.

SOLUTION

Part (a) — Two threshold questions.

Question	Answer
Is the land a capital asset?	**Yes.** Agricultural land situated **within** municipal limits is a capital asset. Only **rural** agricultural land is excluded from the definition. Had this land been beyond the prescribed distance and population limits, there would have been **no capital gain at all** and no need for any exemption
What is the full value of consideration?	Where the consideration is less than the stamp duty value, the **stamp duty value** is deemed to be the full value of consideration, unless it does not exceed **110%** of the consideration. Here 96,00,000 / 80,00,000 = **120%**, which is outside the tolerance band, so the full value of consideration is **₹96,00,000**

Part (b) — Computation.

Particulars	Without indexation	With indexation
Full value of consideration (deemed)	96,00,000	96,00,000
Less: brokerage at 2% of ₹80,00,000	(1,60,000)	(1,60,000)
Net consideration	**94,40,000**	**94,40,000**
Less: cost of acquisition	(5,00,000)	5,00,000 x 384/117 = **(16,41,026)**
Long-term capital gain	**89,40,000**	**77,98,974**
Income-tax	12.5% = **11,17,500**	20% = **15,59,795**
Tax before exemption — the lower		**11,17,500**

Note what the stamp duty rule has cost him. The uplift of ₹16,00,000 is money he will never receive, yet it bears tax of **₹2,00,000**. Before executing the deed he should ask the Assessing Officer to refer the valuation to the Valuation Officer, or renegotiate the price — a step that must be taken **before**, not after, registration.

Part (c) — After investing ₹50,00,000 in a residential house.

He owns only one residential house, so **section 86** is available.

Particulars	Amount (₹)
Exemption = 89,40,000 x 50,00,000 / 94,40,000	**47,35,169**
Chargeable long-term capital gain	**42,04,831**

Particulars	Amount (₹)
Tax at 12.5%	**5,25,604**

What more must he do to be fully exempt? Either —

Route	Further investment	Time limit
Complete the section 86 investment	A further **₹44,40,000**, taking the total to the whole net consideration of ₹94,40,000	Purchase by 28 February 2029, or construction completed by 28 February 2030
Section 85 bonds for the balance	**₹42,04,831**, which is within the ceiling of ₹50,00,000. The asset is **land**, so the section is available	**Within 6 months**, that is by 31 August 2027

The bonds route is far cheaper: ₹42,04,831 instead of a further ₹44,40,000, and it does not require him to buy a house he may not want. The two exemptions may be claimed together.

Part (d) — A better route: section 83.

The land was **used for agricultural purposes by his parents** for the two years immediately preceding the transfer, so **section 83** is available.

Particulars	Section 86 — residential house	Section 83 — new agricultural land
Amount that must be invested for full exemption	**The whole net consideration — ₹94,40,000**	**Only the capital gain — ₹89,40,000**
Time limit	2 years to purchase, 3 years to construct	**2 years** to purchase
Condition	He must own not more than one residential house	The land transferred must have been used for agriculture for **2 years** by him or his parent
Outlay saved	—	**₹5,00,000**

Advice. If he intends to continue farming, **section 83 is the better route** — it requires ₹5,00,000 less and carries no restriction on his existing house. If he does not, the combination of **section 86 for ₹50,00,000 and section 85 bonds for the balance of ₹42,04,831** exempts the whole gain and leaves him with a house and a five-year bond rather than land he does not want.

Teaching note. Four questions, in this order, decide every agricultural land problem: **Is it rural or urban? Is the stamp duty value more than 110% of the price? Was it used for agriculture for two years by the assessee or his parent? And does he own more than one residential house?** The answers open or close sections 83, 85 and 86 respectively.

ILLUSTRATION 3.9 — TIMING — THE TWENTY-FOUR MONTH LINE AND THE YEAR-END

FACTS

Mr. Nikhil, a resident individual aged 45, has salary income of **₹15,00,000** for **Tax Year 2026-27** and deposits **₹1,50,000** in a public provident fund. He holds —

- A **plot of land** purchased on **10 February 2025** for ₹30,00,000. A buyer has offered ₹42,00,000 and is willing to complete on either **20 January 2027** or **20 February 2027**.
- **Listed equity shares** (securities transaction tax paid) held for four years, on which he can realise a long-term gain of **₹2,50,000**. He may sell them all in Tax Year 2026-27, or half now and half in April 2027.
- A **short-term capital loss of ₹3,00,000** already suffered on debt mutual funds during the year.

REQUIRED

Compute his tax liability under each timetable and under both regimes, and advise him.

SOLUTION

Step 1 — The twenty-four month line.

Land is not a listed security, so it becomes a long-term capital asset only when held for **more than 24 months**. The period of holding runs from the date of acquisition to the day immediately preceding the date of transfer. The land was acquired on **10 February 2025**, so a transfer on 10 February 2027 would give a holding period of exactly 24 months and no more; the asset becomes a **long-term capital asset only on a transfer made on or after 11 February 2027**.

Date of sale	Period of holding	Character	Rate
20 January 2027	11 months short of the line	**Short-term**	At the slab rates applicable to him
20 February 2027	**9 days past the line**	**Long-term**	**12.5% under s. 197**

Note also that the land was acquired **after 23 July 2024**, so the relief for land and buildings is **not** available and no question of indexation arises.

Step 2 — The set-off.

A short-term capital loss may be set off against **both** short-term and long-term capital gains; a long-term capital loss may be set off only against long-term gains. Set-off within the head is mandatory in the year in which the loss arises.

Option	Gain on the land	Less: short-term capital loss	Net
A — sold 20 January 2027	12,00,000 short-term	(3,00,000)	**9,00,000 short-term**
B — sold 20 February 2027	12,00,000 long-term	(3,00,000)	**9,00,000 long-term**

Step 3 — The equity shares and the ₹1,25,000 exemption.

Timetable	Gain in TY 2026-27	Less: exemption under s. 198	Taxable	Tax at 12.5%
Whole ₹2,50,000 sold in this year	2,50,000	(1,25,000)	1,25,000	**15,625**
₹1,25,000 this year and ₹1,25,000 in April 2027	1,25,000	(1,25,000)	**Nil**	**Nil**

The exemption of ₹1,25,000 is available **in every tax year**. Splitting a modest equity gain across 31 March uses it twice and costs nothing.

Step 4 — The four computations.

Particulars	Option A — default	Option A — old	Option B — default	Option B — old
Salary	15,00,000	15,00,000	15,00,000	15,00,000
Less: standard deduction	(75,000)	(50,000)	(75,000)	(50,000)
Add: short-term capital gain on the land, taxed at slab rates	9,00,000	9,00,000	—	—

Particulars	Option A — default	Option A — old	Option B — default	Option B — old
Less: deduction under Chapter VIII	Not available	(1,50,000)	Not available	(1,50,000)
Income taxed at the slab rates	**23,25,000**	**22,00,000**	**14,25,000**	**13,00,000**
Tax at the slab rates	2,81,250	4,72,500	93,750	2,02,500
Tax on long-term capital gain on the land at 12.5%	—	—	1,12,500	1,12,500
Tax on equity long-term capital gain	15,625	15,625	Nil	Nil
Add: cess at 4%	11,875	19,525	8,250	12,600
Tax liability	**3,08,750**	**5,07,650**	**2,14,500**	**3,27,600**

Step 5 — Advice.

He should complete the sale on 20 February 2027, split the equity sale across 31 March, and remain in the default regime. The liability falls from ₹3,08,750 to **₹2,14,500** — a saving of **₹94,250** — and from ₹5,07,650 at the other extreme, a saving of ₹2,93,150.

Source of the saving	Amount (₹)
Waiting 31 days so that the land becomes a long-term capital asset	78,625
Splitting the equity gain across 31 March	15,625
Total	**94,250**

Step 6 — Three further points on timing.

- **A short-term capital loss is worth more against a gain taxed at the slab rate than against one taxed at 12.5%.** Here the set-off was compulsory, so there was no choice; but where an assessee has both kinds of gain and can control which he realises, the loss should be steered towards the more heavily taxed gain.
- **An unabsorbed capital loss may be carried forward for eight tax years**, but only against capital gains, and only if the return is filed by the due date. A late return forfeits the carry-forward entirely.
- **Advance tax.** A capital gain need not be estimated in advance; the instalment falling due after the gain arises must carry the whole of the tax on it. Completing a large sale in the last quarter therefore avoids interest for the earlier instalments — a further, and often overlooked, argument for a February rather than a January completion.

Teaching note. The examiner's favourite trap in this chapter is a purchase date that leaves the asset a few days short of 24 months. Students should compute the completion date **first**, before anything else.

ILLUSTRATION 3.10 — CAPSTONE — FOUR ASSETS IN ONE YEAR

FACTS

Mrs. Radhika, a resident individual aged 52, has salary income of **₹9,00,000** for **Tax Year 2026-27** and deposits **₹1,50,000** in a public provident fund. Her transactions during the year are —

	Particulars	Amount (₹)
1	**Residential house** at Pune, purchased in 2014-15 (cost inflation index 240) for ₹15,00,000, sold on 12 August 2026 for ₹50,00,000, brokerage ₹50,000. She purchased a new residential house in March 2027 for **₹8,00,000**	—
2	**Listed equity shares** on which securities transaction tax was paid, held for three years — long-term capital gain	4,00,000
3	**Listed equity shares** on which securities transaction tax was paid, held for five months — short-term capital gain	2,00,000
4	**Gold jewellery** purchased in 2019-20 for ₹9,00,000, sold in December 2026 for ₹12,00,000	—

REQUIRED

Compute her total income and tax liability under both regimes and advise her.

