

STUDY MATERIAL

TAXATION (822)

CLASS

— XII —



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UNIT 1

DEDUCTION FROM GROSS TOTAL INCOME

Unit-1	DEDUCTION FROM GROSS TOTAL INCOME			
Location: Classroom	SESSION 1: INTRODUCTION : BASIC RULES GOVERNING DEDUCTION & DEDUCTION IN RESPECT OF SOME PAYMENTS			
	Learning Outcome	Knowledge Evaluation	Performance Evaluation	Teaching and Training Method
	1. Basic rules applicable to deductions.	1. What is gross total income? 2. Name the items from which deductions are not allowed.	1. What constitutes gross total income? 2. Name the deductions which are available only if income tax return is filed on or before the due date.	Interactive Lecture: Discussion related to deduction.
	2. Deduction in respect to certain payments.	1. Describe the various deductions available to an assessee regarding certain payments.	1. Discuss the deduction 80C to 80GGC.	Interactive Lecture: Discussion of deduction 80C to 80GGC with practical example.
SESSION 2: BASIC OVERVIEW OF DEDUCTIONS IN RESPECT OF CERTAIN INCOMES & DEDUCTION 80QQB, 80RRB, 80TTA, 80TTB & 80U				
	1. Deduction in respect to certain incomes.	1. Describe the various deductions available to an assessee regarding certain incomes.	1. Discuss the deduction 80IA to 80P.	Interactive Lecture: Discussion of deduction 80IA to 80P.



	2. Deduction 80QQB, 80RRB, 80TTA, 80TTB & 80U.	1. Explain the deduction related to saving bank interest and royalty and patent. 2. Explain the deduction related to disability .	1. Discuss the provisions related to deduction 80QQB, 80RRB, 80TTA, 80TTB and 80U.	Interactive Lecture: Discussion of deduction related to disability, royalty , patents and saving bank account interest.
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Learning Objectives:

After reading this unit, the students will be able to:

1. Understand the type of deductions allowable from gross total income.
2. Know what the permissible deductions in respect of payments are.
3. Learn the permissible deductions in respect of incomes.
4. Understand the deductions allowable in the case of a person with disability.



SESSION 1

INTRODUCTION-BASIC RULES GOVERNING DEDUCTION & DEDUCTION IN RESPECT OF SOME PAYMENTS

Introduction

After computing the total income under each head and after giving effect to the provisions for clubbing of income and set off of losses, which gives the Gross Total Income, deductions described under this lesson are allowed i.e., deductions under section 80C to 80U of the Income Tax Act are allowed to assesses.

However, as per section 115BAC providing for concessional tax regime which is now a default tax regime, certain deductions are not allowed while computing total income. Further, an eligible assessee has given an option to opt out of concessional tax regime and pay tax as per optional tax regime if beneficial to him. Section 115BAC is discussed in detail in Unit 2: Computation of Tax Liability of an Individual.

At the end of this lesson you will learn about all the deductions allowed to an assessee in respect of payments made and incomes received in the previous year.

You will also be able to calculate the total income by deducting all the deductions allowed to a particular assessee under section 80C to 80U from the Gross Total Income.

Basic Rules Governing Deductions (80C to 80 U)

- ◆ Gross Total Income means income from all the heads namely income from salary, house property, profits and gains from business or profession, capital gains and other sources combined together after giving effects to provisions of clubbing of income and set off of losses.
- ◆ Deductions from section 80C to 80U are deducted from Gross Total Income to arrive at total income of the assessee which is also known as taxable income.
- ◆ However deductions are not allowed from the following items although they form part of Gross Total Income:
 - a) Short term capital gain under sec 111A
 - b) Long term capital gain
 - c) Lotteries
 - d) Income under Sections 115A, 115AB, 115AC, 115ACA, 115AD, 115BBA, 115D.

Important Points:

1. Deductions from gross total income are available only to assessee when the gross



total income is a positive figure. If however, the gross total income is nil or is a loss, the question of any deduction from the gross total income does not arise. In other words, the total aggregate of deductions cannot exceed the gross total income.

2. Deductions cannot be claimed twice in the same assessment year.
3. Deduction is allowed only to assessee.
4. Certain deductions like under 80-IA, 80-IAB, 80-IAC, 80-IB, 80-IBA, 80-IE, 80JJAA, 80LA, 80M, 80P, 80QQB and 80RRB can only be claimed when income tax return is furnished for assessment year on or before the due date specified under sec139(1).

Deductions in Respect of Certain Payments

- ◆ Allowed from sec 80C to 80GGC.

Deduction in Respect of Life Insurance Premium, Deferred Annuity, Contribution to Provident Fund, Etc. (Section 80C)

Eligible: 1) Individual 2) HUF

Quantum: Deduction from gross total income equivalent to investment made of Rs. 1,50,000 whichever is less.

No deduction u/s 80C is allowed if paying tax as per default tax regime u/s 115BAC.

Investment:

- a) Life Insurance policy taken on the life of an individual assessee or spouse and any child (minor or major) of such individual and any member of the Hindu Undivided Family, deduction in respect of premium paid shall be subjected to
 - ◆ 20% of sum assured for policies issued on or before 31.3.2012
 - ◆ 10% of sum assured for policies issued on or after 1.4.2012
 - ◆ 15% of sum assured for policies, issued on or after the 1.4.2013, is for insurance on life of any person, who is :
 - (i) A person with disability or a person with severe disability as referred to in section 80U, or
 - (ii) Suffering from disease or ailment as specified in the rules made under section 80DDB.
- b) Amounts paid to effect or to keep in force a contract for a non-cumulative deferred annuity not being an annuity plan referred to in clause (j) below on the life of in the case of an individual, the individual, spouse or any child of such individual and However, such contract should not contain a provision for exercise of an option by the insured to receive cash payment in lieu of the payment of the annuity.
- c) Deduction from the salary payable by or on behalf of the Government to any individual, in accordance with the conditions of his service, for securing to him a deferred annuity or making provision for his wife or children, to the extent of one-fifth of salary.



