[This question paper contains 6 printed pages. The model answers follow.]

Your Roll No. . . . .

Name of the Paper	PERSONAL TAX PLANNING AND TAX MANAGEMENT
Name of the Course	B.Com. (H) UGCF
Type of the Paper	DSE
Semester	VII
Governing law	Income-tax Act, 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)

Duration : 3 Hours | **Maximum Marks : 90**

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Attempt all the questions. All questions carry equal marks.
3. All parts of a question are to be attempted together.
4. The use of a simple calculator is allowed.
5. Answers may be written in English or Hindi, but the same medium should be used consistently throughout the paper.

Question 1

(a) What is meant by tax planning? Distinguish it from tax avoidance, tax evasion and tax management, giving one example of each. Explain how the General Anti-Avoidance Rule in sections 178 to 184 of the Income-tax Act, 2025 has altered the line between the second and the first. **(9)**

(b) Shri Vivek, a citizen of India, left India on 15 September 2026 to take up employment in Muscat, and returned to India on 20 March 2027. He had been in India throughout the four tax years preceding Tax Year 2026-27. Determine his residential status for Tax Year 2026-27, and state, with reasons, whether the following are chargeable to tax in his hands for that year — (i) salary of ₹9,00,000 earned in Muscat and received there; and (ii) interest of ₹42,000 on a savings bank account in Delhi. **(9)**

O R

(a) "The choice between the two regimes under section 202 is the master decision in personal tax planning; every other decision is subordinate to it." Explain, setting out what the default regime under section 202(1) withdraws, what survives it, and how and when the option under section 202(4) is to be exercised. **(9)**

(b) On 1 April 2026 Shri Mohan gifted ₹6,00,000 to his wife, Smt. Sudha, out of natural love and affection. She placed the whole sum in a fixed deposit yielding 9 per cent per annum. During the year she also earned ₹40,000 from a tailoring business carried on with her own skill. Examine the consequences under section 99(1)(a), compute the amount, if any, to be clubbed, and suggest one legitimate step by which the clubbing could have been avoided. **(9)**

Question 2

Zenith Ltd., Delhi, has offered Smt. Anjali employment for Tax Year 2026-27 at a cost to the employer of ₹24,00,000, and has allowed her to choose between two structures of that cost. She will pay rent of ₹30,000 a month for a flat in Delhi. She will contribute ₹1,50,000 to the public provident fund and pay ₹28,000 as health insurance premium for herself and her husband, both below sixty.

Component	Structure I (₹)	Structure II (₹)
Basic salary	12,00,000	12,00,000
House rent allowance	6,00,000	6,00,000
Children education allowance (two children)	—	72,000
Leave travel concession (wholly spent on air fare, one journey)	—	80,000
Telephone and internet expenses reimbursed against bills	—	36,000
Employer's contribution to the notified pension scheme	75,000	1,68,000
Special allowance	5,25,000	1,44,000
Cost to the employer	**24,00,000**	**24,00,000**

(a) Compute her income under the head "Salaries", her total income and her tax liability under each structure, under the default regime and under the optional regime. Advise her which structure to accept and under which regime, and identify the two features of Structure II that produce the whole of the difference. **(9)**

(b) Shri Bharat, aged 58, retired from Sunrise Ltd. — a non-Government employer covered by the Payment of Gratuity Act, 1972 — on 31 December 2026 after 30 years and 7 months of service. His last drawn wages were ₹1,00,000 a month, made up of basic salary ₹80,000 and dearness allowance ₹20,000, the whole of the latter forming part of retirement benefits. He drew that salary up to the date of retirement. On retirement he received gratuity of ₹14,00,000 and ₹8,00,000 on commuting 40 per cent of his pension, and from 1 January 2027 an uncommuted pension of ₹18,000 a month. In August 2026, while still in service, he encashed leave and received ₹1,20,000. The notified ceiling for gratuity is ₹20,00,000. Compute his income under the head "Salaries" for Tax Year 2026-27 under the optional regime, and state what the figure would be under the default regime. **(9)**

O R

(a) "Choosing between a house rent allowance and a rent-free accommodation requires a careful evaluation of the tax implications under each regime as well as of the employee's personal circumstances." In light of this statement, discuss the factors that decide the choice between claiming the exemption for house rent allowance under Schedule III, Sl. No. 11 with Rule 279, and accepting a rent-free accommodation valued as a perquisite under section 17. Explain how an employee should analyse the two options, and state which of the two the default regime favours, and why. **(9)**

(b) Distinguish relief under section 157 from rebate under section 156. State, for each, who may claim it, what it operates upon, how it is computed and one limitation on it. Explain how an employee receiving arrears of salary may use section 157 as a tax-planning measure. **(9)**

Question 3

(a) Shri Naveen, aged 45, owns three houses at Delhi, every one of which is occupied by him and his family for their own residence throughout Tax Year 2026-27. Every loan was taken after 1 April 2020 for the purchase of the house concerned, the acquisition was completed within five years of the end of the year in which the loan was taken, and the prescribed certificate has been obtained in each case. His income from other sources is ₹15,00,000. **(9)**

Particulars	House P (₹)	House Q (₹)	House R (₹)
Municipal value	3,00,000	2,00,000	4,00,000
Fair rent	3,60,000	2,20,000	5,00,000
Standard rent	3,30,000	Not applicable	4,50,000
Municipal taxes paid by Shri Naveen	30,000	20,000	40,000
Interest on borrowed capital	2,40,000	1,50,000	60,000

Advise him which two houses he should specify as self-occupied, compute his income under the head "Income from house property" under the optional regime on that advice, and state in one sentence what changes in the default regime.

(b) Smt. Kavita, resident, sold on 10 May 2026 a plot of land purchased in June 2012 for ₹20,00,000. The sale consideration was ₹80,00,000. On 20 October 2026 she invested ₹20,00,000 in bonds notified under section 85, and on 1 December 2026 she purchased one residential house in India for ₹40,00,000. She owns no other residential house. Compute the long-term capital gain chargeable to tax and the tax on it, and state the two conditions on which each exemption may be withdrawn. **(9)**

O R

(a) Dr. Sameer is a medical professional within section 62(4). His gross receipts for Tax Year 2026-27 are ₹48,00,000, of which ₹46,00,000 was received through banking channels and ₹2,00,000 in cash. His profit as per books, after debiting every allowable expense, is ₹18,00,000. Examine whether he is eligible for the presumptive scheme in section 58, compute his income under that scheme and under the normal provisions, advise him which to adopt, and state the compliance consequence of the course you advise. **(9)**

(b) Shri Sarthak received the following during Tax Year 2026-27. Compute the amount chargeable in his hands under the head "Income from other sources", giving a reason for the treatment of each item. **(9)**

- ₹80,000 in cash from his mother's brother on his birthday;
- ₹45,000 in the aggregate from three friends on various occasions;
- a gold chain worth ₹90,000 from a friend on the occasion of his marriage;
- a plot of land from a family friend for a consideration of ₹5,00,000, the stamp duty value on the date of registration being ₹6,00,000;
- a laptop worth ₹70,000 from his father's friend.

Question 4

(a) Explain the four patterns of taxation of an investment — exempt-exempt-exempt, exempt-exempt-taxed, taxed-exempt-exempt and taxed-taxed-exempt — giving one Indian avenue as an example of each. Explain why post-tax yield, and not the headline rate, is the only honest basis of comparison, and how the choice of regime under section 202 changes the ranking of the avenues. **(9)**

(b) Smt. Reena, aged 42, resident, drew a gross salary of ₹15,00,000 for Tax Year 2026-27, of which the basic salary was ₹11,00,000. Her employer contributed ₹1,10,000, being 10 per cent of the basic salary, to the notified pension scheme. She has no other income. She proposes to contribute ₹1,50,000 to the public provident fund and ₹50,000 of her own to the notified pension scheme, and to pay health insurance premium of ₹22,000 for herself, her husband and her children and ₹10,000 for her mother aged 66. Compute her total income and tax liability under both regimes, and advise her. **(9)**

O R

(a) Compare the equity linked savings scheme, the unit linked insurance plan and the public provident fund as instruments of tax planning for a salaried individual. Deal with the deduction available on investment, the lock-in, the treatment of the income during the term and the charge on exit, and state which of the three retains any value at all in the default regime. **(9)**

(b) Shri Anand, aged 40, resident, effected the following during Tax Year 2026-27. He is taxed under the default regime and his income from other sources is ₹6,00,000. Compute his total income and tax liability. **(9)**

- He redeemed, in September 2026 for ₹7,20,000, units of an equity oriented mutual fund bought in July 2023 for ₹4,00,000; securities transaction tax was paid.
- He surrendered in January 2027, for ₹18,00,000, a unit linked insurance plan issued on 1 June 2021 with an annual premium of ₹3,00,000. The premiums paid up to surrender aggregated ₹15,00,000.
- He withdrew ₹2,50,000 from his public provident fund account on maturity.