SOLUTION

Step 1 — The residential house.

Particulars	Without indexation	With indexation
Sale consideration	50,00,000	50,00,000
Less: brokerage	(50,000)	(50,000)
Net consideration	**49,50,000**	**49,50,000**
Less: cost of acquisition	(15,00,000)	15,00,000 x 384/240 = **(24,00,000)**
Long-term capital gain	**34,50,000**	**25,50,000**
Less: exemption under **s. 82** — the new house costing ₹8,00,000; only the **gain** need be invested	(8,00,000)	(8,00,000)
Chargeable long-term capital gain	**26,50,000**	**17,50,000**
Income-tax	12.5% = **3,31,250**	20% = **3,50,000**
Tax on the house — the lower		**3,31,250**

Step 2 — The other three assets.

Asset	Character	Sectio n	Working	Tax
Listed equity, held 3 years	Long-term	**S. 198**	4,00,000 less the exemption of 1,25,000 = 2,75,000 at 12.5%	**34,375**
Listed equity, held 5 months	Short-term	**S. 196**	2,00,000 at 20% — note that the rate was 15% until 22 July 2024	**40,000**
Gold, held about 7 years	Long-term	**S. 197**	12,00,000 less 9,00,000 = 3,00,000 at 12.5%. **No indexation and no relief — gold is not land or a building**	**37,500**
Total tax on capital				**4,43,12**

Asset	Character	Section	Working	Tax
gains				**5**

Step 3 — Total income and tax under both regimes.

Particulars	Default regime	Old regime
Salary	9,00,000	9,00,000
Less: standard deduction	(75,000)	(50,000)
Less: deduction under Chapter VIII — **available only against the salary, never against capital gains**	Not available	(1,50,000)
Income other than capital gains	**8,25,000**	**7,00,000**
Capital gains — house 26,50,000; equity 2,75,000; equity short-term 2,00,000; gold 3,00,000	34,25,000	34,25,000
Total income	**42,50,000**	**41,25,000**
Tax on the income other than capital gains	22,500	52,500
Tax on capital gains	4,43,125	4,43,125
Rebate under s. 156	**Not available** — total income exceeds ₹12,00,000, and in any event the rebate cannot be set against income taxed at the special rates	Not available
Surcharge — total income is below ₹50,00,000	Nil	Nil
Add: cess at 4%	18,625	19,825
Tax liability	**4,84,250**	**5,15,450**

Mrs. Radhika should remain in the default regime, a saving of **₹31,200**. The whole of the difference lies in the salary computation: the tax on capital gains of ₹4,43,125 is **identical under both regimes**, because the exemptions in sections 82 to 86 and the special rates in sections 196 to 198 are untouched by section 202.

Step 4 — What she should have done differently.

Opportunity	Effect
Invest the whole gain of ₹34,50,000 in the new house rather than ₹8,00,000	The entire long-term gain on the house would have been exempt, saving **₹3,31,250**. Section 82 requires only the gain, and the ceiling of ₹10 crore is far away
Invest in bonds under s. 85	Up to ₹50,00,000 within six months of 12 August 2026, that is by 11 February 2027. This would have exempted the balance of the house gain entirely. **Available because the asset was a building**
Defer the short-term equity sale by seven months	The gain of ₹2,00,000 would have become long-term, and being within the ₹1,25,000 exemption together with a part of the other gain, the tax of ₹40,000 would have fallen sharply
Split the equity long-term gain across 31 March	A second exemption of ₹1,25,000 in Tax Year 2027-28 would have saved a further ₹15,625
Nothing can be done about the gold	Neither indexation nor section 85 is available for gold, and section 86 is closed to her because she owns a

Opportunity	Effect
	residential house and has bought another

Teaching note — the order in which a capital gains problem should be answered.

- **Is it a capital asset at all?** Rural agricultural land and personal effects are not.
- **Short-term or long-term?** 12 months for listed securities, **24 months for everything else**.
- **Which rate?** Section 196 at 20% for short-term listed equity; section 198 at 12.5% above ₹1,25,000 for long-term listed equity; section 197 at 12.5% for everything else.
- **Is the relief for land and buildings available?** Only for land or a building, acquired **before 23 July 2024**, held by a resident individual or Hindu undivided family.
- **Which exemptions are open?** Sections 82 to 86, in that order, remembering that section 85 needs land or a building and section 86 needs the whole net consideration.
- **Only then**, compute the tax under both regimes.

Illustration 3.11 — summary of the planning principles in Illustrations 3.5 to 3.10

#	Principle	Case study
1	**Indexation is abolished.** It survives only as a **ceiling on the tax** for land or a building acquired **before 23 July 2024** by a resident individual or HUF. It is not available for gold, unlisted shares, debt funds or anything else.	1, 3, 6
2	**The break-even multiple is (0.20k - 0.125) / 0.075**, where k is 384 divided by the index of the year of acquisition. Below that multiple indexation wins; above it, the flat 12.5%.	1
3	The older the asset, the more the relief is worth — **8.57 times cost** for a 2001-02 purchase, but only **1.99 times** for a 2018-19 purchase.	1
4	**The comparison must be made on the gain that is chargeable after the exemptions**, not on the gross gain. An exemption subtracts the same amount from both figures and can move the crossover.	2
5	**Section 82 requires only the capital gain to be reinvested. Section 86 requires the whole net consideration**, and gives a proportionate exemption. This single difference decides most problems.	2, 3, 6
6	**Section 85 is available only where the asset transferred is land or a building.** Six months, ₹50,00,000, and the ceiling runs across two tax years together, so it cannot be doubled at the year-end.	2, 3, 4
7	**Rural agricultural land is not a capital asset at all.** Urban agricultural land is, but section 83 is open if the assessee or his parent farmed it for two years — and it needs only the gain, not the consideration.	4
8	Where the **stamp duty value exceeds 110%** of the price, it becomes the full value of consideration and the assessee pays tax on money he never received. The valuation must be challenged **before** registration.	4
9	**24 months, not 36 and not 12**, is the general holding period. Only listed securities, equity funds, business trust units and zero coupon bonds qualify at 12 months. Compute the completion date first.	5, 6
10	**The ₹1,25,000 exemption under section 198 is available every tax year.** Splitting a modest equity gain across 31 March uses it twice.	5, 6
11	**The short-term rate on listed equity has risen from 15% to 20%.** Deferring a listed equity sale past 12 months now saves 20% less 12.5%, and may bring the gain within the ₹1,25,000 exemption as well.	5, 6
12	A **short-term capital loss** may be set against both kinds of gain; a long-term loss only against long-term gains. Where there is a choice, steer the loss towards the gain taxed at the slab rate.	5
13	**No Chapter VIII deduction and no rebate under section 156** may be set against capital gains. The regime choice therefore affects only the balance of the total income.	2, 6

#	Principle	Case study
14	**Sections 82 to 86 and the rates in sections 196 to 198 are the same under both regimes.** Section 202 does not touch capital gains at all.	2, 6

CHAPTER 4

Tax Planning — Income from Other Sources

Sections 92 to 95. The residuary head — everything chargeable to tax that does not fall under the first four lands here. Its planning is about the character *of a receipt, and about keeping receipts out of section 92(2)(m).*

WHAT THE GUIDELINES PRESCRIBE FOR THIS HEAD

1. Dividend income.

2. Interest income — fixed deposits and savings deposits; bonds and debentures.

3. Gifts [the guidelines' section 56(2)(x); section 92(2)(m) of the 2025 Act, with the exceptions in section 92(3)].

The remaining clauses of section 92(2) — winnings, Keyman insurance, family pension, compensation on termination, income from machinery let on hire, forfeited advances — are set out in this chapter so that the head can be computed as a whole. They are **not** *in the prescribed list, and no question will be set on them in this Unit.*

4.1 SECTION A — The computation, recapitulated

The charge [section 92]

Section 92(1) charges income of every kind which is not excluded from total income and is not chargeable under any of the other four heads. Section 92(2) then enumerates, without prejudice to that generality, the incomes that are **in particular** chargeable here.