- d) Any contribution made by an individual towards statutory provident fund and recognized provident fund.
- e) Contribution towards superannuation fund.
- f) Subscription to the notified securities of the Central Government.
- g) Any contribution to a PPF by individual or HUF
- h) Any sum paid or deposited in Sukanya Samriddhi Account by an Individual in the name of any girl child.
- i) Subscription to National Savings Certificates (VIII) issue and interest accrued deemed to be reinvested also qualifies.
- j) Contributions for participation in the Unit-Linked Insurance Plan, 1971.
- k) Contributions made in the name of an individual or HUF for participation in any notified Unit-Linked Insurance Plan of the LIC Mutual Fund.
- l) Any contribution to effect or keep in force any notified annuity plan of the LIC or any other insurer.
- m) Any subscription, to any units of any Mutual Fund or the Unit Trust of India under any notified plan formulated by the Central Government.
- n) Any contribution to any pension fund set up by any Mutual Fund as notified by the Central Government.
- o) Subscription to the notified deposit scheme of or contribution to any such pension fund set up by the National Housing Bank.
- p) Only tuition fees (excluding any payment towards any development fees or donation or payment of similar nature), whether at the time of admission or thereafter, to any university, college, school or other educational institution situated within India for full time education and allowed only for 2 children of such individuals.
- q) Any installment or part payment towards the cost of purchase/construction of a residential property to a housing board or co-operative society (or repayment of housing loan taken from government, bank, cooperative bank, LIC, National Housing Bank, assessor's employer where such employer is public company/public sector company/university/cooperative society).
- r) Subscription to equity shares or debentures or units forming part of any eligible issue of capital i.e. issue made by a company registered in india or a public financial institution or an approved mutual fund for the purpose of developing, maintaining and operating an infrastructure facility for generation and distribution of power or for providing telecommunication services whether basic or cellular.
- s) Fixed deposits for a minimum period of 5 years in any Scheduled Banks.
- t) As subscription to such bonds issued by the National Bank for Agriculture and Rural Development, as the Central Government may, by notification in the Official Gazette specify in this behalf.
- u) Amount deposited in account under the Senior Citizens Savings Scheme Rules, 2004.



- v) Amount deposited in five year time deposit in an account under the Post Office Time Deposit Rules, 1981.
- w) Contribution by Central Government employee to an additional account [Tier II Account] of NPS.

Important Points:

- ◆ If the amount is actually paid by the assessee, only then this deduction will be allowed.

Question 1: Compute the net taxable income of Mr. Arvind (age 36 years) from the following information submitted by him for the assessment year 2026-27 assuming he has opted out of default tax regime u/s 115BAC:

Gross salary	4, 50,000
LIP on his own life (sum assured Rs. 4000) policy issued on 1-04-2025	1,200
LIP on the life of his dependent brother	400
LIP on his wife's life	400
Term deposit for 5 years with a scheduled bank	4,000
Contribution to ULIP	600
Amount deposited in PPF	13,000
Contribution to RPF	4,000
Tuition fees of:	
◆ Child A Rs. 2,800	
◆ Child B Rs. 1,400	
◆ Child C Rs. 1,000	
5 year term deposit in post office	3,000
Subscription to NSC	5,000
Repayment of housing loan taken from LIC (principal)	10,600
Loan repaid Rs. 4600 and interest of Rs. 6000	
Interest on fixed deposits with bank (gross)	2,600
He took loan from LIC for a residential house property for self residence.	

Solution:

Income from salaries	4, 50,000
Less: Standard Deduction u/s 16(ia)	(50,000)
Net Salary	4,00,000



Income from House Property		
NAV	(NIL)	
Less: Deduction		
Interest on money borrowed (u/s 24b)	<u>6,000</u>	(6,000)
Income from other sources (fixed deposit)		<u>2,600</u>
GROSS TOTAL INCOME		3,96,600
Less: Deductions u/s Chapter VIA (Refer NOTE below)		<u>(39,200)</u>
NET TAXABLE INCOME		<u>3,57,400</u>
NOTE : Deductions under 80C		
• LIP on his own life		400
• LIP on the life of his dependent brother		NIL
• LIP on his wife's life		400
• Term deposit for 5 years with a scheduled bank		4,000
• Contribution to ULIP		600
• Amount deposited in PPF		13,000
• Contribution to RPF		4,000
• Tuition fees for 2 children		4,200
• 5 year term deposit in post office		3,000
• Subscription to NSC		5,000
• Repayment of housing loan		<u>4,600</u>
		<u>39,200</u>

Question 2: Mr. X has gross total income Rs. 4,90,000 for the assessment year 2026-27 which include Rs. 3,90,000 as long term capital gain under section 112? He has deposited Rs. 1,40,000 in PPF during the year. Compute tax liability for the A.Y. 2026-27, assuming he has opted out of default tax regime u/s 115BAC, for the following two situations:
 (i) he is Less than 60 years of age; (ii) more than 60 years of age.

Solution:

(i) Less than 60 years of age	
Gross total income (excluding LTCG)	1,00,000
Less: Deduction u/s 80C subjected to GTI	<u>1,00,000</u>



	<u>NIL</u>
Tax on total income exclusive of long term capital gain	<u>NIL</u>
Tax on LTCG @ 12.5% on Rs. 1,40,000 [Rs. 3,90,000 – Rs. 2,50,000, being the unexhausted basic exemption limit]	
	17,500
Less: Rebate under 87A	<u>12,500</u>
	5,000
Add: Health and Education Cess @4%	
	<u>200</u>
	5200
(ii) More than 60 years of age	
Gross total income (excluding LTCG)	1,00,000
Less: Deduction u/s 80C subjected to GTI	<u>1,00,000</u>
	NIL
Tax on total income exclusive of long-term capital gain	<u>NIL</u>
Tax on LTCG @ 12.5% on Rs. 90,000 [Rs. 3,90,000 – Rs. 3,00,000, being the unexhausted basic exemption limit]	11,250
Less: Rebate under 87A	<u>11,250</u>
Tax liability	<u>Nil</u>

Deduction for Contribution to Pension Fund (Section 80CCC)

Eligible: Individual

Quantum: Deduction from gross total income equivalent to investment made of Rs. 1,50,000, whichever is less.