Question 5

5. Write a short note on any THREE of the following: **(6 × 3 = 18)**

(i) Advance tax — the threshold, the instalments and the due dates, and the interest chargeable under sections 424 and 425

(ii) Deduction of tax at source under section 393 — the rates, the thresholds and the dates for deposit

(iii) Summary assessment under section 270(1)

(iv) Belated, revised and updated returns under section 263

(v) Refund of tax, and interest on refund under section 437

END OF THE QUESTION PAPER

MODEL ANSWERS

Personal Tax Planning and Tax Management

Mock Paper I · DSE 7.9 · B.Com. (Hons.) and B.Com. (Prog.), Semester VII · Tax Year 2026-27

Particulars	Details
Question paper	M O C K – I
Governing law	Income-tax Act, 2025 (Act No. 30 of 2025), as amended by the Finance Act, 2026
Rules	Income-tax Rules, 2026
Tax Year	2026-27 (1 April 2026 to 31 March 2027)
Maximum marks	90 — Questions 1 to 4 in two parts of 9 marks each with an internal choice; Question 5, a short note on any three of five items at 6 marks each
Compiled by	Advocate Dr. S. B. Rathore

How to use these answers

Work the paper first, with a pen and a clock, in three hours. Only then open this booklet. An answer you have read is not an answer you can write.

Every alternative is answered here, so that the booklet may be used whichever half of each question you attempted. In the examination you must attempt one only.

The computations are set out in the statutory order — head by head, then gross total income, then Chapter VIII, then tax. Marks are given for that order even where a figure goes wrong, and are lost where the order is abandoned even though the figures are right.

Every figure is followed by its authority in square brackets. Reproduce the section number: it is the single cheapest mark in this paper.

The note at the end of each answer records the errors that recur in scripts. Read them; they are worth more than the answers.

ANSWER

Question 1 — Unit 1 : Basic Concepts

1 (a) Planning, avoidance, evasion and management; and the General Anti-Avoidance Rule

Nine marks. Four definitions with an example each — five; the General Anti-Avoidance Rule and its effect on the line — four.

Tax planning is the arrangement of a person's financial affairs so as to attract the least incidence of tax, by availing of the exemptions, deductions, rebates and reliefs that the Legislature has itself provided, in the manner and for the purpose for which it provided them. It is lawful in its means, complete in its disclosure and consistent with the intention of the Act. Example: contributing ₹1,50,000 to the public provident fund and claiming the deduction under section 123.

Tax avoidance is the reduction of tax by an arrangement that satisfies the letter of the law while defeating its purpose. Nothing is concealed and no provision is broken; what is done is to exploit a gap. Example: interposing a company in a jurisdiction with which India has a treaty, solely to obtain the benefit of that treaty, the company having no employees, no assets and no business.

Tax evasion is the reduction of tax by concealment, falsehood or breach of law — suppressing a receipt, inflating an expense, claiming a deduction on a payment never made. It is an offence and attracts penalty and prosecution. Example: not disclosing rent received in cash.

Tax management is the compliance limb. It does not reduce the tax; it prevents the interest, the fee and the penalty that follow default, and it preserves the deductions and losses that a default would forfeit. Example: paying the third instalment of advance tax by 15 December, and furnishing the return by the due date in section 263(1) so that a business loss may be carried forward.

Test	Planning	Avoidance	Evasion	Management
Means	Lawful	Lawful in form	Unlawful	Lawful
Disclosure	Full	Full	Suppressed	Full
Intention of the Act	Followed	Defeated	Defeated	Followed
Consequence	None	May be struck down under Chapter XI	Penalty and prosecution	None; default costs interest

The General Anti-Avoidance Rule [sections 178 to 184]

An arrangement may be declared an impermissible avoidance arrangement where its main purpose is to obtain a tax benefit and it satisfies at least one of four further conditions —

- it creates rights or obligations that would not ordinarily be created between persons dealing at arm's length;
- it results, directly or indirectly, in the misuse or abuse of the provisions of the Act;
- it lacks commercial substance, in whole or in part; or
- it is entered into, or carried out, by means or in a manner that would not ordinarily be employed for bona fide purposes.

Where the declaration is made the consequences are drastic: the arrangement may be disregarded or recharacterised, two or more parties may be treated as one, income may be reallocated between them, the place of residence or the situs of an asset may be shifted, and the benefit of a treaty may be denied.

The effect on the line between planning and avoidance is this. Before the rule, the Westminster principle — approved for India in Azadi Bachao Andolan — meant that a transaction lawful in form could not be struck down merely because its object was to save tax. The General Anti-Avoidance Rule makes the purpose of the Act itself a test. Avoidance is therefore no longer automatically safe, and the working question for a planner is a double one:

"Would I have entered into this arrangement if it produced no tax benefit? And is the benefit one that the Legislature meant to confer?" Where the answer to the first is no and to the second is no, the arrangement is at risk. Where the answer to the second is yes — a deduction claimed for the very investment Parliament wished to encourage — no amount of tax motive makes it impermissible.

> **Examiner's note — where marks are lost**
>
> Defining only three of the four. Tax management is a separate limb and carries its own mark.
>
> Giving no example. The question says "with an example of each"; three marks of the six sit on the examples.

Citing section 96 of the 1961 Act for the General Anti-Avoidance Rule. Under the 2025 Act it is Chapter XI, sections 178 to 184.

Writing that avoidance is illegal. It is not. It is lawful and liable to be disregarded — two different things.

1 (b) Residential status of Shri Vivek

Nine marks. The count of days and the relaxation — four; the status — two; the treatment of the two receipts with reasons — three.

Step 1 — count the days of stay in India in Tax Year 2026-27

Period	Days
1 April 2026 to 30 April 2026	30
May 2026	31
June 2026	30
July 2026	31
August 2026	31
1 September to 15 September 2026 (the day of departure counts)	15
20 March to 31 March 2027 (the day of arrival counts)	12
Total stay in India	**180**

Step 2 — apply section 6

The basic conditions in section 6(2) are 182 days in the tax year, or 60 days in the tax year together with 365 days in the four preceding tax years. On the second condition Shri Vivek would be resident, since he was in India for more than 60 days and was here throughout the four preceding years.

But section 6(3) relaxes the second condition for a citizen of India who leaves India in the tax year for the purposes of employment outside India. For such a person only the 182-day test applies. Shri Vivek left for employment at Muscat; the 60-day limb is therefore replaced by 182 days.

Conclusion

Stay 180 days, which is less than 182. Shri Vivek is a NON-RESIDENT for Tax Year 2026-27.

Two days decide the case. Had he returned on 18 March instead of 20 March his stay would have been 182 days and he would have been resident, and his Muscat salary would have entered the computation. Timing the return is itself the planning point.

Step 3 — the scope of total income [section 5]

Receipt	Where it accrues / is received	Chargeable?
Salary ₹9,00,000 earned at Muscat and received there	Accrues outside India; received outside India	NO
Interest ₹42,000 on a savings account in Delhi	Accrues and is received in India	YES

For a non-resident, section 5 charges only income received or deemed to be received in India and income accruing or deemed to accrue in India. The Muscat salary satisfies neither test and is wholly outside the charge; nor is section 9(1) attracted, because the services were rendered outside India. The Delhi interest accrues in India and is chargeable in full under the head "Income from other sources". No deduction under section 153 is available to him — that section requires a resident.

Examiner's note — where marks are lost

Counting the day of departure or the day of arrival out of the stay. Both count as days in India.

Applying the 60-day test after noting section 6(3). Once the relaxation applies the 60-day limb disappears

altogether; it is not merely extended.
Taxing the Muscat salary because "he is an Indian citizen". Citizenship is irrelevant to the charge; residence is everything.
Forgetting that a non-resident gets no deduction under section 153 and no rebate under section 156.

1 (a) OR Section 202 — the master decision

Nine marks. The two regimes contrasted — three; what section 202(2) withdraws head by head — four; the exercise of the option — two.

Section 202(1) is the default. It applies to every individual automatically, without any act on his part. The regime that used to be the ordinary one now applies only if the assessee exercises the option under section 202(4). The decision is the master decision because it settles, before anything else is done, whether the planning instruments the rest of the Act provides are worth their face value or worth nothing.