Clause	Income
92(2)(a)	Any **dividend**
92(2)(b)	**Winnings** from lotteries, crossword puzzles, races including horse races, card games and other games of any sort, and from gambling or betting
92(2)(c)	Employees' contributions to provident, superannuation and welfare funds received by the assessee, where not chargeable as business income
92(2)(d)	Any sum under a **Keyman insurance policy**, including bonus
92(2)(e)	**Interest on securities**, where not business income
92(2)(f) and **(g)**	Income from **machinery, plant or furniture let on hire**; and from letting them together with a building where the two lettings are inseparable
92(2)(h)	An advance received in negotiations for the transfer of a capital asset which is **forfeited**, the negotiations having failed
92(2)(i)	Interest on compensation or enhanced compensation
92(2)(j)	**Compensation** in connection with the termination of employment or the modification of its terms
92(2)(l)	Sums received under a **life insurance policy** not excluded by Schedule II, to the extent they exceed the premium paid
92(2)(m)	**Gifts** — money or property received without consideration or for inadequate consideration

The gift provision [section 92(2)(m)], and its exceptions [section 92(3)]

Receipt	Charged if	Amount charged
Any sum of money without consideration	The **total** in the year exceeds **₹50,000**	**The whole** of such sum
Immovable property without consideration	The stamp duty value exceeds ₹50,000	The stamp duty value
Immovable property for a consideration	The stamp duty value exceeds the consideration by more than the higher of ₹50,000 and 10% of the consideration	The excess
Property other than immovable without consideration	The aggregate fair market value exceeds ₹50,000	The whole aggregate fair market value
Property other than immovable for a consideration	The fair market value exceeds the consideration by more than ₹50,000	The excess

"Property" for this purpose is defined exhaustively in section 92(5)(f): immovable property being land or building or both; shares and securities; jewellery; archaeological collections; drawings; paintings; sculptures; any work of art; bullion; and a virtual digital asset. **A car is not property for this purpose** — a favourite examination point.

THE NINE EXCEPTIONS IN SECTION 92(3) — LEARN THE LIST

Section 92(2)(m) does **not** apply to a sum of money or property received —

(a) from any **relative**; **(b)** on the occasion of the **marriage of the individual**; **(c)** under a **will or by inheritance**; **(d)** in **contemplation of the death** of the payer or donor;

(e) from a **local authority**; **(f)** from a **registered non-profit organisation**; **(g)** by way of a transaction not regarded as a transfer under the specified clauses of section 70(1); **(h)** from an individual **by a trust created solely for the benefit of that individual's relative**; **(i)** from such class of persons and on such conditions as may be prescribed.

"Relative" for this section is defined in section 92(5)(g), and is wider than the general definition in section 2(94). For an individual it covers the spouse; brother or sister; brother or sister **of the spouse**; brother or sister **of either parent**; any lineal ascendant or descendant; any lineal ascendant or descendant **of the spouse**; and the **spouse of any of those persons**. For a Hindu undivided family, any member of it.

Note (b) carefully: it is the marriage of the ***individual himself****, not of his son or daughter. A gift received by a father on his daughter's wedding is not within the exception.*

Deductions [section 93] and amounts not deductible [section 94]

Provision	What it allows or forbids
93(1)(a)	Commission or remuneration to a banker for realising dividend or interest on securities
93(1)(d) — family pension	One-third of the pension or **₹25,000**, whichever is less, where tax is computed under section 202(1) — the **default** regime; one-third or **₹15,000** in any other case
93(1)(e)	Any other expenditure, not being capital expenditure, laid out **wholly and exclusively** for making or earning such income
93(1)(f)	For interest on compensation under section 92(2)(i) — **50%**, and no other deduction
93(1)(g) and **(h)**	Commutation of pension from a specified fund, and gratuity received on the death of the employee — **the entire amount**
94(1)	**Not deductible**: personal expenses; interest payable outside

Provision	What it allows or forbids
	India without tax deducted; salary payable outside India without tax deducted
94(4)	In computing **winnings** from lotteries, crossword puzzles, races, card games, gambling and betting, **no deduction of any kind is allowed** — no expenditure, no allowance

THE TWO RATE POINTS ON THIS HEAD

Winnings are taxed under **section 194, Table Sl. No. 1, at a flat 30%**, irrespective of the assessee's slab, with no deduction, no basic-exemption shelter and no rebate under section 156(3).

Family pension is the one item the default regime treats **better** — ₹25,000 against ₹15,000. It is taxable under this head and not under Salaries, because the recipient was never the employee.

4.2 SECTION B — The planning measures

Measure	How it works	Caution
Keep gifts within section 92(3)	A receipt from a person within the wide definition in section 92(5)(g) is outside the charge altogether, whatever its size. So is a gift on the occasion of one's own marriage, and anything received under a will or by inheritance	Where the donor is **not** a relative, the whole sum is charged once ₹50,000 is crossed — **not merely the excess**. ₹49,000 from a friend is free; ₹51,000 is taxable in full
Split a receipt across two tax years	The ₹50,000 threshold in section 92(2)(m)(i) is applied to the **total** received in a tax year from all persons. Two receipts of ₹45,000 in successive years escape; ₹90,000 in one year does not	It is an aggregate across all donors, so count every gift in the year
Prefer a loan to a gift where the donor is not a relative	A genuine loan is not income at all	It must be documented, and serviced; and section 102 (unexplained credits) is watching
Route the family gift through the right person	A gift from an uncle to a nephew is taxable in the nephew's hands — an uncle is a relative *of* his nephew's parent, but a nephew is not within the nephew's own list. A gift from the uncle to the **nephew's father** is exempt (brother), and the father may then give to his son (lineal descendant), also exempt	Both steps must be real. A two-step gift with no purpose but to escape the charge is exposed to sections 179 and 180
Claim the family pension deduction under the right limb	₹25,000 in the default regime; ₹15,000 in the optional one. Where family pension is the main income, this alone may decide the regime	One-third is the cap where the pension is small; ₹75,000 of pension gives ₹25,000 either way
Do not expect to shelter winnings	Section 194 charges 30% flat; section 94(4) allows no deduction; section 156(3) denies the rebate against special-rate tax. There is no planning here at all	The only planning is to remember that the **entry fee or ticket cost is not deductible**
Character: business or other sources?	Interest on securities and hire of plant are chargeable here **only if not chargeable as business income**. Where the activity is a business, the receipts go under head C and carry the full deductions of sections 28 to 38 — a	The characterisation follows the facts, not the label. A single letting is not a business

Measure	How it works	Caution
	much better result than section 93(1)(e)	
Use section 93(1)(e) deliberately	Any expenditure laid out **wholly and exclusively** for earning the income is deductible — collection charges, professional fees, interest on money borrowed to buy the income-yielding asset	Not capital expenditure, and not personal expenses [section 94(1)(a)]
Time a forfeited advance	An advance forfeited on failed negotiations is taxable under section 92(2)(h) in the year of forfeiture, not the year of receipt	It is no longer deducted from the cost of acquisition, as it was under the old law

4.3 SECTION C — Illustrations

Illustration 4.1 — the ₹50,000 cliff

During Tax Year 2026-27 Shri Lalit receives: ₹40,000 in cash from a close friend on his birthday; ₹2,00,000 from his father's brother; ₹1,50,000 from his wife's brother; ₹75,000 from a colleague on the occasion of Shri Lalit's own marriage; and a motor car worth ₹8,00,000 from another friend. *What is chargeable under section 92(2)(m)?*

₹40,000 from a friend. A friend is not a relative. But the *aggregate* of sums received from non-relatives must exceed ₹50,000 before anything is charged. Take this with the colleague's ₹75,000 — see below.

₹2,00,000 from the father's brother. The **brother of either of the parents** is within section 92(5)(g)(i)(D). **Exempt.**

₹1,50,000 from the wife's brother. The **brother of the spouse** is within section 92(5)(g)(i)(C). **Exempt.**

₹75,000 from a colleague on Shri Lalit's own marriage. Section 92(3)(b) excepts a receipt **on the occasion of the marriage of the individual**. **Exempt**, and it does not enter the aggregate either.

The motor car worth ₹8,00,000. A motor car is **not "property"** within the exhaustive definition in section 92(5)(f). **Nothing is charged.**

Result. The only sum in the reckoning is the friend's ₹40,000, which does not exceed ₹50,000. **Nothing at all is chargeable.**

Change one fact and the answer changes completely: had the friend given ₹60,000 instead of ₹40,000, the whole ₹60,000 would have been charged — not the ₹10,000 excess. Section 92(2)(m)(i) charges "the whole of such sum". That is the cliff, and it is worth planning around.

Illustration 4.2 — family pension and the regime

Smt. Meena, resident, aged 61, receives a family pension of ₹6,00,000 a year on the death of her husband, and bank interest of ₹90,000. She has no other income and no investments. *Which regime?*

Default regime. Family pension ₹6,00,000 *less* deduction under section 93(1)(d)(i) — one-third (₹2,00,000) or ₹25,000, whichever is **less** = **₹25,000**. Income from other sources = ₹5,75,000 + ₹90,000 = **₹6,65,000**. Section 153 is not available in the default regime. **Total income ₹6,65,000.**

Tax = 5% of ₹2,65,000 = ₹13,250. Rebate under section 156(2)(a) = ₹13,250, the income not exceeding ₹12,00,000. **Tax NIL.**

Optional regime. Deduction under section 93(1)(d)(ii) = one-third or ₹15,000, whichever is less = **₹15,000**. Income = ₹5,85,000 + ₹90,000 = ₹6,75,000. *Less* section 153 — she is a senior citizen, so ₹50,000 of the interest is deductible, restricted to the ₹90,000 actually received, so **₹50,000**. **Total income ₹6,25,000.**

Tax = nil on ₹3,00,000 (senior citizen); 5% on ₹2,00,000 = ₹10,000; 20% on ₹1,25,000 = ₹25,000. **Tax ₹35,000**; no rebate, the income exceeding ₹5,00,000; cess ₹1,400; **₹36,400.**

Advice: stay in the default regime. Saving ₹36,400 — the whole of the tax.