Investment:

An individual who deposits out of his taxable income to any pension fund of the LIC or any insurer shall get a deduction from his gross total income of the amount so deposited subjected to the limit prescribed.

Important Points:

- ◆ If this deduction is claimed here, deduction for payment made for annuity plan will



not be given under 80C.

- ◆ No deduction u/s 80CCC is allowable if paying tax as per the default tax regime u/s 115BAC

Deduction in Respect of Contribution to Pension Scheme of Central Government [Section 80CCD]

Eligible: 1) Individual employed by Central Government or self-employed.

Quantum:

- **Contribution by Employee:** Deductible amount is contribution made by the employee during the year subjected to maximum of 10% of the salary.
- **Contribution by Self Employed Individual:** Deductible amount is contribution made by the self-employed individual up to 20% of his gross total income in the previous year.
- Under section 80CCD(1B), additional deduction of Rs. 50,000 for deposit by an individual in Tier I NPS Account over and above the deduction available under section 80CCE of Rs. 1,50,000.
- Further, deduction under section 80CCD(1B) is also allowed for contribution in NPS Vatsalya (a NPS Scheme designed for minor Indian citizen upto the age of 18 years) under the pension scheme, by the parent or guardian of such minor. However, the aggregate amount of deduction under section 80CCD(1B) shall not exceed Rs. 50,000.
- Under section 80CCD(2), contribution made by the Central Government or State Government or any other employer, is allowed as a deduction to be restricted to
 - In case of contribution made by the Central Government or State Government - 14% of salary and
 - In case of contribution made by any other employer – 10% of salary (14% of salary in case assessee is paying tax as per default tax regime under section 115BAC).

Important Points:

- ◆ Salary includes DA, if the terms of employment provide so, but excludes all other allowances and perquisites.

The amount which has been accumulated in the pension account for which the assessee has claimed deduction will become taxable to the extent of 40% of the total amount payable as the income of the year in which the assessee get the said amount, or his nominee on closure of the account or for opting out of scheme.

Further, any payment from NPS trust to an employee on partial withdrawal shall be exempt to the extent of 25% of the contribution made by him.

- ◆ If amount is withdrawn from here to purchase an annuity plan, then it will not be taxable.



Question 3: Gross Total Income of R who is self employed is Rs. 8,90,000. He has deposited Rs. 1,20,000 in PPF and Rs. 2,10,000 in pension scheme of the Central Government. Compute his taxable income as per optional tax regime.

Solution:

Gross total income	8,90,000
Less: Deduction u/s 80C Deduction	(1,20,000)
u/s 80CCD (Subjected to 20% of gross total income)	(1,78,000)
	<u>(1,50,000)</u>
	<u>7,40,000</u>

Limit on Deductions Under Sections 80C, 80CCC and 80CCD (Section 80CCE)

The aggregate amount of deductions under Sections 80C, 80CCC and section 80CCD (excluding contribution of employer to pension scheme) shall not in any case, exceed Rs. 1, 50,000.

Deduction in respect of contribution to Agnipath Scheme [Section 80CCH]

Eligible - Individual enrolled in the Agnipath Scheme

Quantum:

- the amount paid or deposited by the individual enrolled in Agnipath Scheme on or after 1.11.2022, in his account in the Agniveer Corpus Fund.
- amount of contribution made by the Central Government to the said account. Initially, entire Central Government's contribution to the Agniveer Corpus Fund would be included in the salary of the assessee.

Important Points:

- ◆ The deduction is allowable only if the assessee opts out of the default tax regime u/s 115BAC.

Deduction in Respect of Medical Insurance Premia (Section 80D)

Eligible: 1) Individual 2) HUF

Quantum:

	Individual		HUF
	Family	Parents	
	Self, Spouse & Dependent Children	Parents of Assessee (Dependent/ Independent)	Any Member of Family
a) Medi-claim Insurance Premium	Available	Available	Available



b) Preventive Health Check-up	Available	Available	Not Available
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Maximum Amount:

- ◆ For point “(a)” Rs. 25,000 maximum to family and Rs. 25,000 for parents.
- ◆ For point “(b)” Rs. 5,000 maximum on family/ parent/ parents.

- Note:** 1. For point (a) deduction Rs. 50,000 shall be allowed instead of Rs. 25,000 in case the person mentioned above is a senior citizen, i.e., an individual resident in India of the age of 60 years or more at any time during the relevant previous year or
2. For point (b) deduction of Rs. 5,000 is within the overall limit of Rs. 25,000 or Rs. 50,000, specified in point (a) and Note (1) above.
3. As a welfare measure towards senior citizens i.e., person of the age of 60 years or more and resident in India, who are unable to get health insurance coverage, deduction of upto Rs. 50,000 would be allowed in respect of any payment made on account of medical expenditure in respect of a such person(s), if no payment has been made to keep in force an insurance on the health of such person(s)

Important Points:

- ◆ Allowed if paid to General Insurance Corporation (GIC) or any other insurer towards medical health insurance premium.
- ◆ Contribution by individual can also be made to Central Government Health Scheme.
- ◆ For health insurance premium, the payment shall be in mode other than cash.
- ◆ For preventive health check-up it can be in cash also.
- ◆ Health Insurance should be according to the scheme as given by GIC and approved by Central Government or any other insurer and approved by Insurance Regulatory and Development Authority (IRDA).
- ◆ The deduction is allowable only if the assessee opts out of the default tax regime u/s 115BAC.

Question 4: Suraj, his wife and two sons are independently employed persons. Suraj and his wife are not senior citizens. Suraj pays Medi-claim insurance of Rs 18,000 for self, Rs 12,000 for his wife, and Rs 8,000 each for both of his sons. He also pays Rs 33,000 for each of his parents who are senior citizens. Calculate the amount of deduction allowable u/s 80D. Assuming he is opted out of default tax regime u/s 115BAC for the A.Y. 2026-27.