	Default regime [section 202(1)]	Optional regime [First Schedule, Part I-B]
Slabs	Nil to ₹4,00,000; 5% to ₹8,00,000; 10% to ₹12,00,000; 15% to ₹16,00,000; 20% to ₹20,00,000; 25% to ₹24,00,000; 30% above	Nil to ₹2,50,000 (₹3,00,000 senior, ₹5,00,000 very senior); 5% to ₹5,00,000; 20% to ₹10,00,000; 30% above
Standard deduction	₹75,000	₹50,000
Rebate [section 156]	₹60,000 up to a total income of ₹12,00,000, with marginal relief to about ₹12,70,588	₹12,500 up to ₹5,00,000
Chapter VIII	Only sections 124(1), 124(2), 125(2) and 146	The whole Chapter

What section 202(2) withdraws, head by head

Head	What is lost in the default regime
Salaries	House rent allowance [Schedule III, Sl. No. 11]; leave travel concession [Sl. No. 8]; the special allowances of Sl. Nos. 12 and 13 except those saved by Rule 280(3); professional tax [section 19(1), Table Sl. No. 1]
House property	Interest on capital borrowed for a self-occupied house; and the set-off of a house property loss against any other head
Business or profession	Sections 33(8), 45(3)(a) to (c), 46, 47(1)(a), 48 and 49, and the carry forward attributable to them. Sections 28 to 35 are untouched
Capital gains	Nothing. The rates in sections 196, 197 and 198 apply under both regimes, and the exemptions in sections 82 to 86 are in Chapter IV-E, not Chapter VIII, so they survive
Other sources	Nothing. The family pension deduction in section 93(1)(d) is in fact larger in the default regime — ₹25,000 against ₹15,000

Exercising the option [section 202(4)]

- Where the assessee has income from business or profession the option must be exercised on or before the due date for furnishing the return under section 263(1). It then applies to that and to every later year; it may be withdrawn once, and once withdrawn it cannot be exercised again so long as the business subsists.
- Where he has no business income the option may be exercised year by year, with the return for the year.
- The option is therefore an annual decision for a salaried person and a near-final one for a businessman — which is why the businessman must model both regimes before he files his first return.

The practical consequence: a home loan on a self-occupied house, a package built on house rent allowance, and every rupee of section 123 investment are worth their face only in the optional regime. In the default regime the planner has three instruments left — the larger standard deduction, the employer's pension contribution at 14 per cent under section 124(2), and non-monetary perquisites and reimbursements.

1 (b) OR Clubbing — Shri Mohan and Smt. Sudha

Nine marks. The provision and its application — three; the computation — two; the exception for the tailoring income — two; the avoidance step — two.

Section 99(1)(a)(ii) provides that in computing the total income of an individual there shall be included all such income as arises, directly or indirectly, to the spouse from assets transferred, directly or indirectly, to the spouse otherwise than for adequate consideration or in connection with an agreement to live apart.

Particulars	Amount (₹)	Whose income
Gift of ₹6,00,000 — a transfer without consideration	6,00,000	The asset moves
Interest on the fixed deposit at 9% of ₹6,00,000	54,000	Clubbed with Shri Mohan
Income of the tailoring business, from her own skill	40,000	Smt. Sudha

- The ₹54,000 is income arising from the transferred asset and is included in the total income of Shri Mohan. It retains its character as interest and is chargeable in his hands under the head "Income from other sources".
- The ₹40,000 does not arise from the transferred asset at all. It arises from Smt. Sudha's own labour and skill, and is assessed in her hands. The clubbing sections attach to assets, not to persons.
- Income on income is not clubbed. If Smt. Sudha reinvests the ₹54,000 and earns interest on it in a later year, that further interest is her own income. The clubbing exhausts itself on the first generation of income from the transferred asset.

How the clubbing could legitimately have been avoided

- Transfer for adequate consideration. Had Smt. Sudha paid the full value, section 99(1)(a)(ii) would not apply at all — the sub-clause opens only where the transfer is without adequate consideration.
- Advance the money as a loan bearing a reasonable rate of interest instead of gifting it. The interest Shri Mohan receives is his income, but everything Smt. Sudha earns above that rate is hers.
- Direct the gift into an instrument whose income is exempt. If the ₹6,00,000 had gone into the public provident fund in her name (subject to the annual ceiling), the clubbing provision would operate — but upon an exempt income, and would therefore add nothing to his total income.
- Make the gift before the marriage. The relationship of husband and wife must subsist both when the transfer is made and when the income arises.

Examiner's note — where marks are lost

Clubbing the ₹6,00,000 itself. What is clubbed is the income from the asset, never the corpus.

Clubbing the tailoring income because "the capital came from the husband". It did not; the tailoring income arises from her skill.

Quoting section 64(1)(iv) of the 1961 Act. Cite section 99(1)(a)(ii) of the 2025 Act.

Suggesting "transfer to the son's wife instead". That is caught by section 99(1)(b) and is no answer.

ANSWER

Question 2 — Unit 2 : Income from Salaries

2 (a) Smt. Anjali — the two structures, the two regimes, and the advice

Nine marks. The house rent allowance working — two; the four computations — five; the advice — two.

Working note 1 — exemption for house rent allowance [Schedule III, Sl. No. 11, with Rule 279]

Salary for this purpose is basic salary, there being no dearness allowance forming part of retirement benefits and no commission on turnover. Salary = ₹12,00,000. Rent paid = ₹30,000 × 12 = ₹3,60,000. Delhi is one of the eight cities in the Table to Rule 279(1)(c), so the third limb is 50 per cent.

Limb	Amount (₹)
(a) House rent allowance actually received	6,00,000
(b) Rent paid less 10% of salary (3,60,000 – 1,20,000)	2,40,000
(c) 50% of salary (Delhi)	6,00,000
Exempt — the least of the three	2,40,000
Taxable house rent allowance (6,00,000 – 2,40,000)	**3,60,000**

Working note 2 — the other components

- Children education allowance ₹72,000 is exactly ₹3,000 per month for two children and is wholly exempt in the optional regime [Rule 280(2), Sl. No. 7]. In the default regime the whole of it is taxable — sub-rule (2) does not survive section 202(2)(a), the transport allowance of a disabled employee being its only survivor.
- Leave travel concession ₹80,000 is wholly spent on air fare for one journey in the block 2026-2029 and is exempt in the optional regime [Schedule III, Sl. No. 8, with Rule 277]. In the default regime it is wholly taxable.
- Telephone and internet expenses reimbursed against bills are a reimbursement of expenditure actually incurred, not an allowance. They are not chargeable in either regime. This is the one component the default regime cannot reach.
- The employer's contribution to the notified pension scheme is included in gross salary and then deducted under section 124 — at 10 per cent of salary in the optional regime, the employer not being Government [section 124(1)], and at 14 per cent in the default regime [section 124(2)].

Computation of total income and tax

Particulars	Str. I optional	Str. I default	Str. II optional	Str. II default
Basic salary	12,00,000	12,00,000	12,00,000	12,00,000
House rent allowance — taxable	3,60,000	6,00,000	3,60,000	6,00,000
Children education allowance	—	—	Nil	72,000
Leave travel concession	—	—	Nil	80,000
Telephone reimbursement	—	—	Nil	Nil
Employer's pension contribution	75,000	75,000	1,68,000	1,68,000
Special allowance	5,25,000	5,25,000	1,44,000	1,44,000
GROSS SALARY	21,60,000	24,00,000	18,72,000	22,64,000
Less: standard deduction [s. 19(1), Sl. No. 2]	50,000	75,000	50,000	75,000
GROSS TOTAL INCOME	21,10,000	23,25,000	18,22,000	21,89,000
Less: s. 124 — pension contribution	75,000	75,000	1,20,000	1,68,000
Less: s. 123 — public provident fund	1,50,000	Nil	1,50,000	Nil
Less: s. 126 — health insurance	28,000	Nil	28,000	Nil

Particulars	Str. I optional	Str. I default	Str. II optional	Str. II default
TOTAL INCOME	18,57,000	22,50,000	15,24,000	20,21,000
Tax before cess	3,69,600	2,62,500	2,69,700	2,05,250
Add: cess at 4%	14,784	10,500	10,788	8,210
TAX PAYABLE (rounded, s. 516)	**3,84,380**	**2,73,000**	**2,80,490**	**2,13,460**

Working note 3 — the tax on each figure

- Structure I, optional: ₹12,500 + 20% of ₹5,00,000 (₹1,00,000) + 30% of ₹8,57,000 (₹2,57,100) = ₹3,69,600.
- Structure I, default: 5% of ₹4,00,000 + 10% of ₹4,00,000 + 15% of ₹4,00,000 + 20% of ₹4,00,000 + 25% of ₹2,50,000 = ₹20,000 + ₹40,000 + ₹60,000 + ₹80,000 + ₹62,500 = ₹2,62,500.
- Structure II, optional: ₹12,500 + ₹1,00,000 + 30% of ₹5,24,000 (₹1,57,200) = ₹2,69,700.
- Structure II, default: ₹20,000 + ₹40,000 + ₹60,000 + ₹80,000 + 25% of ₹21,000 (₹5,250) = ₹2,05,250.
- No rebate arises in any case: section 156(2) is confined to a total income of ₹12,00,000 and section 156(1) to ₹5,00,000.