*Notice that the optional regime gave her a **larger** total deduction — ₹65,000 against ₹25,000 — and she still lost, because the ₹60,000 rebate under section 156(2)(a) swamps everything at this level of income. At modest incomes the rebate, not the deductions, decides the regime.*

4.4 SECTION D — ADDITIONAL CASE STUDIES

ILLUSTRATION 4.3 — THE BIRTHDAY PARTY — MONEY, AN IPHONE, JEWELLERY AND A CAR

FACTS

Mr. Aditya, born on 30 January 1992, will celebrate his birthday on **30 January 2027**. His salary income for **Tax Year 2026-27** is **₹16,00,000** and he deposits **₹1,50,000** in a public provident fund. He expects to receive **₹1,50,000 in money from relatives**, and from his friends, who are not relatives, one of the following —

	What his friends give him	Value (₹)
Option 1	**Money**, to enable him to buy a telephone	1,00,000
Option 2	The **telephone itself**	1,00,000
Option 3	**Jewellery**	1,00,000
Option 4	A **motor car**	20,00,000

REQUIRED

Determine the amount chargeable under section 92 in each option, compute his tax liability under both regimes, and advise him.

SOLUTION

Step 1 — The gift from relatives.

₹1,50,000 received from relatives is **wholly exempt**, whatever the amount. The ₹50,000 threshold has no application to a gift from a relative, and the amount received from relatives is **not aggregated** with the amount received from others.

Step 2 — The four options.

Option	What is received	Is it chargeable?	Amount taxable
1	**Money** of ₹1,00,000 from non-relatives	The aggregate of money received from non-relatives exceeds ₹50,000, so the **whole** sum is chargeable — not merely the excess of ₹50,000	**1,00,000**
2	A **telephone** worth ₹1,00,000	A telephone is **not specified movable property**. The list is exhaustive: shares and securities, jewellery, archaeological collections, drawings, paintings, sculptures, works of art and bullion	**Nil**
3	**Jewellery** worth ₹1,00,000	Jewellery **is** specified movable property, and the aggregate fair market value exceeds ₹50,000, so the whole value is chargeable	**1,00,000**
4	A **motor car** worth ₹20,00,000	A motor car is **not specified movable property**	**Nil**

A birthday is not an exempt occasion. Only a gift on the occasion of the **marriage of the individual himself** escapes irrespective of the donor. Nothing turns on the fact that this is his birthday.

Step 3 — Tax liability.

Particulars	Options 1 and 3 (taxable)	Options 2 and 4 (not taxable)
Salary	16,00,000	16,00,000
Less: standard deduction — default regime	(75,000)	(75,000)
Income from other sources	1,00,000	Nil
Total income — default regime	**16,25,000**	**15,25,000**
Income-tax	1,25,000	1,08,750

Particulars	Options 1 and 3 (taxable)	Options 2 and 4 (not taxable)
Add: cess at 4%	5,000	4,350
Tax liability — default regime	**1,30,000**	**1,13,100**
Total income — old regime (standard deduction ₹50,000 and deduction of ₹1,50,000 under Chapter VIII)	**15,00,000**	**14,00,000**
Income-tax	2,62,500	2,32,500
Add: cess at 4%	10,500	9,300
Tax liability — old regime	**2,73,000**	**2,41,800**

Step 4 — Advice.

- **He should ask for the telephone, not the money.** The cost of taking ₹1,00,000 in cash rather than in kind is **₹16,900** in the default regime and **₹31,200** in the old regime.
- **He should ask for the car rather than jewellery of the same value.** A motor car worth ₹20,00,000 given in kind is entirely outside the charge, while jewellery worth ₹1,00,000 is taxed in full. On these facts a benefit twenty times larger bears **no tax at all**.
- **He should remain in the default regime** in every option.

Teaching note. Two lines decide most gift problems. **First: money is always caught once the annual aggregate from non-relatives exceeds ₹50,000, and then the whole sum is taxed. Second: property in kind is caught only if it is on the specified list**, and that list contains no consumer article of any description. Students should be able to recite the list, because everything not on it is free.

ILLUSTRATION 4.4 — A WEDDING, AN UNCLE AND A FLAT — THE EXEMPT OCCASION AND THE AGGREGATION RULE

FACTS

Ms. Bhavya, aged 27, married on **10 December 2026**. Her salary income for **Tax Year 2026-27** is **₹9,00,000** and she deposits **₹1,50,000** in a public provident fund. During the year she received —

	Particulars	Amount (₹)
(i)	Money from friends and colleagues **on the occasion of her marriage**	8,00,000
(ii)	Money from a friend on her birthday in January 2027	60,000
(iii)	Money from a friend of her father in March 2027	40,000
(iv)	Money from her **father's brother**	5,00,000
(v)	Money from her **husband's brother's wife**	2,00,000
(vi)	A flat gifted by her **parents**, stamp duty value	40,00,000
(vii)	A flat **purchased from a friend** for ₹45,00,000, the stamp duty value being ₹52,00,000	—

REQUIRED

Determine the amount chargeable under section 92 and compute her tax liability under both regimes.

SOLUTION

Step 1 — Item by item.

Item	Treatment	Taxable
(i) ₹8,00,000 on the occasion of her marriage	**Exempt.** A gift received on the occasion of the **marriage of the individual** is exempt however large, and whoever the donor. It is the only occasion in the Act that carries this exemption	**Nil**
(ii) ₹60,000 from a friend on her birthday	A non-relative, and a birthday is not an exempt occasion	**To be aggregated**
(iii) ₹40,000 from her father's friend	A non-relative	**To be aggregated**
(iv) ₹5,00,000 from her father's brother	**Exempt.** The brother of a parent is a relative	**Nil**
(v) ₹2,00,000 from her husband's brother's wife	**Exempt.** The brother of the spouse is a relative, and so is the **spouse of that brother**	**Nil**
(vi) Flat from her parents, stamp duty value ₹40,00,000	**Exempt.** A parent is a lineal ascendant and therefore a relative. The value is irrelevant	**Nil**

Step 2 — The aggregation trap.

Particulars	Amount (₹)
Money from a friend on her birthday	60,000
Money from her father's friend	40,000
Aggregate of money received from non-relatives during the tax year	**1,00,000**
Does it exceed ₹50,000?	**Yes**
Amount chargeable	**1,00,000 — the whole of it**

The threshold is **annual and cumulative**, not per donor and not per receipt. Neither of the two sums would have been taxable on its own; together they carry the whole ₹1,00,000 into charge. Had the second gift of ₹40,000 been deferred to April 2027 it would have fallen into the next tax year, where the ₹50,000 threshold would begin again — and **nothing at all would have been taxable in either year**.

Step 3 — The flat purchased from a friend.

Particulars	Amount (₹)
Stamp duty value	52,00,000
Consideration paid	(45,00,000)
Difference	**7,00,000**
Threshold — the **higher** of ₹50,000 and 10% of the consideration	higher of 50,000 and 4,50,000 = **4,50,000**
Does the difference exceed the threshold?	7,00,000 exceeds 4,50,000 — **yes**
Amount chargeable — the difference, not the whole stamp duty value	**7,00,000**

Note how narrowly this was decided. Had she paid **₹47,50,000** instead of ₹45,00,000, the difference of ₹4,50,000 would have equalled but not exceeded 10% of the consideration, and **nothing** would have been chargeable. ₹2,50,000 more of price would have removed ₹7,00,000 from charge.

Step 4 — Total income and tax.

Particulars	Default regime	Old regime
Salary	9,00,000	9,00,000
Less: standard deduction	(75,000)	(50,000)
Income from other sources — money 1,00,000 and immovable property 7,00,000	8,00,000	8,00,000
Less: deduction under Chapter VIII	Not available	(1,50,000)
Total income	**16,25,000**	**15,00,000**
Income-tax	1,25,000	2,62,500
Add: cess at 4%	5,000	10,500
Tax liability	**1,30,000**	**2,73,000**

She should remain in the default regime, a saving of ₹1,43,000.

Teaching note. Three planning points emerge, all of them costless. **Time the wedding gifts** so that they are genuinely received on the occasion of the marriage. **Spread gifts from non-relatives across 31 March** so that neither year's aggregate crosses ₹50,000. And where property is bought from a friend at less than the circle rate, **fix the price so that the shortfall stays within 10%** of the consideration.

ILLUSTRATION 4.5 — INDIAN OR FOREIGN SHARES — THE INTEREST CAP AND THE LIMITS OF FOREIGN TAX CREDIT

FACTS

Mr. Chetan has salary income of **₹14,00,000** for **Tax Year 2026-27** and deposits **₹1,50,000** in a public provident fund. He proposes to invest **₹50,00,000** in shares, of which **₹20,00,000** will be borrowed at 9% per annum. The expected dividend is **₹4,00,000** in either case. He must choose between —

- **Option A:** shares of an **Indian** company; and
- **Option B:** shares of a **foreign** company, on which the country of source will withhold tax.

REQUIRED

(a) Compute the income chargeable under section 92 and his tax liability under both regimes.

(b) Examine the position where the foreign withholding rate is 10% and where it is 25%.