Solution:

Amount of deduction u/s 80D	
Premium in respect of wife	Rs 12,000



Premium for himself	Rs. 18,000
Premium in respect of children (not dependent)	Nil
Total Rs 30,000 restricted to	Rs 25,000
Add: Premium in respect of parents (senior citizens) Rs 66,000 restricted to maximum	<u>Rs 50,000</u>
Deduction available u/s 80D	<u>Rs 75,000</u>

Deduction in Respect of Maintenance Including Medical Treatment of a Disabled Dependent (Section 80DD)

Eligible:	1) Resident Individual 2) Resident HUF
Quantum:	Deduction from gross total income irrespective of actual expenditure Rs. 75,000 (1,25,000 in case of severe disability).

Important Points:

- a) Deduction under 80DD can be claimed on expenditure made in the previous year for the medical treatment (including nursing), training and rehabilitation of a disabled dependent; dependent being:
 - ◆ For individual: Spouse, any child, parent or sibling
 - ◆ For HUF: Any member

The disabled person for whose treatment or maintenance the deduction is claimed should be dependent on assessee for his/her support and should not have claimed deduction under 80U.
- b) Deduction under 80DD can also be claimed when money is paid to LIC (Life Insurance Corporation of India), UTI (Unit Trust of India) or any other insurer for the purpose of buying insurance or any specified scheme for the purpose of maintenance of the above mentioned dependent in the previous year.
- c) For claiming the deduction under this section, the assessee should furnish to the Assessing Officer a copy of the certificate issued by the medical authority; whenever asked for examining.
- d) Where the condition of disability requires reassessment (when the medical certificate is issued for a specific period), a fresh certificate shall have to be obtained soon after the expiry of the period. No deduction shall be allowed if the medical certificate stands expired in the year preceding the assessment year.
- e) The deduction is allowable only if the assessee opts out of the default tax regime u/s 115BAC.
- f) Meaning of "Disability": "Disability" include autism, cerebral palsy and multiple disabilities as provided for in the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999.
- g) Meaning of "Medical Authority": "Medical Authority" means any hospital or institution



specified for the purpose of this act by notification by the appropriate government.

- h) Meaning with “Person with Disability”: “Person with Disability” means a person suffering from not less than 40% of any disability as certified by the medical authority.
- i) Meaning of “Person with Severe Disability”: “Person with Severe Disability” means any person with 80% or more of one or more disabilities.

Deduction in Respect of Medical Treatment (Section 80DDB)

Eligible: 1) Resident Individual 2) Resident HUF

Quantum: Rs. 40,000 or amount actually paid (Rs. 1,00,000 in case of a senior citizen; person whose age is more than 60 years).

Important Points:

- a) Deduction under 80DDB can be claimed on expenditure made in the previous year on medical treatment for specified disease or ailment as prescribed of assessee himself or of any person wholly/mainly dependent on him; dependent (for support and maintenance) being :
 - ◆ For individual: Spouse, any child, parent or sibling (brothers and sisters)
 - ◆ For HUF: Any member
- b) For claiming the deduction under this section, the assessee should furnish to the Assessing officer a copy of the medical certificate in form no. 10-I from prescribed specialist working in government hospital; whenever asked for examining.
- c) “Government Hospital” means a departmental dispensary whether full-time or Part-time established and run by a department of the government for medical attendance and treatment of a class or classes of government servants and members of their families, a hospital maintained by a local authority and any other hospital with which arrangements have been made by the government for the treatment of government servants.
- d) Deduction is allowable only if the assessee opts out of the default regime u/s 115BAC.

Deduction in Respect of Interest Paid on Loan Taken for Pursuing Higher Education (Section 80E) -

Eligible: 1) Individual only

Quantum: The amount of interest paid on education loan during the previous year

Important Points:

- a) Deduction under 80E can be claimed on interest paid in the previous year on education loan taken for pursuing higher education; regular course after clearing Senior Secondary Examination; of Self or spouse or children or the student of whom



the individual is the Legal Guardian from any financial institution or any approved charitable institution.

- b) Deduction under this section is allowed to be claimed for a maximum period of 8 years or until the interest is repaid by the individual in full (whichever is earlier), starting from the assessment year in which the assessee starts paying the interest on loan.
- c) **Meaning of Higher Education:** Higher Education means any course of study pursued after passing the senior secondary examination or its equivalent from any school, board or university recognized by the Central Government or State Government or local authority or by any other authority by the Central Government or State Government or local authority to do so.
- d) Deduction is allowable only if the assessee opts out of the default regime u/s 115BAC.

Question 5: Gross Total Income of “R” for assessment year 2026-27 is Rs. 10,45,000. He has taken a loan of Rs. 5,00,000 in F.Y. 2025-26 from a bank for pursuing the LLB from national law university. He repaid the 1st installment of loan of Rs. 65,000 and interest of Rs. 80,000. Compute his total income for assessment year 2026-27, assuming he has opted out of default tax regime u/s 115BAC.

Solution:

Gross Total Income	10,45,000
Less: Deduction u/s 80E	80,000
Total Income	9,65,000

Deduction in Respect of Interest on Loan Taken for Residential House Property (Section 80EE)

Eligible: 1) Individual only

Quantum: The amount of interest paid on house loan during the previous year up to Rs. 50,000.

Important Points:

- a) Deduction under 80EE can be claimed on interest paid in the previous year on home loan taken up to Rs. 35,00,000. The interest allowed as deduction under section 80EE will not be allowed as deduction under any other provision of the Act for the same or any other assessment year.
- b) Deduction under this section is allowed if the home loan is sanctioned in the previous year 2016-17 (i.e. A.Y. 2017-18) and is sanctioned for the acquisition of a residential house property not exceeding Rs. 50 lakhs; loan being of amount less than Rs. 35 lakhs.