The advice

Advice

Smt. Anjali should accept STRUCTURE II and remain in the DEFAULT regime. Her tax is then ₹2,13,460 — a saving of ₹59,540 against Structure I in the same regime, and of ₹1,70,920 against the worst of the four combinations.

She should not exercise the option under section 202(4). In this package the default regime is cheaper under both structures, because the wider slabs and the larger standard deduction outweigh everything Chapter VIII can give her at this level of income.

Two features of Structure II produce the whole of the difference, and both of them work inside the default regime:

One. The employer's contribution to the notified pension scheme is raised from ₹75,000 to ₹1,68,000 — exactly 14 per cent of the basic salary. Section 124(2) is one of the four provisions of Chapter VIII that section 202(2) leaves standing, and the deduction is therefore available rupee for rupee in the default regime. The extra ₹93,000 of contribution is both received and deducted, so it reaches her retirement account without ever being taxed.

Two. The telephone and internet expenses of ₹36,000 are reimbursed against bills instead of being paid as a special allowance. A reimbursement of expenditure actually incurred for the employer's purposes is not a perquisite and not an allowance; it is outside the charge in both regimes. The same ₹36,000 paid as a special allowance would have been taxed in full at her marginal rate of 25 per cent.

The children education allowance and the leave travel concession, which are worth ₹1,52,000 of exemption in the optional regime, are worth nothing in the default one. They are the reason Structure II is the better structure in the optional regime too — but they are not the reason the default regime wins.

Examiner's note — where marks are lost

Computing only two of the four figures. The question asks for each structure under each regime; each of the four carries marks.

Allowing the house rent allowance exemption in the default regime. Schedule III, Sl. No. 11 does not survive section 202(2)(a).

Deducting the employer's pension contribution without first including it in gross salary. Both movements must be shown.

Applying 14 per cent under section 124(1) in the optional regime. Fourteen per cent is available there only where the employer is the Central or a State Government; otherwise it is 10 per cent. Fourteen per cent in every case is a feature of section 124(2), that is, of the default regime.

Treating the telephone reimbursement as taxable. It is the single most valuable component in the package precisely because it is not.

2 (b) Shri Bharat — the terminal benefits

Nine marks. Gratuity — three; commuted pension — three; the leave encashment, the salary and the pension — two; the format and the default regime — one.

Working note 1 — gratuity [section 19(1), Table, Sl. No. 3]

Shri Bharat is not a Government employee, and his employer is covered by the Payment of Gratuity Act, 1972. The deduction is the least of three amounts. Service of 30 years and 7 months counts as 31 completed years, a part in excess of six months being rounded up under that Act.

Limb	Amount (₹)
(a) 15/26 × ₹1,00,000 × 31 completed years	17,88,462
(b) Gratuity actually received	14,00,000
(c) The notified ceiling	20,00,000
Deduction — the least of the three	14,00,000
Gratuity chargeable	**NIL**

Working note 2 — commuted pension [section 19(1), Table, Sl. No. 7]

He is not a Government employee and he has received gratuity, so the deduction is one-third of the full value of the pension. He commuted 40 per cent and received ₹8,00,000; the full value is therefore ₹8,00,000 ÷ 0.40 = ₹20,00,000.

Particulars	Amount (₹)
Full value of the pension	20,00,000
Deduction — one-third of the full value	6,66,667
Commuted pension chargeable (8,00,000 – 6,66,667)	**1,33,333**

Working note 3 — leave encashment during service

Sl. Nos. 13 and 14 of the Table to section 19(1) deal only with encashment on retirement. Encashment while still in service is covered by no entry and is therefore chargeable in full — ₹1,20,000. Relief under section 157 may be claimed if the prescribed particulars are furnished, but no deduction is available.

Computation of income under the head “Salaries”

Particulars	Amount (₹)	Amount (₹)
Basic salary and dearness allowance, April to December (₹1,00,000 × 9)		9,00,000
Uncommuted pension, January to March (₹18,000 × 3)		54,000
Gratuity received [included by section 16]		14,00,000
Commuted pension received [included by section 16]		8,00,000
Leave encashment during service		1,20,000
GROSS SALARY		32,74,000
Less: deductions under section 19(1), Table —		
Sl. No. 3 — gratuity	14,00,000	
Sl. No. 7 — commuted pension	6,66,667	20,66,667
Less: Sl. No. 2 — standard deduction (optional regime)		50,000
INCOME UNDER THE HEAD “SALARIES”		**11,57,333**

The position under the default regime

The terminal benefits are unaffected. Section 202(2)(a) withdraws the Schedule III exemptions and the professional tax deduction; it does not touch Sl. Nos. 3 to 14 of the Table to section 19(1). Gratuity and commuted pension are deducted in exactly the same way.

Only the standard deduction changes — ₹75,000 instead of ₹50,000. Income under the head "Salaries" in the default regime is therefore ₹11,32,333.

This is the one head on which the default regime is, so far as terminal benefits go, the kinder of the two.

Examiner's note — where marks are lost

Showing the gratuity net. Under the 2025 Act it enters gross salary under section 16 and comes out under section 19. A candidate who shows only one movement gets the right total by the wrong route and loses the presentation marks.

Taking 30 years instead of 31. Seven months is more than six and rounds up.

Using one-half for the commuted pension. One-half applies only where no gratuity is received.

Computing one-third of ₹8,00,000 instead of one-third of the full value ₹20,00,000. This single error costs about ₹4,00,000 of income.

Allowing a deduction for the leave encashment during service.

2 (a) OR House rent allowance or a rent-free accommodation

Nine marks. The two tax treatments contrasted — four; the factors that decide — three; the regime point — two.

The two are alternative ways of housing the same employee at the same cost to the employer, and they are taxed on entirely different principles. The house rent allowance is an ALLOWANCE — a monetary payment, chargeable under section 16 and relieved, if at all, by an exemption. The rent-free accommodation is a PERQUISITE — a benefit in kind, chargeable under section 17 and valued under the Rules. Everything follows from that distinction.

	House rent allowance	Rent-free accommodation
Nature	A monetary allowance	A non-monetary perquisite
Charged under	Section 16, as part of salary	Section 17, at the value the Rules put on it
Relief	Exempt to the least of three — the allowance received; rent paid less 10% of salary; 50% of salary in the eight cities listed in the Table to Rule 279(1)(c) and 40% elsewhere [Schedule III, Sl. No. 11]	No exemption. The Rules value it by reference to the population of the city and to salary, and the value so arrived at is added to gross salary
Who must find the house	The employee, who must actually pay rent. No rent, no exemption	The employer
Position in the default regime	The exemption is WITHDRAWN by section 202(2)(a). The whole allowance is taxable	UNTOUCHED. Section 202(2) does not disturb the valuation of perquisites

The factors that decide the choice

One. The rent the employee would actually pay. The second limb of the exemption — rent paid less 10 per cent of salary — is usually the least of the three, so the allowance is worth nothing to an employee who lives in his own house and little to one whose rent is modest.

Two. The city. The third limb is 50 per cent of salary in the eight cities and 40 per cent elsewhere; and the valuation of an accommodation likewise moves with the population of the city. A transfer from a smaller city to a larger one can reverse the answer without a rupee of the package changing.

Three. The proportion of basic salary. Both the exemption and the perquisite value are percentages of salary, so a package that is thin on basic salary produces a small exemption and a small perquisite value alike.

Four. Flexibility. The allowance leaves the employee free to choose, and to keep any saving if he takes a cheaper house; the accommodation does not, and its value is added to his income whether he wanted that house or not.

Five. The regime — and this is decisive.

Which the default regime favours, and why

THE RENT-FREE ACCOMMODATION, and by a wide margin.

Section 202(2)(a) withdraws the exemption in Schedule III, Sl. No. 11 altogether, so in the default regime a house rent allowance of ₹4,80,000 is ₹4,80,000 of taxable salary and nothing is relieved. The perquisite, by contrast, is charged at whatever the Rules value it at — commonly a good deal less than the market rent — and section 202(2) does not touch that valuation at all.