(c) Advise him.

SOLUTION

Step 1 — The income under section 92 (identical in both options).

Particulars	Amount (₹)
Dividend received	4,00,000
Interest on money borrowed to make the investment (20,00,000 at 9%)	1,62,000
Less: deduction under s. 93, **restricted to 20% of the dividend**	(80,000)
Income chargeable under the head	**3,20,000**

₹82,000 of interest actually paid is simply lost. The restriction to 20% of the dividend is absolute; no other expenditure of any kind is deductible against a dividend, and the excess interest cannot be carried forward.

Step 2 — Tax liability.

Particulars	Default regime	Old regime
Salary less standard deduction	13,25,000	13,50,000
Income from other sources	3,20,000	3,20,000
Less: deduction under Chapter VIII	Not available	(1,50,000)
Total income	**16,45,000**	**15,20,000**
Income-tax	1,29,000	2,68,500
Add: cess at 4%	5,160	10,740
Tax liability	**1,34,160**	**2,79,240**
Marginal rate applying to the dividend	**20%**	**30%**
Indian tax borne by the dividend income of ₹3,20,000	**66,560**	**99,840**

Step 3 — Part (b): what happens to the foreign tax.

Foreign withholding rate	Foreign tax on ₹4,00,000	Credit available — default regime	Permanently lost	Credit available — old regime	Permanently lost
10%	40,000	40,000	**Nil**	40,000	**Nil**
25%	1,00,000	**66,560**	**33,440**	**99,840**	**160**

Foreign tax credit is available under the applicable treaty, but it is **capped at the Indian tax on the doubly taxed income**. Where the foreign rate exceeds the Indian effective rate on that income, the excess is not refunded, not carried forward and not deductible — it is simply lost.

The lower the investor's Indian marginal rate, the more of a high foreign withholding he will forfeit. In the default regime Mr. Chetan's marginal rate is 20% against 30% in the old regime, so the very regime that saves him ₹1,45,080 of Indian tax also costs him ₹33,280 more of unrelieved foreign tax at a 25% withholding rate.

Step 4 — Part (c): advice.

Consideration	Indian company	Foreign company
Rate of tax in India	Slab rates	Slab rates — **the same**
Deduction for interest	20% of the dividend	20% of the dividend — **the same**
Tax deducted at source	10% under s. 393(1) where the dividend exceeds **₹10,000** — a pure cash-flow item, fully creditable	None in India
Foreign tax	None	Withheld at source; creditable only up to the Indian tax on that income
Compliance	Nothing further	The prescribed foreign tax credit form must be filed, and must be **verified by a chartered accountant** where the credit claimed is ₹1,00,000 or more
Currency	None	Exchange risk on both the dividend and the capital

Mr. Chetan should prefer the Indian company unless the foreign investment is expected to outperform by enough to cover the unrelieved withholding tax, the compliance cost and the currency risk. Where he does invest abroad, he should check the **treaty rate** for dividends before investing: many treaties cap withholding at 10% or 15%, and the reduced rate must be claimed by furnishing a tax residency certificate to the payer **before** the dividend is paid. Claiming it afterwards means recovering the money from a foreign revenue authority.

Teaching note. The old examination answer to this question — that a domestic dividend was exempt while a foreign dividend was taxable — has not been the law since the dividend distribution tax was abolished. **Both are now taxed identically at slab rates.** The real distinctions are the deduction at source, the foreign tax credit ceiling and the compliance burden.

ILLUSTRATION 4.6 — THE GAME SHOW — THE ONE INCOME THAT NO PLANNING CAN TOUCH

FACTS

Mr. Dhruv appeared on a television game show in October 2026 and won a prize of **₹20,00,000**. The producer has offered him either the **₹20,00,000 in cash** or a **motor car of the same value**. His other income for **Tax Year 2026-27** is **₹10,00,000** from a business, and he has a **brought-forward business loss of ₹5,00,000** and deposits of **₹1,50,000** in a public provident fund.

REQUIRED

(a) Compute the tax on the winnings and his total liability under both regimes.

(b) Examine whether the business loss, the Chapter VIII deduction, the basic exemption limit or the rebate can reduce it.

(c) State the difference between taking the prize in cash and in kind.

SOLUTION

Step 1 — The charge on the winnings.

Particulars	Amount (₹)
Winnings from a game show	20,00,000
Less: any expenditure incurred in taking part	**Nil — no deduction of any kind is allowed**
Amount chargeable	**20,00,000**
Tax at the flat rate of **30%**	**6,00,000**
Add: cess at 4%	24,000
Tax on the winnings	**6,24,000**
Tax deducted at source by the producer under s. 393(3) at 30%	**6,00,000**

Step 2 — Part (b): the five shelters, and why none of them works.

Shelter	Does it apply?	Reason
Deduction of expenses under s. 93	**No**	Sections 93 and 94 do not apply to winnings. Even the cost of travelling to the studio is not deductible
Set-off of the brought-forward business loss of ₹5,00,000	**No**	No loss of any description may be set off against casual income
Deduction under Chapter VIII of ₹1,50,000	**No**	Chapter VIII deductions cannot be set against income taxed at a special rate. They reduce only the balance of the total income
Adjustment against the basic exemption limit	**No**	Available only to a resident individual and only against capital gains. Casual income bears 30% from the first rupee
Rebate under s. 156	**No**	It cannot be set against income taxed at a special rate; and in any event his total income of ₹30,00,000 exceeds the ceiling

Step 3 — Total liability.

Particulars	Default regime	Old regime
Business income	10,00,000	10,00,000
Less: brought-forward business loss	(5,00,000)	(5,00,000)
Less: deduction under Chapter VIII	Not available	(1,50,000)

Particulars	Default regime	Old regime
Income other than winnings	**5,00,000**	**3,50,000**
Tax on that income	5,000	5,000
Add: tax on winnings at 30%	6,00,000	6,00,000
Rebate under s. 156 — total income of ₹25,00,000 exceeds the ceiling	Nil	Nil
Add: cess at 4%	24,200	24,200
Tax liability	**6,29,200**	**6,29,200**
Less: tax deducted at source	(6,00,000)	(6,00,000)
Balance payable	**29,200**	**29,200**

The liability is identical under both regimes, because the winnings dominate the computation and are taxed at a rate that neither regime alters. Where an assessee's income is mostly casual income, **the choice of regime is very nearly irrelevant.**

Step 4 — Part (c): cash or the car?

Particulars	Prize in cash	Prize in kind
Amount chargeable	20,00,000	The fair market value of the car — **20,00,000**. A prize in kind is taxed on its value exactly as cash would be
How the tax is collected	The producer deducts ₹6,00,000 and pays him ₹14,00,000	The producer must **ensure that the tax has been paid** before releasing the car. Either Mr. Dhruv pays ₹6,24,000 out of his own pocket, or the producer pays it and recovers it from him
Practical effect	He receives ₹14,00,000 and owes a further ₹29,200	He receives a car worth ₹20,00,000 and must **find ₹6,24,000 in cash**
Is the gift exemption available?	No	**No.** A motor car is not specified movable property for the purposes of a *gift*, but this is **not a gift** — it is a **winning**, charged under a different limb of section 92 with no threshold and no exclusion for unspecified property

Advice: he should take the cash. Taking the car creates a liability of ₹6,24,000 with no money to pay it, and if he then sells the car he will realise less than its notional value and may have a further capital gain or loss to compute. If he particularly wants the car he should take the cash and buy it.

Teaching note — a trap worth setting. Students who have just learnt that a motor car escapes the gift provisions will often say that a car won as a prize escapes too. It does not. **The exclusion of unspecified movable property applies only to gifts; a prize is taxed on its value whatever its form.**

ILLUSTRATION 4.7 — A SENIOR CITIZEN'S INTEREST INCOME — AND A DEDUCTION THAT HAS BECOME WORTHLESS

FACTS

Mr. Eshwar, aged 68 and resident in India, has the following income for **Tax Year 2026-27** —

Particulars	Amount (₹)
Pension	6,00,000
Interest on savings bank account	45,000
Interest on fixed deposits with a bank	3,50,000
Interest on a Post Office savings bank account (individual account)	5,000

He claims no other deduction.

REQUIRED

Compute his total income and tax liability under both regimes and advise him.

SOLUTION

Step 1 — Total income.

Particulars	Default regime	Old regime
Pension	6,00,000	6,00,000
Less: standard deduction	(75,000)	(50,000)
	5,25,000	5,50,000
Interest on savings bank account	45,000	45,000
Interest on fixed deposits	3,50,000	3,50,000
Interest on the Post Office savings account, ₹5,000, less the exemption of ₹3,500	1,500	1,500
Less: **deduction for a senior citizen under Chapter VIII**, covering both savings and fixed deposit interest	**Not available — withdrawn by s. 202**	**(50,000)**
Total income	**9,21,500**	**8,96,500**

Step 2 — Tax liability.

Particulars	Default regime	Old regime
Basic exemption limit	₹4,00,000 — **the same for every individual, whatever his age**	₹3,00,000 for a senior citizen
Income-tax	32,150	89,300
Less: rebate under s. 156 — total income does not exceed ₹12,00,000	**(32,150)**	Total income exceeds ₹5,00,000 — **Nil**
Income-tax after rebate	**Nil**	89,300
Add: cess at 4%	Nil	3,572
Tax liability	**Nil**	**92,872**

Step 3 — Advice, and the lesson.