- c) The assessee should be the first time buyer of any house property and the loan should be sanctioned from any financial institution or any housing finance company.
- d) The interest deduction will be allowed over and above the deduction available under section 24(b) under the head "Income from House Property".
- e) Meaning of "Financial Institution": "Financial Institution" means banking company to which the Banking Regulation Act, 1949 act applies.
- f) Meaning of "Housing Finance Company": "Housing Finance Company" means a public company formed or registered in India whose main object is providing long-term finance for construction or purchase of houses in india for residential purposes.
- g) Deduction is allowable only if the assessee opts out of the default regime u/s 115BAC.

Question 6: Mr. Ram earned salary of Rs. 7,90,000, borrows from Indian Bank @ 10% on 01.04.2016 a sum of Rs. 28,00,000 and purchased a house property for Rs. 30,00,000 on 04.04.2016. Since its acquisition it has been used as residential property for self. On date of loan, he does not have any residential house property. Assume nothing is repaid till the end of the previous year. He has made a total investment of Rs. 1,00,000 u/s 80C. Compute his total income assuming he has opted out of default tax regime u/s 115BAC.

Solution:

Gross Salary		7,90,000
Less: Standard deduction u/s 16(ia)		<u>(50,000)</u>
Income under the head "Salaries"		7,40,000
Income from Self-occupied Property	-	
Less: Interest on Borrowed Capital u/s 24(b)	(2,00,000)	
(restricted to 2,00,000)		
Income under the head House Property		<u>(2,00,000)</u>
Gross Total Income		5,40,000
Less: Deduction u/s 80C	1,00,000	
Deduction u/s 80EE	<u>50,000</u>	<u>(1,50,000)</u>
Taxable Income		<u>3,90,000</u>
Interest = 28, 00,000*10/100= 2,80,000		

Deduction for interest payable on loan borrowed for acquisition of residential house property [Section 80EEA]

Eligible - An individual



Quantum - ` 1,50,000 over and above the deduction available under section 24(b) under the head "Income from house property"

Important Points:

- (a) Deduction under this section is allowed if the home loan is sanctioned between 1st April, 2019 and 31st March 2022 and is sanctioned for the acquisition of a residential house property having stamp duty value not exceeding Rs. 45 lakhs;
- (b) Individual should not own any residential house on the date of sanction of loan.
- (c) Individual should not be eligible to claim deduction u/s 80EE.
- (d) Interest allowed as deduction under section 80EEA will not be allowed as deduction under any other provision of the Act for the same or any other assessment year.
- (e) Deduction is allowable only if the assessee opts out of the default tax regime u/s 115BAC.

Deduction in respect of interest payable on loan taken for purchase of electric vehicle [Section 80EEB]

Eligible - An individual

Quantum - ` 1,50,000

Important Points:

- (a) Loan should be taken for purchase of an electric vehicle and sanctioned between 1.4.2019 and 31.3.2023 by a Financial (bank or specified NBFCs)
- (b) The interest allowed as deduction under section 80EEB will not be allowed as deduction under any other provision of the Act for the same or any other assessment year.
- (c) Deduction is allowable only if the assessee opts out of the default regime u/s 115BAC.

Deduction in Respect of Donations to Certain Funds, Charitable Institutions, etc. (Section 80G)

Eligible: 1) All Assessee

Quantum: Aggregate of all the deductions permissible under:

- 1) 100% deduction without qualifying limit.
- 2) 50% deduction without qualifying limit.
- 3) 100% deduction with qualifying limit.
- 4) 50% deduction with qualifying limit.

Important Points:

- a) Donation should be in cash or money but not in kind. Also, any donation exceeding Rs. 2,000 would be allowed as deduction if payment is made in any mode other than cash. Assessee has to produce the proof for claiming the deduction under this section, otherwise, it will not be available.



- b) Donation should be made only to specified institutions and funds.
- c) Deduction is allowable only if the assessee opts out of the default tax regime u/s 115BAC.
- d) List of deduction included in 80G:

(A) 100% Deduction without any qualifying limit:

- i) National Defence fund.
- ii) Prime Minister's National relief fund.
- iii) Prime Minister's Earthquake relief fund.
- iv) Africa fund.
- v) National Trust for welfare of persons with autism, cerebral palsy, mental retardation and multiple disabilities.
- vi) National cultural fund set up by the Central Government.
- vii) The Chief Minister's relief fund or the lieutenant Governor's relief fund.
- viii) National Illness assistance fund.
- ix) The Andhra Pradesh Chief Minister's Cyclone Relief Fund, 1996.
- x) The Army/Air force Central welfare fund or the Indian Naval Benevolent fund.
- xi) Any fund set up by a State Government to provide medical relief to poor.
- xii) The National/State Blood transfusion Council.
- xiii) Zila Saksharta Samiti constituted in any district.
- xiv) Any fund set up by the State Government of Gujarat, exclusively for providing relief to the victims of earthquake in Gujarat.
- xv) Maharashtra Chief Minister's Earthquake Relief Fund.
- xvi) University/Educational Institute of National Eminence approved by the prescribed authority.
- xvii) National foundation for communal harmony.
- xviii) Fund for technology development and application, set up by the Central Government.
- xix) National sports fund set up by the Central Government.
- xx) National Children's Fund.
- xxi) The Swachh Bharat Kosh, set up by the Central Government, other than the sum spent by the assessee in pursuance of CSR u/s 135(5) of the Companies Act, 2013.
- xxii) The Clean Ganga Fund, set up by the Central Government, where such assessee is a resident, other than the sum spent in pursuance of CSR u/s 135(5) of the Companies Act, 2013
- xxiii) The National Fund for Control of Drug Abuse
- xxiv) Prime Minister's Citizen Assistance and Relief in Emergency Situations



Fund (PM Cares Fund)

(B) 50% Deduction without any qualifying limit:

➤ **Prime Minister's Drought Relief Fund.**

(C) 100% Deduction subject to qualifying limit:

- i) Any sum to Government or any approved local authority, institution or association to be utilized for promoting family planning.
- ii) Any sum paid by the assessee, being a company, in the previous year as donation to Indian Olympic Association or to any other Association established in India and notified by the Central Government for:
 - I. Development of infrastructure for sports and games or
 - II. Sponsorship of sports and games in India.