The rule for an employee who will be taxed under section 202(1) is therefore general: take the thing, not the money. The same reasoning that prefers a rent-free flat to a house rent allowance prefers a company car to a conveyance allowance, a reimbursed telephone bill to a telephone allowance, and the employer's own school to an education allowance.

In the OPTIONAL regime the answer is arithmetical and must be worked both ways: where the employee pays a high rent in one of the eight cities, the exemption is often larger than the perquisite value, and the allowance wins.

2 (b) OR Relief under section 157 and rebate under section 156

	Relief [section 157]	Rebate [section 156]
The 1961 Act	Section 89(1)	Section 87A
What it addresses	Salary received in arrears or in advance, and certain terminal payments, which bunch the income of several years into one and push it into a higher slab	A small total income, on which the Legislature has decided that no tax shall in fact be borne
Who may claim	Any assessee in receipt of such salary — resident or non-resident	A resident individual only. Not a Hindu undivided family, not a firm, not a non-resident
How it works	The arrears are spread notionally over the years to which they relate; the tax of those years is recomputed and the excess is allowed as relief against the tax of the year of receipt	156(1): total income up to ₹5,00,000 — the tax, or ₹12,500, whichever is less. 156(2): in the default regime, total income up to ₹12,00,000 — up to ₹60,000, with marginal relief thereafter
One limitation	It is not given automatically. The particulars must be furnished in the prescribed form, and no relief is available where an exemption or deduction has already been allowed on the same receipt	Section 156(3): no rebate against the tax on income charged at the special rates in sections 196, 197 and 198, nor against the tax on winnings

Both operate upon the tax and not upon the income, and both are applied after the tax has been computed on the total income but before the cess is added.

ANSWER

Question 3 — Unit 2 : House Property and Capital Gains

3 (a) Shri Naveen — which two houses to declare self-occupied

Nine marks. The three annual values — three; the three combinations tested — three; the advice, the set-off and the carry forward — two; the default regime — one.

Section 21(7) permits the annual value of two houses only to be taken as nil. The third must be treated as deemed let out, its gross annual value being the expected rent. The candidate's task is therefore to test each of the three possible combinations and choose the one that produces the lowest income.

Working note 1 — each house as though deemed let out

Particulars	House P	House Q	House R
Municipal value	3,00,000	2,00,000	4,00,000
Fair rent	3,60,000	2,20,000	5,00,000
Higher of the two	3,60,000	2,20,000	5,00,000
Standard rent	3,30,000	Not applicable	4,50,000
GROSS ANNUAL VALUE (expected rent, capped by standard rent)	3,30,000	2,20,000	4,50,000
Less: municipal taxes paid by the owner	30,000	20,000	40,000
NET ANNUAL VALUE	3,00,000	2,00,000	4,10,000
Less: 30% of net annual value [s. 22(1)(a)]	90,000	60,000	1,23,000
Less: interest on borrowed capital [s. 22(1)(b)] — no ceiling	2,40,000	1,50,000	60,000
INCOME / (LOSS) if deemed let out	**(30,000)**	**(10,000)**	**2,27,000**

Working note 2 — the two self-occupied houses

For a house within section 21(6) the annual value is nil and the only deduction is the interest, limited by section 22(2)(a) to ₹2,00,000. Section 22(5) then imposes a second and overriding limit: the aggregate for all section 21(6) properties taken together cannot exceed ₹2,00,000. Whichever two houses are chosen, therefore, the loss from the self-occupied pair is ₹2,00,000 wherever the interest on the two exceeds that figure — as it does in every combination here.

Working note 3 — the three combinations

Combination	Deemed let-out house	Self-occupied pair (capped)	Income / (loss)
P deemed let out; Q and R self-occupied	(30,000)	(2,00,000)	(2,30,000)
Q deemed let out; P and R self-occupied	(10,000)	(2,00,000)	(2,10,000)
R deemed let out; P and Q self-occupied	2,27,000	(2,00,000)	27,000

Advice

Shri Naveen should specify HOUSE Q AND HOUSE R as his self-occupied houses and let House P be treated as deemed let out. Income under the head "Income from house property" is then a LOSS OF ₹2,30,000 — better by ₹20,000 than the next combination and by ₹2,57,000 than the worst of the three.

The rule of thumb the arithmetic illustrates: put the house with the LARGEST interest into the deemed let-out slot, because there the interest is deductible without any ceiling, while in the self-occupied slot it is squeezed into the shared ₹2,00,000.

Set-off and carry forward

- Section 109(1)(b) permits a house property loss to be set off against income under any other head only to the extent of ₹2,00,000. Of the loss of ₹2,30,000, therefore, ₹2,00,000 is set off against his other income of ₹15,00,000, reducing it to ₹13,00,000.
- The balance of ₹30,000 is carried forward under section 110 for eight tax years, to be set off against income under the head “Income from house property” only.
- The return must be furnished by the due date under section 263(1) for the carry forward to be available.

The position in the default regime

In one sentence: the interest on a self-occupied house is not deductible at all [section 202(2)(a)(v)] and the loss cannot be set off against any other head [section 202(2)(b)(ii)], so the choice collapses into a different one — put the house with the largest interest into the deemed let-out slot and take nothing at all for the other two, House P then yielding a loss of ₹30,000 which is available only against house property income.

> **Examiner's note — where marks are lost**
>
> Testing one combination only. The question is a choice; the marks are in the comparison.
>
> Giving each self-occupied house its own ₹2,00,000. Section 22(5) caps the aggregate.
>
> Deducting the municipal taxes from the gross annual value of a self-occupied house. Its annual value is nil; there is nothing to deduct from.
>
> Setting off the whole ₹2,30,000 against other income. Section 109(1)(b) stops at ₹2,00,000.
>
> Forgetting the standard rent. It caps the expected rent; it does not replace it.

3 (b) Smt. Kavita — the two exemptions

Nine marks. The gain — one; section 86 and its proportion — three; section 85 — two; the tax — one; the conditions of withdrawal — two.

Particulars	Amount (₹)
Full value of consideration	80,00,000
Less: cost of acquisition (June 2012)	20,00,000
LONG-TERM CAPITAL GAIN (held more than 24 months)	60,00,000
Less: exemption under section 86 — see working note	30,00,000
Less: exemption under section 85 — bonds	20,00,000
LONG-TERM CAPITAL GAIN CHARGEABLE	10,00,000
Tax at 12.5% [section 197]	1,25,000
Add: cess at 4%	5,000
TAX ON THE GAIN	**1,30,000**

Working note — section 86

The asset transferred is a plot of land, not a residential house, so the exemption on purchase of a residential house is governed by section 86 and not by section 82. Section 86 exempts the gain in the proportion that the cost of the new house bears to the NET CONSIDERATION, and not to the gain —

$$\text{Exemption} = ₹60{,}00{,}000 \times ₹40{,}00{,}000 \div ₹80{,}00{,}000 = ₹30{,}00{,}000$$

Smt. Kavita owns no other residential house, which section 86 requires. The purchase on 1 December 2026 is within two years of the transfer on 10 May 2026. The ₹10 crore ceiling in section 86(8) and (9) is not in issue.

Working note — section 85

The gain arises on the transfer of land, which is a specified asset for section 85. The investment of ₹20,00,000 was made on 20 October 2026, within six months of the transfer, and is within the ceiling of ₹50,00,000. The whole ₹20,00,000 is exempt.

The two conditions on which each exemption may be withdrawn

- Section 86 — if the new house is transferred within three years of its purchase, or if she purchases another residential house within two years or constructs one within three years, the exemption is withdrawn and the amount is charged as a long-term capital gain of the year of the breach. Further, any part of the net consideration not utilised before the due date for furnishing the return under section 263 must be deposited under the Capital Gains Account Scheme.
- Section 85 — if the bonds are transferred, or converted into money, or any loan or advance is taken on their security within five years, the exemption is withdrawn and the amount is charged as a long-term capital gain of the year of the breach.

Examiner's note — where marks are lost

Applying section 82 instead of section 86. Section 82 is for a gain on a residential house; the asset here is land.

Taking the section 86 exemption as the whole ₹40,00,000 invested. The exemption is proportionate to net consideration — the commonest error in the whole head.

Indexing the cost. Indexation was withdrawn generally; and in any event section 197(3) is a rate option, not a computation, and does not arise where the gain is wholly exempt.

Adding the ₹1,25,000 threshold. That belongs to section 198 — listed equity — not to section 197.

3 (a) OR Dr. Sameer — presumptive taxation under section 58

Nine marks. Eligibility and the cash test — three; the two computations — three; the advice — two; the compliance consequence — one.

Step 1 — is he eligible?