Mr. Eshwar should remain in the default regime and pay nothing at all. The old regime, which gives him a higher basic exemption limit of ₹3,00,000 **and** a deduction of ₹50,000 for his interest income — advantages worth ₹65,000 of income between them — nevertheless costs him **₹92,872**.

The reason is the rebate. Once the rebate under section 156 has reduced the tax to nil, **a deduction available only in the old regime is worth precisely nothing.** It cannot reduce a liability that is already zero.

Step 4 — What this means for the chapter.

This chapter has traditionally taught that a senior citizen with interest income should stay in the old regime for the sake of the ₹50,000 deduction, and that the higher basic exemption limit for the elderly is a real advantage. **Neither proposition survives.**

Feature	Old regime	Default regime	Which is better?
Basic exemption limit at age 68	3,00,000	4,00,000	**Default**
Standard deduction on pension	50,000	75,000	**Default**
Deduction for interest	50,000	Nil	Old
Rebate ceiling	Tax nil up to a total income of ₹5,00,000	Tax nil up to a total income of **₹12,00,000**	**Default, overwhelmingly**

The higher basic exemption limits for senior and very senior citizens exist only in the old regime, and the default regime's flat ₹4,00,000 is more generous than the ₹3,00,000 it replaces. A student who still writes that a senior citizen enjoys a higher exemption limit is describing a regime that hardly anyone should now be in.

Teaching note. Set this problem again with the pension raised to ₹14,00,000. The total income then crosses ₹12,00,000, the rebate disappears, and the ₹50,000 deduction becomes worth having again. **The rebate ceiling, not the deduction, is what decides the case** — and students should learn to test it first.

Illustration 4.8 — Capstone — A widow with a family pension, a dividend, a gift and a prize

FACTS

Mrs. Farida, aged 55 and resident in India, has the following receipts for **Tax Year 2026-27** —

	Particulars	Amount (₹)
(i)	**Family pension** received after her husband's death	6,00,000
(ii)	Dividend from Indian companies	1,50,000
(iii)	Interest on savings bank account	30,000
(iv)	Winnings from a **crossword puzzle** competition	5,00,000
(v)	**Jewellery** received as a gift from a close friend, fair market value	2,00,000
(vi)	Money received from her **brother**	3,00,000

She borrowed nothing to make her investments and deposits ₹1,50,000 in a public provident fund.

REQUIRED

Compute her total income and tax liability under both regimes and advise her.

SOLUTION

Step 1 — Item by item.

Item	Treatment	Default regime	Old regime
(i) Family pension ₹6,00,000	Chargeable under s. 92, less the deduction for family pension — **₹25,000** in the default regime, and in the old regime **one-third of ₹6,00,000 or ₹15,000, whichever is less**	**5,75,000**	**5,85,000**
(ii) Dividend ₹1,50,000	Taxable at slab rates. No deduction, as she borrowed nothing	1,50,000	1,50,000
(iii) Savings bank interest ₹30,000	Chargeable; the Chapter VIII deduction of ₹10,000 is available **only in the old regime**	30,000	30,000 less 10,000 = **20,000**
(iv) Winnings ₹5,00,000	**Taxed separately at a flat 30%.** No deduction, no set-off, no rebate	Kept apart	Kept apart
(v) Jewellery worth ₹2,00,000 from a friend	**Specified movable property** received without consideration from a non-relative, aggregate value exceeding ₹50,000 — the **whole** value is chargeable	2,00,000	2,00,000
(vi) ₹3,00,000 from her brother	**Exempt** — a brother is a relative	Nil	Nil

Step 2 — Total income.

Particulars	Default regime	Old regime
Family pension, net of the deduction	5,75,000	5,85,000
Dividend	1,50,000	1,50,000
Savings bank interest, net of the Chapter VIII deduction where available	30,000	20,000
Gift of jewellery	2,00,000	2,00,000
Income other than winnings	**9,55,000**	**9,55,000**

Particulars	Default regime	Old regime
Add: winnings, taxed separately	5,00,000	5,00,000
Total income	**14,55,000**	**14,55,000**

The two regimes reach the **same total income** by different routes: the default regime gives her ₹10,000 more of family pension deduction, and the old regime gives her ₹10,000 of interest deduction. They cancel exactly.

Step 3 — Tax liability.

Particulars	Default regime	Old regime
Tax on income other than winnings, ₹9,55,000	35,500	1,03,500
Tax on winnings, ₹5,00,000 at 30%	1,50,000	1,50,000
Rebate under s. 156	**Nil — total income of ₹14,55,000 exceeds ₹12,00,000**	**Nil**
Add: cess at 4%	7,420	10,140
Tax liability	**1,92,920**	**2,63,640**

She should remain in the default regime, a saving of **₹70,720**. The whole of the difference lies in the slab structure; the tax of ₹1,50,000 on the winnings is identical under both.

Step 4 — The rebate that was so nearly hers.

Her income other than the winnings is ₹9,55,000 — comfortably below the rebate ceiling of ₹12,00,000. But the ceiling is tested on **total income**, which includes the winnings, and ₹14,55,000 is above it. She therefore loses a rebate of **₹35,500** on the ordinary part of her income as well.

If the winnings had been	Total income	Rebate under s. 156	Tax on the ordinary income
₹5,00,000	14,55,000	**Nil**	35,500
₹2,45,000	12,00,000	**35,500**	**Nil**

A win of ₹5,00,000 costs her ₹5,00,000 of prize money taxed at 30% and, in addition, ₹35,500 of rebate on income that has nothing to do with the prize. Nothing can be done about it — a winning cannot be deferred, spread or refused in part — but students should understand why the marginal cost of casual income is higher than 30%.

Step 5 — What she could have planned.

Opportunity	Effect
Ask her friend for the jewellery to be given after her own marriage, or in two instalments across 31 March	Jewellery is specified movable property, so splitting it across two years would keep each year's aggregate below ₹50,000 only if each instalment were under that figure — impracticable here. **A gift of an unspecified article of the same value, or of money below ₹50,000, would have escaped entirely**
Take the gift from her brother rather than the friend	Already exempt; there is nothing to plan
Shift the savings balance to a fixed deposit	No advantage. In the default regime neither attracts a deduction; in the old regime she is under 60, so only savings interest qualifies and only up to ₹10,000
The family pension deduction	Already at its ceiling of ₹25,000 in the default regime. It is one of the very few deductions the default regime **improves**

Teaching note — the order in which this head should be answered.

- **Separate the casual income first** and set it aside at 30%. It obeys none of the ordinary rules.
- **Test every gift against three questions** — is the donor a relative, was there an exempt occasion, and if it is property, is it on the specified list?
- **Aggregate all money received from non-relatives** for the year before applying the ₹50,000 threshold.
- **Apply the deductions under section 93**, remembering the 20% cap on interest against a dividend and the family pension deduction.
- **Only then** test the rebate under section 156 — on the **total** income, casual income included.

Illustration 4.9 — summary of the planning principles in Illustrations 4.3 to 4.8

#	Principle	Case study
1	**Money from non-relatives is aggregated for the whole year.** Once the aggregate exceeds ₹50,000 the **whole** sum is taxed, not the excess. Spreading gifts across 31 March can keep both years below the threshold.	1, 2
2	**Property in kind is caught only if it is on the specified list** — shares and securities, jewellery, archaeological collections, drawings, paintings, sculptures, works of art and bullion. **A car, a phone, a laptop or furniture is outside the charge whatever its value.**	1
3	**Ask for the article, not the money.** ₹1,00,000 in cash is fully taxed; the same article given in kind may bear nothing at all.	1
4	**A birthday is not an exempt occasion.** Only a gift on the occasion of the **marriage of the individual himself** is exempt irrespective of the donor.	1, 2
5	**The definition of relative is wide but exhaustive** — it includes the spouse of a brother of the spouse, but not a cousin and not a friend.	2
6	For **immovable property bought below the circle rate**, nothing is charged unless the shortfall exceeds the **higher of ₹50,000 and 10% of the consideration**. Fixing the price a little higher can remove the whole charge.	2
7	**Indian and foreign dividends are now taxed identically at slab rates.** The only deduction is interest, **capped at 20% of the dividend**; the excess is lost for ever.	3
8	**Foreign tax credit is capped at the Indian tax on that income.** The lower the investor's Indian marginal rate, the more of a high foreign withholding he forfeits.	3
9	**Casual income obeys none of the ordinary rules** — no deduction, no loss set-off, no Chapter VIII, no basic exemption adjustment and no rebate. It is the one income that planning cannot touch.	4, 6
10	**A prize in kind is taxed on its value like cash.** The exclusion of unspecified movable property applies to **gifts only**, never to winnings. Take the cash and buy the car.	4
11	**Where the rebate under section 156 applies, an old-regime deduction is worth nothing** — it cannot reduce a liability that is already nil.	5
12	**The rebate ceiling is tested on total income, casual income included.** A prize can destroy the rebate on income that has nothing to do with it, so the real cost of a winning exceeds 30%.	6
13	**The higher basic exemption limits for senior and very senior citizens exist only in the old regime**, and the default regime's flat ₹4,00,000 is more generous than the ₹3,00,000 it replaces.	5
14	**The family pension deduction is one of the few that section 202 improves** — ₹25,000 against ₹15,000.	6

CHAPTER 5

Revision, Ready Reckoner and Question Bank

The four heads of this Part compressed onto a few pages, and then the practice. Work the problems with a pen before you look at the solutions.