(D) 50% Deduction subject to qualifying limit:

- i) Donation to Government or any approved Local Authority, Institution or Association to be utilized for any Charitable purpose other than promoting family planning.
- ii) Any Institution or Fund established in India for charitable purposes fulfilling prescribed conditions
- iii) Notified Temple, Mosque, Gurudwara, Church or any other place notified by the Central Government to be of historic, as chorological or artistic importance, for renovation or repair of such place.
- iv) Any corporation established by the Central or State Government specified under Section 10(26BB) for promoting interests of the members of a minority community.
- v) Any authority constituted in India by or under any law for satisfying the need for housing accommodation or for the purpose of planning development or improvement of cities, towns and villages or for both.

For applying qualifying limit, all donations made to funds/institutions covered under (C) and (D) above shall be aggregated and the aggregate amount shall be limited to 10% of adjusted Gross Total Income. The donations qualifying for 100% deduction would be first adjusted from the maximum permissible deduction and thereafter 50% deduction of the balance would be allowed.

Computation of adjusted gross total income

Gross Total Income

Less: Long term capital gain (u/s 112 & 112A)

Short term capital gain (u/s 111A)

All deduction except 80G

Any income on which income-tax is not payable



Question 7: Mr. Sujit, an Indian citizen, has following particulars:

Income from business	8,00,500
Winning from puzzles	1,00,800
Contribution u/s 80C	80,000
Donation to Prime Minister's Drought Relief Fund	30,000
Donation to charitable institute (approved)	1,00,000
Donation to National Defence Fund	50,000
Donation to government for family planning	35,000
Calculate his net total income, assuming he has opted out of default tax regime u/s 115BAC.	

Solution:

Income from business	8,00,500
Winning from puzzles	1,00,800
Gross Total Income	9,01,300
Less: Deductions	
Contribution u/s 80C	80,000
Donation u/s 80G*	1,23,565
Net Total Income	6,97,735

***Calculation of Deduction U/S 80G**

Adjusted Total Income = Gross Total Income – Deductions = 9,01,300- 80,000 = 8,21,300
Qualifying Amount = 10% of Adjusted total income
= 10% of 8,21,300
= 82,130

WITHOUT QUALIFYING LIMIT	
Donation to Prime Minister's Drought Relief Fund (50%)	15,000
Donation to National Defence Fund (100%)	50,000
WITH QUALIFYING LIMIT	
Actual Donation made (35,000+ 1, 00,000 = 1,35,000)	
Donation to government for family planning (100% with limit to Rs. 82,130)	35,000
Donation to charitable institute (approved) (Balance Rs. 82,130- 35,000 = 47,130 @50%)	23,565
TOTAL	1,23,565



Deduction in Respect of Rent Paid (Section 80GG)

Eligible: Only to an individual (who is not entitled to House Rent Allowance).

Quantum:

- Rent paid minus 10% of the adjusted total income,
- Rs. 5,000 per month, or
- 25% of the adjusted total income, before making deduction under this section, whichever is less.

Important Points:

- Deduction under 80GG can be claimed on the house rent paid in the previous year for his accommodation (furnished or unfurnished) on a condition that he or his spouse or any minor child or HUF of which he is a member does not own any house at the place of assessee's work or dwelling. If individual owns any residential accommodation at any place, other than the place of residence or work of the assessee, then such property should not be assessed in the hands of the individual as self-occupied property.
- The deduction is allowable only if the assessee opts out of the default tax regime u/s 115BAC.
- Deduction under this section is allowed to be claimed if the assessee is not entitled to House Rent Allowance from his employer and he should furnish a copy of the certificate in Form no. 10BA to the assessing Officer (whenever asked for examining).
- "Adjusted total income" means

Gross Total Income

Less: Long term capital gain
 Short term capital gain (u/s 111A)
 All deduction except 80GG

Question 8: Mrs. Divya, a businesswoman has following furnished information for previous year 2025-26:

Business Income	1,00,000
Income from Salary (computed)	1,30,000
Income from other sources: Dividend Income	15,000
Deposit in PPF	10,000

She pays Rs. 5000 p.m. as rent for his residential accommodation in Delhi. Assuming, she or her family has no other residential accommodation, calculate her total income for the A.Y. 2026-27, assuming she opted out of default tax regime u/s 115BAC. .

Solution:

Salary	1,30,000
Business Income	1,00,000
Income from other sources: Dividend Income	15,000



Gross Total Income	2,45,000
Less: Deductions u/s 80C to 80U	
Section 80C – PPF contribution	10,000
Section 80GG – Deduction for rent	36,500
Total Income	1,98,500

Working Note –

$$\begin{aligned}
 \text{*Adjusted Total Income} &= \text{Gross Total Income} - \text{Deductions} \\
 &= 2,45,000 - 10,000 \\
 &= 2,35,000
 \end{aligned}$$

Deduction u/s 80GG

- | | | | |
|-------|--|---------------------|--------|
| (i) | Rent paid minus 10% of the adjusted total income | $60,000 - 23,500 =$ | 36,500 |
| (ii) | Rs. 5,000 per month | | 60,000 |
| (iii) | 25% of the adjusted total income | | 58,750 |

Deduction in Respect of Certain Donations for Scientific Research or Rural Development (Section 80GGA)

- Eligible:** To an assessee who does not have income from business or profession.
- Quantum:** The amount of donation or contribution made (not more than Rs. 2,000 in cash) in the previous year.

Important Points:

- Deduction under 80GGA can be claimed on donations made to an approved research association, university, college or other institution in the field of science, social science or statistics.
- Deduction under this section is also allowed on donations made for any rural development program. Though the assessee should furnish a certificate to Assessing officer in this regard.
- Donations in the form of cash, cheque or draft are allowed but not more than Rs. 2,000 in cash.
- Deduction is allowable only if the assessee opts out of the default tax regime u/s 115BAC.

Deduction in Respect of Contribution to Political Party or Electoral Trust by an Indian Company (Section 80GGB) -

- Eligible:** To an Indian Company.
- Quantum:** The amount of donation or contribution made in the previous year.



(not made by cash).