- He is a specified professional within section 62(4), and is therefore an eligible assessee for Sl. No. 3 of the Table to section 58.
- The ordinary ceiling is ₹50,00,000 of gross receipts, raised to ₹75,00,000 where cash receipts do not exceed 5 per cent of the gross receipts.
- Cash receipts ₹2,00,000 ÷ gross receipts ₹48,00,000 = 4.17 per cent, which does not exceed 5 per cent. The higher ceiling of ₹75,00,000 therefore applies, and his receipts of ₹48,00,000 are within it. He IS eligible.

Step 2 — the two computations

Basis	Working	Income (₹)
Presumptive — section 58, Sl. No. 3	The HIGHER of 50% of gross receipts (₹24,00,000) and the profit actually earned (₹18,00,000)	24,00,000
Normal provisions — sections 26 to 35	Profit as per books, every allowable expense having been debited	18,00,000
Difference	**The presumptive scheme costs him**	**6,00,000**

Advice

Dr. Sameer should NOT opt for section 58. The section deems the higher of 50 per cent of gross receipts and the actual profit, so it can never reduce his income below what he has in fact earned; here it would raise his professional income by ₹6,00,000 and, at a marginal rate of 30 per cent with cess, cost him about ₹1,87,200 of tax.

The presumptive scheme is a relief from record-keeping, not from tax. It is advantageous only where the real profit exceeds the presumptive percentage — for a professional, where he earns more than 50 per cent of his receipts. Where he earns less, as here, it is a penalty voluntarily accepted.

Step 3 — the compliance consequence of the course advised

Because he claims a profit lower than the presumptive figure and his total income exceeds the maximum amount not chargeable to tax, he must keep and maintain the books of account prescribed by section 62 and get them audited under section 63, furnishing the report by the due date. Declining the presumptive scheme is therefore not free: it buys a saving of about ₹1,87,200 at the cost of an audit.

3 (b) OR Shri Sarthak — the gifts

Nine marks — roughly two marks for each of the five items, with the reason.

Item	Treatment	Charged (₹)
₹80,000 from his mother's brother	A brother of the mother is a “relative”. Gifts from a relative are excepted by section 92(3) whatever the amount	NIL
₹45,000 in the aggregate from three friends	Money from non-relatives is charged only where the AGGREGATE in the year exceeds ₹50,000. ₹45,000 does not	NIL
Gold chain worth ₹90,000 from a friend, on his marriage	A gift on the occasion of the marriage of the individual is excepted by section 92(3), and the exception is not confined to relatives	NIL
Plot of land — stamp duty value ₹6,00,000, consideration ₹5,00,000	Immovable property for inadequate consideration. The excess of ₹1,00,000 is more than the higher of ₹50,000 and 10% of the consideration (₹50,000), so the EXCESS is charged	1,00,000
Laptop worth ₹70,000 from his father's friend	“Property” is exhaustively defined in section 92(5)(f) — immovable property, shares and securities, jewellery, archaeological collections, drawings, paintings, sculptures, any work of art and bullion. A laptop is none of these	NIL
CHARGEABLE UNDER THE HEAD “INCOME FROM OTHER SOURCES”		**1,00,000**

Examiner's note — where marks are lost

Charging the whole ₹6,00,000 stamp duty value on the land. Where there IS a consideration, only the excess is charged; the whole value is charged only where the property is received without consideration.

Adding the ₹80,000 from the uncle to the ₹45,000 from friends and charging ₹1,25,000. A receipt from a relative never enters the aggregate.

Charging the laptop. Learn the nine-item list in section 92(5)(f); a motor car, a laptop and a mobile telephone are outside it, and the point is examined almost every year.

Charging only the excess of ₹45,000 over some threshold. The threshold is a cliff, not a slab: once ₹50,000 is crossed the WHOLE sum is charged, and until it is crossed nothing is.

ANSWER

Question 4 — Unit 3 : Tax Planning through Investments

4 (a) The four patterns, post-tax yield and the regime

Nine marks. The four patterns with an example each — four; post-tax yield — three; the effect of the regime — two.

The law touches an investment at three points — when the money goes in, while it grows, and when it comes out. Writing E for exempt and T for taxed at each of the three points gives the four patterns that between them describe every avenue.

Pattern	Meaning	Example	Authority
E – E – E	Deduction on contribution; the accretion exempt; the maturity exempt	Public provident fund	Section 123; Schedule II
E – E – T	Deduction on contribution; the accretion exempt; the exit taxed	The notified pension scheme — 60% of the lump sum exempt at 60, the annuity taxable as received. An equity linked savings scheme is also E–E–T, the redemption falling under section 198	Sections 123, 124; sections 197, 198
T – E – E	No deduction; the accretion exempt; the exit exempt	Sovereign gold bonds held by the original subscriber to maturity (the 2.5% interest is taxable, so the pattern is not quite pure)	Chapter IV-E
T – T – E	No deduction; the income taxed every year; nothing further on exit	An ordinary bank fixed deposit that is not a five-year tax-saving deposit	Section 92(2)(e)

Why post-tax yield is the only honest comparison

The headline rate compares nothing, because two avenues bearing the same rate may be taxed at three different points and in three different ways. The comparison must be made on what the investor keeps —

$$\textbf{Post-tax yield} = r \times (1 - m) \qquad \textbf{where m is the marginal rate including cess}$$

- Where the income is exempt, m is nil and the post-tax yield equals the headline rate. A public provident fund at 7.1 per cent therefore beats a deposit at 9 per cent for an investor whose marginal rate is 31.2 per cent, because 9 × 0.688 = 6.19 per cent.
- The deduction in the year of investment must be brought in separately, as a first-year return equal to the deduction multiplied by the marginal rate. It is a one-time gain and must not be added to the annual yield.
- The lock-in must be priced. Money locked for fifteen years at 7.1 per cent is not comparable with money free in three years at the same rate; the comparison is honest only between avenues of similar term, or after discounting for the difference.

How the choice of regime changes the ranking

In the default regime the first E of every pattern collapses. Sections 123, 124(3), 126, 129, 133 and 153 are all withdrawn; of the whole of Chapter VIII only sections 124(1), 124(2), 125(2) and 146 survive. The consequences for the ranking are three —

- The front-end advantage of the public provident fund and the equity linked savings scheme disappears. They must now be justified on the middle and the exit alone — and the provident fund still can be, because its accretion and its maturity remain exempt.
- The employer's contribution to the notified pension scheme becomes the best instrument in the paper. Section 124(2) allows 14 per cent of salary in every case, and it is the only deduction of any size left standing.
- Instruments taxed annually fall furthest, because the shelter of section 153 goes with the rest. A senior citizen's ₹50,000 of deposit interest, wholly sheltered in the optional regime, is wholly taxable in the default one.

4 (b) Smt. Reena

Nine marks. Each computation — three; the advice with a reason — three.

Particulars	Optional regime (₹)	Default regime (₹)
Gross salary	15,00,000	15,00,000

Particulars	Optional regime (₹)	Default regime (₹)
Add: employer's contribution to the notified pension scheme	1,10,000	1,10,000
GROSS SALARY	16,10,000	16,10,000
Less: standard deduction [s. 19(1), Sl. No. 2]	50,000	75,000
GROSS TOTAL INCOME	15,60,000	15,35,000
Less: s. 123 — public provident fund	1,50,000	Nil
Less: s. 124(3) — her own contribution to the pension scheme	50,000	Nil
Less: s. 124(1) / 124(2) — employer's contribution	1,10,000	1,10,000
Less: s. 126 — health insurance (22,000 + 10,000)	32,000	Nil
TOTAL INCOME	12,18,000	14,25,000
Tax before cess	1,77,900	93,750
Add: cess at 4%	7,116	3,750
TAX PAYABLE (rounded)	**1,85,020**	**97,500**

Working notes

- Employer's contribution. In the optional regime section 124(1) allows 10 per cent of salary, the employer not being Government: 10% of ₹11,00,000 = ₹1,10,000, and the contribution is exactly that. In the default regime section 124(2) allows 14 per cent — ₹1,54,000 — but the deduction cannot exceed the contribution actually made, so it remains ₹1,10,000.
- Health insurance. ₹22,000 for herself, her husband and her children is within the ₹25,000 limit; ₹10,000 for her mother aged 66 is within the ₹50,000 limit for a senior citizen. Both are allowed in full, and the aggregate is far below the ₹1,00,000 maximum for an individual.
- Tax, optional: ₹12,500 + 20% of ₹5,00,000 (₹1,00,000) + 30% of ₹2,18,000 (₹65,400) = ₹1,77,900.
- Tax, default: 5% of ₹4,00,000 (₹20,000) + 10% of ₹4,00,000 (₹40,000) + 15% of ₹2,25,000 (₹33,750) = ₹93,750. No rebate: ₹14,25,000 exceeds ₹12,00,000.