5.1 Old section to new section — a ready reckoner for the other four heads

Subject	Income-tax Act, 1961	Income-tax Act, 2025
House property — charge	22	20
Annual value	23	21
Self-occupied, nil annual value	23(2)	21(6) and 21(7)
Deductions — 30% and interest	24	22
Interest ceiling ₹2,00,000 / ₹30,000	Provisos to 24(b)	22(2) and 22(5)
Arrears and unrealised rent	25A	23
Co-owners	26	24
Deemed owner	27	25
Business — charge	28	26
Method of computation	29	27
Rent, rates, repairs, insurance	30, 31	28
Depreciation	32	33
General deduction	37(1)	34
Amounts not deductible; partner remuneration	40	35
Cash payments and similar disallowances	40A	36
Deductions on actual payment only	43B	37
Deemed profits	41	38
Actual cost; written down value	43(1), 43(6)	39, 41
Preliminary expenses	35D	44
Scientific research	35	45
Presumptive — business and profession	44AD, 44AE, 44ADA	58
Books of account; tax audit	44AA, 44AB	62, 63
Capital gains — charge	45	67
Buy-back of shares	46A	69
Transactions not regarded as transfer	47	70
Mode of computation	48	72
Cost with reference to certain modes	49	73
Depreciable assets	50	74
Slump sale	50B	77
Full value of consideration — immovable property	50C	78

Subject	Income-tax Act, 1961	Income-tax Act, 2025
Advance money received	51	81
Exemption — residential house	54	82
Exemption — agricultural land	54B	83
Exemption — compulsory acquisition	54D	84
Exemption — bonds	54EC	85
Exemption — investment in a residential house	54F	86
Extension of time	54H	89
Cost of acquisition and improvement defined	55	90
Other sources — charge	56	92
Gifts	56(2)(x)	92(2)(m), with the exceptions in 92(3)
Deductions	57	93
Amounts not deductible	58	94
Profits chargeable	59	95
Set-off — same head	70	108
Set-off — inter-head; ₹2,00,000 cap	71	109
Carry forward of house property loss	71B	110
Rates — STCG on listed equity	111A	196
LTCG generally	112	197
LTCG on listed equity	112A	198
Winnings	115BB	194, Table Sl. No. 1

5.2 Every figure in this Part on two pages

Head	Point	Figure
House property	Standard deduction [s. 22(1)(a)]	30% of the net annual value
House property	Interest, self-occupied [s. 22(2)]	₹2,00,000, or ₹30,000 if the five-year or certificate condition fails; ₹2,00,000 in the aggregate [s. 22(5)]. **Nil in the default regime**
House property	Interest, let out	No ceiling, in **both** regimes
House property	Pre-construction interest [s. 22(1)(c)]	Five equal instalments
House property	Nil annual value [s. 21(7)]	**Two** houses
House property	Inter-head set-off [s. 109(1)(b)]	₹2,00,000 optional; **nil** in the default regime [s. 202(2)(b)(ii)]
House property	Carry forward [s. 110]	Eight tax years, house property income only
Business	Depreciation, asset used under 180 days [s. 33]	**Half** the normal rate
Business	Partner remuneration [s. 35]	First ₹6,00,000 of book profit: higher of

Head	Point	Figure
		₹3,00,000 or 90%; balance: **60%**
Business	Partner interest [s. 35]	**12%** simple per annum
Business	Presumptive — business [s. 58, Sl. No. 1]	6% banked / 8% cash; turnover ₹2 crore, or ₹3 crore if cash ≤ 5%
Business	Presumptive — goods carriage [s. 58, Sl. No. 2]	₹1,000 per ton per month heavy; ₹7,500 per vehicle per month otherwise; ≤ 10 vehicles
Business	Presumptive — profession [s. 58, Sl. No. 3]	50% of gross receipts; ₹50 lakh, or ₹75 lakh if cash ≤ 5%
Capital gains	Short-term — listed securities, UTI units, equity-oriented fund units, zero-coupon bonds	Held **12 months** or less
Capital gains	Short-term — everything else	Held **24 months** or less
Capital gains	STCG, listed equity with STT [s. 196]	**20%**
Capital gains	LTCG generally [s. 197]	**12.5%**
Capital gains	LTCG, listed equity with STT [s. 198]	**12.5%** on the excess over **₹1,25,000**
Capital gains	Land or building acquired before 23 July 2024 [s. 197(3)]	Resident individual or HUF pays the **lower** of 12.5% without indexation and 20% with
Capital gains	Exemption — bonds [s. 85]	₹50 lakh; within **6 months**; 5-year lock-in
Capital gains	Exemption — house [ss. 82, 86]	₹10 crore cap; purchase 1 year before / 2 years after; construct within 3 years
Capital gains	Two houses under s. 82(5)	Gain up to ₹2 crore; **once in a lifetime**
Other sources	Gifts [s. 92(2)(m)]	Threshold **₹50,000**; the **whole** sum is charged once crossed
Other sources	Family pension [s. 93(1)(d)]	One-third or **₹25,000** in the default regime; one-third or **₹15,000** otherwise
Other sources	Interest on compensation [s. 93(1)(f)]	50%, and no other deduction
Other sources	Winnings [s. 194]	**30%** flat; no deduction [s. 94(4)]; no rebate [s. 156(3)]

5.3 Objective questions

No.	Question and options
1	The number of houses that may have a nil annual value is — (a) one; (b) two; (c) three; (d) unlimited
2	Interest on a let-out house is deductible — (a) up to ₹2,00,000; (b) up to ₹30,000; (c) in full, in both regimes; (d) not at all in the default regime
3	A house property loss may be set off against another head, in the optional regime, up to — (a) ₹30,000; (b) ₹1,50,000; (c) ₹2,00,000; (d) without limit
4	In the default regime a house property loss may be set off against another head — (a) up to ₹2,00,000; (b) up to ₹1,00,000; (c) not at all; (d) without limit

No.	Question and options
5	Depreciation is allowed at half the rate where the asset is put to use for less than — (a) 90 days; (b) 180 days; (c) 182 days; (d) 240 days
6	The maximum remuneration to working partners on the first ₹6,00,000 of book profit is — (a) ₹1,50,000 or 90%; (b) ₹3,00,000 or 90%, whichever is higher; (c) 60%; (d) ₹6,00,000
7	Interest to a partner is deductible up to — (a) 6%; (b) 10%; (c) 12% simple; (d) 18%
8	Under section 58, the presumptive rate for turnover received by bank transfer is — (a) 6%; (b) 8%; (c) 50%; (d) 10%
9	A listed equity share is a short-term capital asset if held for not more than — (a) 12 months; (b) 24 months; (c) 36 months; (d) 6 months
10	Long-term capital gain on listed equity with securities transaction tax is taxed under section 198 at — (a) 10% above ₹1,00,000; (b) 12.5% above ₹1,25,000; (c) 20%; (d) 12.5% on the whole
11	Short-term capital gain on listed equity with securities transaction tax is taxed at — (a) 15%; (b) 20%; (c) slab rates; (d) 12.5%
12	Exemption under section 85 is limited to — (a) ₹50 lakh; (b) ₹1 crore; (c) ₹2 crore; (d) ₹10 crore
13	The investment under section 85 must be made within — (a) 3 months; (b) 6 months; (c) 1 year; (d) 2 years
14	Section 86 exempts in the proportion that the cost of the new asset bears to — (a) the capital gain; (b) the net consideration; (c) the cost of acquisition; (d) the stamp duty value
15	The option to buy two houses under section 82(5) is available where the gain does not exceed — (a) ₹1 crore; (b) ₹2 crore; (c) ₹5 crore; (d) ₹10 crore
16	A gift of money from a non-relative is charged under section 92(2)(m) where the total in the year exceeds — (a) ₹25,000; (b) ₹50,000; (c) ₹1,00,000; (d) ₹2,00,000
17	Which of the following is NOT “property” for section 92(2)(m)? — (a) Jewellery; (b) shares; (c) a motor car; (d) a painting
18	The family pension deduction in the default regime is — (a) one-third or ₹15,000; (b) one-third or ₹25,000; (c) ₹50,000; (d) ₹75,000
19	Winnings from a lottery are taxed at — (a) slab rates; (b) 20%; (c) 30% flat; (d) 12.5%
20	In computing winnings, the deduction allowed is — (a) the ticket cost; (b) 50%; (c) nothing at all; (d) ₹10,000
21	The capital gains exemptions in sections 82 to 86 are — (a) withdrawn in the default regime; (b) available in both regimes; (c) available only to residents; (d) Chapter VIII deductions

Answers

Q	A	Q	A	Q	A	Q	A	Q	A	Q	A
1	b	5	b	9	a	13	b	17	c	21	b
2	c	6	b	10	b	14	b	18	b		
3	c	7	c	11	b	15	b	19	c		
4	c	8	a	12	a	16	b	20	c		

5.4 Short-answer and long-answer questions

Short answer (4 to 6 marks)

1. State the two circumstances in which a house may have a nil annual value, and the limit on their number.
2. Compare the interest deduction on a self-occupied and on a let-out house under both regimes.
3. Explain the advantage of buying a house in joint names, and the three conditions for it.
4. State the half-year rule for depreciation and give a planning example.
5. State the ceilings on remuneration and interest to partners under section 35.
6. Explain presumptive taxation under section 58 and state when it is NOT advantageous.
7. Distinguish a short-term from a long-term capital asset for each class of asset.
8. State the rates under sections 196, 197 and 198.
9. Explain section 197(3) and the assessee to whom it applies.
10. Distinguish the exemption under section 82 from that under section 86.
11. State the nine exceptions in section 92(3).
12. Why is a motor car received as a gift not chargeable under section 92(2)(m)?
13. Explain the family pension deduction and its regime dependence.