Important Points:

- a) Deduction under 80GGB can be claimed on the contribution made by an Indian Company in the previous year to any political party or an electoral trust.
- b) Deduction is allowable only if the assessee opts out of the default tax regime u/s 115BAC

Deduction in Respect of Contribution to Political Party or Electoral Trust by any Person (Section 80GGC)

- Eligible:** Any person (except local authority and any artificial juridical person wholly or partly funded by the Government).
- Quantum:** The amount of donation or contribution made in the previous year. (not made in cash).

Important Points:

- a) Deduction under 80GGC can be claimed on the contribution made by any person (except local authority and any artificial juridical person wholly or partly funded by the Government) in the previous year to any political party or an electoral trust.
- b) Deduction is allowable only if the assessee opts out of the default regime u/s 115BAC.

Exercise

1. Deduction under section 80E for interest on education loan taken for higher education can be claimed for a maximum period of :
 - a) 8 years
 - b) 9 years
 - c) 10 years
 - d) 12 years
2. The quantum of deduction allowed under section 80D in case of HUF where member is not a senior citizen shall be limited :
 - a) Rs. 10,000
 - b) Rs. 25,000
 - c) Rs. 20,000
 - d) Rs. 50,000
3. Maximum qualifying limit for deduction under section 80C is :
 - a) Rs. 50,000
 - b) Rs. 1,50,000
 - c) Rs. 2,00,000
 - d) Rs. 3,00,000
4. Deduction under 80G on account of donation is allowed to :
 - a) A business assessee only



- b) Any assessee
 - c) Individual or HUF only
 - d) Individual only
5. Deduction under section 80EEA is allowed on interest on home loan, subject to that the stamp duty value of the house property bought should not exceed :
- a) 25 lakhs
 - b) 35 lakhs
 - c) 45 lakhs
 - d) 55 lakhs

Answer: 1. a, 2. b, 3. b, 4. b, 5. c



SESSION 2

BASIC OVERVIEW OF DEDUCTIONS IN RESPECT OF CERTAIN INCOMES & DEDUCTION 80JJA, 80JJAA, 80QQB, 80RRB, 80TTA, 80TTB & 80U

Deductions in Respect of Certain Incomes

Section	Eligible Business		Year of commencement of eligible business	Period of Deduction	Quantum of Deduction
80-IA	(1)	(i) Developing or (ii) Operating and maintaining or (iii) Developing, operating and maintaining any infrastructure facility	On or after 1.4.1995 but not later than 1.4.2017	<u>Infrastructure Facility of road, or a bridge or a rail system or a highway project or a water supply project:</u> 10 consecutive assessment years out of 20 years beginning from the year in which the enterprise develops or begins to operate the eligible business.	100% of the profits and gains derived from such business for 10 consecutive assessment years.
	(2)	Power undertakings	<u>Generation or Generation and distribution:</u> Set up between 1.4.1993 & 31.3.2017. <u>Transmission or distribution:</u> Start transmission during the period from 1.4.1999 & 31.3.2017. <u>Renovation and modernisation of existing network:</u> Undertakes substantial renovation and modernisation during the period on or after 1.4.2004 & ending on	<u>Other eligible businesses:</u> 10 consecutive assessment years out of 15 years beginning from the year in which the enterprise develops or begins to operate the eligible business.	



			31.3.2017.		
80-IAB	Development of Special Economic Zones(SEZs)	Develops SEZ, notified on or after 1 st April 2005 but before 1 st April 2017.	10 consecutive AYs out of 15 years beginning from the year in SEZ has been notified.	100% of the profits and gains derived from such business.	
80-IAC	A business carried out by an eligible start-up engaged in Innovation, Development or Improvement of products or processes or services or a scalable business model with a high potential of employment generation or wealth creation	The company or LLP is incorporated during the period 1.4.2016 - 31.3.2030	3 consecutive AYs out of 10 years beginning from the year in which company or LLP, incorporated.	100% of the profits and gains derived from such business.	
80-IB	Processing, preservation and packaging of fruits or vegetables or meat and meat products or poultry or marine or dairy products or from the integrated business of handling, storage and transportation of foodgrains	<u>Processing, preservation and packaging of meat or meat products or poultry or marine or dairy products:</u> On or after 1.4.2009 <u>Other eligible businesses:</u> On or after 1.4.2001	10 consecutive AYs beginning with the initial AY	100% of the profits and gains derived from such business for 5 AYs beginning with the initial AY 25% (30% in case of company) for remaining 5 years	
80-IBA	Developing and building housing projects or rental housing project	Housing Project referred under section 80-IBA(1) is approved after 1 st June 2016 but on or before 31 st March 2022	----	100% of the profits and gains derived from such housing project.	
80-IE	Undertaking begun or begins manufacture or produce any eligible article or thing, in any of the North-Eastern States (i.e., the States of Arunachal Pradesh, Assam, Manipur,	between 1 st April, 2007 and ending before 1 st April, 2017	10 consecutive AYs Commencing with the initial AY	100% of the profits and gains derived from such business	



	Meghalaya, Mizoram, Nagaland, Sikkim and Tripura)			
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Deduction u/s 80JJA, 80JJAA and 80P

SECTION	WHO CAN CLAIM	NATURE OF DEDUCTION	AMOUNT OF DEDUCTION
80JJA	All Assessee	Profit or gains from the business of collecting and processing of biodegradable waste.	100% of such gain for 5 consecutive assessment year.
80JJAA (Allowable even under the default tax regime u/s 115BAC/optional regimes u/s 115BAA/115BAB)	Assessee engaged in business liable for tax audit under section 44AB.	Employment of new workmen.	30% of additional wages paid to new regular workmen.
80LA	Offshore Banking Unit/ International financial services Centre.	Income from i) Offshore Banking Unit in SEZ. ii) Business with an undertaking located in SEZ. iii) Any Unit of IFSC from its business.	100% of such income for 10 Consecutive Years
80P	Co-operative society.	Specified Income A(I) Profit attributable to certain specified activities : i) Banking / credit. ii) Cottage industry. iii) Marketing of agricultural produce grown by its members. iv) Fishing, allied activities. II) Profits of co-operative societies engaged in supplying milk, oil seeds, fruits, vegetables. III) Income from investment with other co-operative societies. IV) Income from letting of 'godowns' / warehouse	100% deduction is allowed in respect of profits and gains attributable to activities specified in A. For activities in B (1) 50,000 Or Rs. 1,00,000 (in case of consumer co-operative society). 100% of the deduction allowed in respect of income specified in B(2).