Advice

Smt. Reena should NOT exercise the option under section 202(4). Her tax in the default regime is ₹97,500 against ₹1,85,020 in the optional one — a saving of ₹87,520, which is nearly half her liability.

The reason is worth stating plainly to her: her ₹2,32,000 of deductions under sections 123, 124(3) and 126 are worth ₹87,520 at most, while the wider default slabs and the larger standard deduction are worth more. She is paying ₹2,00,000 a year into the provident fund and the pension scheme for a tax benefit of nothing.

That does not mean she should stop investing. It means she should stop calling it tax planning. The provident fund remains exempt-exempt-exempt and is a good investment on its merits; and she should ask her employer to raise its pension contribution from 10 to 14 per cent of salary, which is the one deduction the default regime still allows her.

4 (a) OR The scheme, the plan and the fund compared

	Equity linked savings scheme	Unit linked insurance plan	Public provident fund
Deduction on investment	Section 123, within the aggregate ₹1,50,000	Section 123, within the aggregate ₹1,50,000	Section 123, within the aggregate ₹1,50,000
Lock-in	Three years, unit by unit — the shortest of the three	Five years	Fifteen years, extendable in blocks of five
Ceiling peculiar to it	None; not less than 80% must be held in equity	Aggregate annual premium ₹2,50,000 for a policy issued on or after 1 February 2021; and the premium must not exceed 10% of the sum assured	₹500 minimum and ₹1,50,000 maximum a year
During the term	No annual charge; the fund is not taxed	No annual charge	Interest exempt — 7.1% for the second quarter of 2026-27

	Equity linked savings scheme	Unit linked insurance plan	Public provident fund
On exit	Section 198 — 12.5% on the long-term gain above ₹1,25,000	Exempt if within the ceiling; if the ceiling is breached, charged as a capital gain under section 198	Wholly exempt
Pattern	E – E – T	E – E – E or E – E – T	E – E – E
Worth anything in the default regime?	Only as an equity investment; the deduction goes	Only as insurance; the deduction goes	YES — the deduction goes, but the exempt interest and the exempt maturity remain, and they are the larger part of its value

The conclusion for a salaried individual: in the optional regime all three are worth holding and the choice between them is a question of horizon and of appetite for equity. In the default regime only the public provident fund survives as a tax instrument, because it alone is exempt at the two points the default regime does not touch.

4 (b) OR Shri Anand

Nine marks. Each of the three receipts — two; the tax — three.

Particulars	Working	Amount (₹)
Units of an equity oriented fund	Bought July 2023, sold September 2026 — held more than 12 months, so long-term. ₹7,20,000 – ₹4,00,000	3,20,000
Unit linked insurance plan	Policy issued 1 June 2021, that is on or after 1 February 2021, with an annual premium of ₹3,00,000 exceeding the ceiling of ₹2,50,000. The exemption fails and the receipt is charged as a capital gain: ₹18,00,000 – ₹15,00,000	3,00,000
Public provident fund withdrawn on maturity	Exempt — the fund is exempt-exempt-exempt	NIL
AGGREGATE CHARGED UNDER SECTION 198		**6,20,000**

Computation of tax	Amount (₹)
Income from other sources	6,00,000
Long-term capital gain charged under section 198	6,20,000
TOTAL INCOME	12,20,000
Tax on ₹6,00,000 at the default slabs — 5% of (6,00,000 – 4,00,000)	10,000
Tax under section 198 — 12.5% of (6,20,000 – 1,25,000 = 4,95,000)	61,875
Tax before cess	71,875
Add: cess at 4%	2,875
TAX PAYABLE (rounded)	**74,750**

- The ₹1,25,000 threshold in section 198 is available once for the year, not once for each asset. The fund units and the unit linked plan are aggregated and one threshold is given.
- No rebate under section 156(2) is available: the total income of ₹12,20,000 exceeds ₹12,00,000. Even had it not, section 156(3) would have barred the rebate against the tax charged under section 198.
- No deduction under Chapter VIII may be set against the special-rate gain.

ANSWER

Question 5 — Unit 4 : Short Notes

Three of the five are to be attempted, at six marks each. All five are answered here. A six-mark note wants a definition, the governing section, the figures or the dates, and one planning or practical point — in that order, and in about a page.

(i) Advance tax — the threshold, the instalments and the interest

- THE CHARGE. Advance tax is the tax of the year paid during the year itself — pay as you earn. It is payable where the tax for the year, after credit for tax deducted and collected at source, is ₹10,000 or more [section 405]. Below that figure nothing is payable in instalments.
- WHO NEED NOT PAY. A resident individual aged sixty or more at any time in the tax year who has no income chargeable under the head "Profits and gains of business or profession" is wholly exempt. He pays the balance as self-assessment tax under section 266. The exemption is lost the moment there is any business income, however small — the Act draws no de minimis line.
- THE PRESUMPTIVE ASSESSEE. An assessee declaring income under section 58 pays the whole of his advance tax in a single instalment by 15 March. He is not exempt; he is given one date instead of four.

Due date [section 408]	Cumulative percentage	Safe harbour for section 425
15 June	15%	12%
15 September	45%	36%
15 December	75%	None
15 March	100%	None

The three interest sections, and how they differ

Section	The default it punishes	Rate
423	Delay in furnishing the return	1% a month on the tax outstanding, from the day after the due date until the return is furnished
424	Shortfall in the total advance tax — triggered where the advance tax paid is less than 90% of the assessed tax	1% a month from 1 April of the following year to the date of determination
425	Deferment of an instalment, even though the total is eventually paid	1% a month for three months on each of the first three shortfalls, and for one month on the last

A worked example

Shri Girish, 52, resident, has a total income of ₹18,00,000 taxable under the default regime, and ₹60,000 was deducted at source. He paid ₹10,000 on 12 June, ₹30,000 on 14 September, ₹20,000 on 14 December and ₹25,000 on 14 March, and the balance with his return on 31 July 2027.

Particulars	Amount (₹)
Tax on ₹18,00,000 — 5% of 4,00,000 + 10% of 4,00,000 + 15% of 4,00,000 + 20% of 2,00,000	1,60,000
Add: cess at 4%	6,400
Less: tax deducted at source	60,000
ADVANCE TAX PAYABLE (assessed tax)	**1,06,400**

Instalment	Required	Cumulative paid	Shortfall	Interest
15 June — 15% (₹15,960); safe harbour 12% (₹12,768)	15,960	10,000	5,960	1% × 3 = 179
15 September — 45% (₹47,880); safe harbour 36% (₹38,304)	47,880	40,000	Within the safe harbour	NIL

Instalment	Required	Cumulative paid	Shortfall	Interest
15 December — 75%	79,800	60,000	19,800	1% × 3 = 594
15 March — 100%	1,06,400	85,000	21,400	1% × 1 = 214
INTEREST UNDER SECTION 425				**987**

Section 424 as well: the advance tax paid of ₹85,000 is less than 90 per cent of the assessed tax (₹95,760), so interest runs at 1 per cent a month on the shortfall of ₹21,400 from 1 April 2027 to 31 July 2027 — four months — that is ₹856. Total interest ₹987 + ₹856 = ₹1,843. The two sections punish different defaults and both may apply.

Examiner's note — where marks are lost

Computing the instalments on the tax before credit for tax deducted at source.

Measuring the June shortfall against 12 per cent. The safe harbour decides WHETHER interest is charged; the shortfall is then measured against the full 15 per cent.

Taking three months for the March instalment. It is one.

(ii) Deduction of tax at source under section 393

The single largest structural change in this Part. Under the 1961 Act the provisions ran from section 192 to section 196D — more than thirty sections. The 2025 Act consolidates the whole of that into two: section 392 for salary, and section 393 for everything else. Section 393 has three limbs — 393(1) payments to residents, 393(2) payments to non-residents, and 393(3) the special cases — with the rates and thresholds moved into a Table. The correct citation is therefore "section 393(1) read with the relevant entry in the Table".