Long answer (10 to 15 marks)

1. Discuss tax planning in relation to income from house property, with particular reference to the choice of self-occupied houses and to joint ownership.
2. Explain the tax planning measures available to a firm and its partners under sections 35 and 58.
3. Discuss the planning available in relation to capital gains, dealing with the period of holding, the rates and the exemptions.
4. “In capital gains, timing is the whole of planning.” Discuss with illustrations.
5. Explain the scheme of section 92(2)(m) and the planning opportunities that the exceptions in section 92(3) leave open.

5.5 Practical problems with solutions

Problem 1 — capital gains, four assets

Shri Omprakash, resident, aged 50, effects the following transfers in Tax Year 2026-27. Compute the capital gains and the tax, assuming his other income is ₹6,00,000 and he is in the default regime.

(i) Listed equity shares bought 5 May 2025 for ₹3,00,000, sold 20 July 2026 for ₹8,00,000; securities transaction tax paid on both legs.

(ii) Listed equity shares bought 1 February 2026 for ₹2,00,000, sold 10 September 2026 for ₹3,20,000; securities transaction tax paid.

(iii) Gold bought in 2015 for ₹4,00,000, sold in November 2026 for ₹11,00,000.

(iv) A plot of land bought in 2010 for ₹6,00,000, sold in January 2027 for ₹40,00,000; indexed cost ₹18,00,000.

Solution.

(i) Held from 5 May 2025 to 20 July 2026 — more than 12 months, so **long-term**. Gain ₹5,00,000. Section 198 applies: taxed at 12.5% on the excess over ₹1,25,000.

(ii) Held from 1 February 2026 to 10 September 2026 — less than 12 months, so **short-term**. Gain ₹1,20,000.

Section 196: **20%.**

(iii) Gold held more than 24 months — **long-term**. Gain ₹11,00,000 – ₹4,00,000 = ₹7,00,000. Section 197: **12.5%.** Section 197(3) does not apply — gold is not land or building.

(iv) Land held more than 24 months — **long-term**, and acquired before 23 July 2024 by a resident individual, so **section 197(3)** applies. Compute both ways and take the lower.

Without indexation: gain ₹40,00,000 – ₹6,00,000 = ₹34,00,000 at 12.5% = **₹4,25,000.**

With indexation: gain ₹40,00,000 – ₹18,00,000 = ₹22,00,000 at 20% = **₹4,40,000.**

The lower is ₹4,25,000, so the excess is nil and the tax stands at **₹4,25,000.**

The tax. Other income ₹6,00,000 exceeds the basic exemption of ₹4,00,000, so no shelter is available under sections 196(2), 197(2) or 198(3).

Other income ₹6,00,000 at slab rates: nil + 5% of ₹2,00,000 = **₹10,000.**

Section 198: 12.5% of (₹5,00,000 – ₹1,25,000) = 12.5% of ₹3,75,000 = **₹46,875.**

Section 196: 20% of ₹1,20,000 = **₹24,000.**

Section 197 on gold: 12.5% of ₹7,00,000 = **₹87,500.**

Section 197 on land, after 197(3) = **₹4,25,000.**

Total tax ₹5,93,375; cess ₹23,735; **₹6,17,110.**

The rebate under section 156(2) is of no help: the total income far exceeds ₹12,00,000, and section 156(3) would in any event cap the rebate at the tax computed at the section 202(1) rates. Note also that no Chapter VIII deduction could be set against the special-rate gains — section 196(4) and the corresponding principle for long-term gains.

PROBLEM 2 — A FIRM AND ITS PARTNERS

A firm of three working partners, sharing equally, has a book profit before remuneration of ₹42,00,000 for Tax Year 2026-27. The deed authorises the maximum remuneration allowable and interest at 15% on capital of ₹20,00,000 contributed equally. *Compute the firm's income and the deduction allowable.*

Interest. Section 35 allows interest to a partner up to **12% simple per annum**. Interest paid = 15% of ₹20,00,000 = ₹3,00,000; allowable = 12% of ₹20,00,000 = **₹2,40,000**. Disallowed **₹60,000**.

Book profit for the remuneration ceiling. ₹42,00,000 *less* allowable interest ₹2,40,000 = **₹39,60,000**.

The ceiling. On the first ₹6,00,000 — higher of ₹3,00,000 and 90% of ₹6,00,000 (₹5,40,000) = **₹5,40,000**. On the balance ₹33,60,000 — 60% = **₹20,16,000**. **Maximum remuneration ₹25,56,000.**

The firm's income. ₹42,00,000 – ₹2,40,000 (interest) – ₹25,56,000 (remuneration) = **₹14,04,000**. Tax at 30% = ₹4,21,200; cess ₹16,848; **₹4,38,048.**

In the partners' hands. Each receives remuneration ₹8,52,000 and interest ₹80,000 = ₹9,32,000, chargeable under the head "Profits and gains of business or profession". The share of profit is exempt under Schedule III, Sl. No. 1.

*Two traps. First, the ceiling is computed on book profit **after** deducting the allowable interest but **before** deducting the remuneration. Second, the disallowed ₹60,000 of interest is added back to the firm's income but is **still taxable in the partner's hands** — an economic double taxation that a properly drawn deed avoids by fixing the rate at 12%.*

5.6 Where to go next

Part A of this Unit carries the regime filter and the salary head, with its own illustrations, revision material and question bank. The regime filter in Part A governs every measure in this Part; read it before any chapter here.

Unit 3 takes the investment avenues one by one — provident fund, public provident fund, equity linked savings schemes, unit linked insurance plans, bonds, mutual funds and the post office schemes — and matches each against the deductions in Chapter VIII.

Unit 4 turns from planning to management: advance tax, tax deducted and collected at source, refunds, the income-tax authorities, returns, assessments, appeals and revision.

A CLOSING WORD ON THIS UNIT

Five heads, one method. For each of them: **compute, find the choice, price the choice.** If you can do those three things you can answer any question set on Unit 2, including one on a head you have half-forgotten.

And in every single answer, say which regime you are in. It is the first sentence of a good answer and the missing sentence of a poor one.

ANNEXE

Beyond the Prescribed Scope

Material retained for the student who wants it, and for the classroom — but outside the scope settled by the teachers' meeting of 6 September 2025, and therefore not examinable.

How to use this Annexe

This Annexe holds two paragraphs that stood in the body of the earlier printing. Both are good law and both are taught in the Semester V paper; neither is within the scope settled for Unit 2 of this paper.

Nothing in this Annexe is required for the examination. Read the body of the booklet first, and completely. Come here only if you have time, or if a question in class or in practice takes you beyond the syllabus.

The paragraphs have been renumbered A.1, A.2 and so on. Their former numbers are shown in brackets so that anyone working from an earlier printing can find them.

A.1 Who is the owner [section 25] [formerly in Chapter 1]

"Owner" includes, by section 25 —

- **(a)** an individual who transfers, without adequate consideration, any property to the **spouse** (except under an agreement to live apart) or to a **minor child** (other than a married daughter);
- **(b)** the holder of an impartible estate;
- **(c)** a member of a co-operative society, company or association to whom a building is allotted under a house building scheme;
- **(d)** a person allowed to take or retain possession in part performance of a contract under section 53A of the Transfer of Property Act, 1882;
- **(e)** a person acquiring rights in a building under a lease for more than a year, or otherwise.

A.2 Remuneration and interest to partners [section 35] [formerly in Chapter 2]

A firm may deduct remuneration paid to a **working** partner and interest paid to **any** partner, provided both are **authorised by, and in accordance with, the partnership deed**, and relate to a period after the date of the deed. The deduction is capped —

Payment	Ceiling
Remuneration to all working partners, in the aggregate	On the **first ₹6,00,000** of book profit, or in the case of a loss — **₹3,00,000 or 90% of the book profit, whichever is higher**; on the **balance** of the book profit — **60%**
Interest to any partner	**12% simple interest per annum**

Note the increase

Under the 1961 Act the first slab was ₹3,00,000 of book profit, with a floor of ₹1,50,000. The 2025 Act **doubles both** — the first slab is now ₹6,00,000 and the floor ₹3,00,000.

An answer worked on the old figures will be wrong by a large margin, and this is precisely the kind of number an examiner chooses in the first year of a new Act.