Nature of payment	Rate	Threshold
Interest from a bank, post office or co-operative bank	10%	₹50,000 a year; ₹1,00,000 for a senior citizen
Dividend paid to a resident	10%	₹5,000 a year
Winnings from a lottery, crossword or card game [s. 393(3)]	30%	₹10,000 per transaction
Rent of land, building or furniture	10%	₹2,40,000 a year
Rent paid by an individual or Hindu undivided family not subject to audit	2%	₹50,000 a month
Fees for professional services	10%	As prescribed in the Table
Fees for technical services	2%	As prescribed in the Table
Payment to a contractor — individual or Hindu undivided family / others	1% / 2%	₹30,000 per contract or ₹1,00,000 in the aggregate
Salary, remuneration or interest paid by a firm to a partner [s. 393(3)]	10%	₹20,000 a year
Purchase of immovable property	1%	₹50,00,000

Five short applications

Case	Deduct	Deposit by
₹4,00,000 of professional fees to an advocate, 20 August 2026 — 10%	₹40,000	7 September 2026
Bank interest ₹72,000 to a person aged 65 — the senior-citizen threshold is ₹1,00,000	NIL	—
Winnings ₹60,000 from a game show, 5 January 2027 — 30% on the whole	₹18,000	7 February 2027
Remuneration ₹1,80,000 to a working partner — 10%	₹18,000	7th of the following month

Case	Deduct	Deposit by
Rent ₹60,000 a month by an individual not subject to audit — 2% on ₹7,20,000, deducted in March	₹14,400	30 April 2027

- No permanent account number furnished — the rate becomes the higher of the prescribed rate and 20 per cent.
- Deposit by the 7th of the following month; 30 April for tax deducted in March. Quarterly statements by 31 July, 31 October, 31 January and 31 May. Certificate in Form 130 for salary by 15 June, and Form 131 otherwise within 15 days of the statement.
- Interest at 1 per cent a month for failure to deduct and 1.5 per cent for failure to deposit what has been deducted; a fee of ₹200 a day for a late statement, capped at the tax deducted.

(iii) Summary assessment under section 270(1)

- WHAT IT IS. Every return furnished is processed under section 270(1). It is not an assessment on the merits but an arithmetical and prima facie check made, in practice, by the Centralised Processing Centre without any human application of mind to the evidence.
- WHAT IS DONE. Arithmetical errors in the return are corrected; an incorrect claim apparent from the information in the return is disallowed; the tax, the interest and the fee are computed; and an intimation is issued specifying the sum payable or the refund due.
- THE SAFEGUARD. No adjustment may be made without first giving the assessee an intimation of the proposed adjustment and thirty days to respond. If he responds, the response must be considered; if he does not, the adjustment is made.
- TIME LIMIT. Nine months from the end of the tax year in which the return is furnished. If no intimation is issued within that period the return as furnished is deemed to be the intimation.
- HOW IT DIFFERS FROM THE OTHERS. A summary assessment CORRECTS the return; a scrutiny assessment under section 270 EXAMINES the income on evidence after a full hearing, within eighteen months; a best judgment assessment under section 271 ESTIMATES it where the assessee has not cooperated. Only the first is made without any hearing, and that is why its scope is confined to what is apparent on the face of the return.
- PRACTICAL POINT. An intimation is appealable, and it may also be rectified. Most disputes at this level are arithmetical — a mismatch between the tax credit claimed and Form 168 — and are better cured by rectification than by appeal.

(iv) Belated, revised and updated returns under section 263

Kind	Provision	Time limit for Tax Year 2026-27	Cost
Original	Section 263(1)(b)	31 July 2027 for an individual filing ITR-1 or ITR-2; 31 August 2027 for a non-audit business; 31 October 2027 for an audit case or a company; 30 November 2027 in a transfer pricing case	None
Belated	Section 263(4)	Nine months from the end of the tax year — 31 December 2027	Fee for default; interest under section 423
Revised	Section 263(5)	Twelve months from the end of the tax year — 31 March 2028	None, if the original was in time
Updated	Section 263(6)	Forty-eight months — 31 March 2032	Additional tax of 25% to 70%, rising with the delay

What a belated return costs, beyond the fee

One. The losses of the year — other than a house property loss and unabsorbed depreciation — cannot be carried forward. A business loss of ₹10,00,000 is simply extinguished, and nothing revives it.

Two. A business assessee cannot exercise the option under section 202(4) for that year, the option being available only where the return is furnished by the due date under section 263(1). The belated return therefore costs him the regime as well as the loss.

Three. Interest on any refund runs only from the date of filing, not from 1 April.

Two further points. A DEFECTIVE return must be rectified within fifteen days of the intimation of the defect, failing which it is treated as never having been furnished. And every return must be VERIFIED within thirty days of transmitting the data; an unverified return is in the same position as one never filed.

(v) Refund of tax, and interest under section 437

- WHEN IT ARISES. Whenever the tax paid — by deduction or collection at source, by advance tax or by self-assessment — exceeds the tax properly chargeable on the total income as finally determined.
- WHO MAY CLAIM. The assessee; where his income is included in another person's income, that other person; and on death, incapacity, insolvency or liquidation, the legal representative, trustee, guardian or receiver [sections 432 and 433].
- HOW. By FURNISHING A RETURN. There is no separate application — the single most useful sentence in the topic, because a person whose tax has been deducted and who has no other reason to file must nevertheless file if he wants his money back.
- INTEREST [section 437]. 0.5 per cent a month — 6 per cent a year, simple. It runs from 1 April of the year following the tax year where the return is furnished on or before the due date, and from the DATE OF FILING where it is late.
- WHEN NO INTEREST IS PAID. Where the refund is less than 10 per cent of the tax determined. And no interest is allowed for any period of delay attributable to the assessee.

A worked example

Particulars	Amount (₹)
Tax and cess finally determined	84,000
Tax deducted at source ₹1,20,000 + advance tax ₹20,000	1,40,000
REFUND	56,000
Ten per cent of the tax determined — the refund exceeds it, so interest is payable	8,400
Interest at 0.5% a month, 1 April 2027 to 20 December 2027 (nine months)	2,520
TOTAL RECEIVABLE	**58,520**

The return was furnished on 25 July 2027 against a due date of 31 July 2027, so interest runs from 1 April. Had it been filed on 5 August it would have run only from 5 August, and about ₹1,150 of interest would have been lost for being nine days late. That is the planning point: file on time even when a refund, not a demand, is expected.

SUMMARY

The answers at a glance

Q.	Part	The figure or the conclusion	Marks
1	(b)	Stay 180 days; section 6(3) relaxation; NON-RESIDENT. Muscat salary not chargeable; Delhi interest ₹42,000 chargeable	5
1	(b) OR	Interest ₹54,000 clubbed with Shri Mohan; tailoring income ₹40,000 not clubbed	9
2	(a)	Tax — Structure I: ₹3,84,380 optional, ₹2,73,000 default. Structure II: ₹2,80,490 optional, ₹2,13,460 default	9
2	(b)	Income under "Salaries" ₹11,57,333 optional; ₹11,32,333 default	9
3	(a)	Q and R self-occupied, P deemed let out; loss ₹2,30,000; ₹2,00,000 set off, ₹30,000 carried forward	9
3	(b)	Gain ₹60,00,000; s. 86 ₹30,00,000; s. 85 ₹20,00,000; chargeable ₹10,00,000; tax ₹1,30,000	9
3	(a) OR	Eligible, but presumptive gives ₹24,00,000 against ₹18,00,000 — do not opt; audit under section 63 follows	9
3	(b) OR	Chargeable ₹1,00,000 — the excess on the plot of land only	9
4	(b)	Total income ₹12,18,000 optional / ₹14,25,000 default; tax ₹1,85,020 against ₹97,500 — stay in the default regime	9
4	(b) OR	Section 198 gains ₹6,20,000; total income ₹12,20,000; tax ₹74,750	9
5	(i)	Advance tax ₹1,06,400; interest — section 425 ₹987, section 424 ₹856, total ₹1,843	6
5	(ii)	Deduct ₹40,000; nil; ₹18,000; ₹18,000; ₹14,400	6
5	(v)	Refund ₹56,000; interest ₹2,520; receivable ₹58,520	6

The sentence that earns the first mark in every answer

State the regime before you write a figure. "Shri X is taxed under the default regime of section 202(1)" — or the optional regime, as the case may be — is the first sentence of a good answer and the missing sentence of a poor one. Every allowance, every deduction and every set-off in this paper depends on it.

FOR THE TEACHER

Coverage of this paper

Not part of the question paper. The allocation follows the pattern of the University question papers of December 2025 for this course — five questions of 18 marks each, Questions 1 to 4 in two parts of 9 marks with an internal choice, and Question 5 a short note on any three of five items at 6 marks each.

Q.	Unit	What the question covers	Marks
1	Unit 1	Basic concepts of tax planning; residential status; clubbing; the choice of regime under section 202	9 + 9
2	Unit 2	Tax planning — income from salaries	9 + 9
3	Unit 2	House property, business or profession, capital gains, other sources	9 + 9
4	Unit 3	Tax planning through investments	9 + 9
5	Unit 4	Short notes — Part A collection and recovery, Part B assessment, returns, appeals and revision	6 × 3
		Total	**90**