		<p>for storage, processing, etc.</p> <p>B (1) Engaged in other than those mentioned in (I) & (II) of (A).</p> <p>(2) Income by way of interest on securities / house property of gross total income of co-operative society does not exceed Rs. 20,000.</p>	
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Deduction in Respect of Royalty Income of Authors (Section 80QQB)

Eligible: To a Resident Author (or Joint Author).

Quantum: (1) 100% of such income; or
(2) Rs. 3,00,000; whichever is less.

Important Points:

- Deduction under 80QQB can be claimed on the royalty or copyright fees (payable in lump sum or otherwise) or lump sum consideration for transfer (or grant) of any interest in the copyright of the book authored by him which is work of literacy, artistic or scientific nature (excluding text-books for schools, tracts and other publications of similar nature, by whatever name called).
- Deduction under this section is also allowed if the assessee furnishes a copy of the certificate in Form no. 10CCD to the Assessing Officer from the person responsible for paying the income (whenever asked for examining).
- Deduction allowable only if the assessee opts out of the default tax regime u/s 115BAC

Deduction in Respect of Royalty Income on Patents (Section 80RRB)

Eligible: To a Resident Individual who is registered as the true and first inventor in respect of an invention

Quantum: 1) 100% of such income; or
2) Rs. 3,00,000; whichever is less.

Important Points:

- Deduction under section 80RRB can be claimed on the royalty received in respect of



patent (he may be a co-owner of a patent) which is registered.

- b) Deduction under this section is also allowed if the assessee furnishes a copy of the certificate in Form no. 10CCE to the Assessing officer from the person responsible for paying the income (whenever asked for examining).
- c) When the eligible income is earned outside India, such income is brought into India in convertible foreign exchange on or before September 30th of the assessment year in order to avail deduction under this section. A certificate of foreign inward remittance should be taken in Form no. 10H from a prescribed authority (i.e., RBI or an authorized bank).
- d) Deduction allowable only if the assessee opts out of the default regime u/s 115BAC

Deduction in Respect of Interest on Deposits in Savings Accounts (Section 80TTA)

Eligible: 1) Individual 2) HUF

Quantum: The total amount of interests on deposits in savings accounts maximum up to Rs. 10,000.

Important Points:

- a) Deduction under 80TTA can be claimed on interest on deposits of savings accounts with a bank / co-operative bank / post office.
- b) Interests on time deposits are not considered.
- c) Deduction is allowable only if the assessee opts out of the default tax regime u/s 115BAC.

Deduction in Respect of Interest on Deposits in case of senior citizens (Section 80TTB)

Eligible: Resident individual having age of 60 years or more.

Quantum: The total interest amount in deposits (savings accounts or fixed deposits.) maximum up to Rs. 50,000.

Important Points

- a) Deduction under 80TTB can be claimed on interest on deposits of with a bank / co-operative bank / post office
- b) An assessee can not claim both 80TTA and 80TTB both simultaneously.
- c) Deduction is allowable only if the assessee opts out of the default tax regime u/s 115BAC.

Deduction in the Case of a Person with Disability (Section 80U)

Eligible: Only to a Resident Individual with disability.

Quantum: Rs. 75,000 (1,25,000 in case of a person with severe disability).

Important Points:

- a) Deduction under 80U can be claimed by a person with disability.



- b) For claiming the deduction under this section, the assessee should furnish to the Assessing Officer a copy of the certificate issued by the medical authority; whenever asked for examining.
- c) Where the condition of disability requires reassessment (when the medical certificate is issued for a specific period), a fresh certificate shall have to be obtained soon after the expiry of the period. No deduction shall be allowed if the medical certificate stands expired in the year preceding the assessment year.
- d) Deduction is allowable only if the assessee opts out of the default tax regime u/s 115BAC.

Exercise

1. The maximum limit of deduction specified under section 80RRB for claim on the royalty received in respect of patent is :
 - a) Rs. 50,000
 - b) Rs. 1,50,000
 - c) Rs. 2,00,000
 - d) Rs. 3,00,000
2. Deduction available under section 80QQB in respect of royalty income of authors shall not exceed _____ in a previous year.
 - a) Rs. 50,000
 - b) Rs. 1,50,000
 - c) Rs. 2,00,000
 - d) Rs. 3,00,000
3. Mr. X receives Rs. 2,50,000 as royalty fees for writing a science book of class 8th. He is entitled to claim a deduction u/s 80QQB of Rs. 2,50,000 from his Gross Total Income.
4. Mr. M gets an interest of Rs. 10,855 as interest on his fixed deposits with a co-operative bank. He is entitled to get a deduction of Rs. 10,855 under section 80TTA.

Answer: 1. d; 2. d; 3. False - not entitled for school textbook; 4. False- eligible for deduction upto Rs. 10,000 only.

Question 9: Mr. V, being a 52 year old Indian citizen, provides us the following information for the year ending 31.03.2026

Income from salary (computed)	3,40,000
Income from house property	50,000
Long term capital gain [u/s 112]	1,20,000



Short term capital loss	20,000
LIP on his own life issue on 25.5.2024 (sum assured-Rs. 5,000)	1,000
Tuition fees of younger child	1,200
5 year term deposit in post office	3,000
Premium of Medi-claim insurance taken for self	7,000
Payment for medical treatment of wife (60% disabled)	50,000
Interest on education loan taken (Loan taken for his elder son to pursue B.Tech)	90,000
Repayment of home loan (Loan taken in April 2024)	8,000
Deposited to PM's Relief fund	10,000

He also pays a premium on Medi-claim of his father of Rs. 61,000 who is 78 years of age. Calculate his total income for the A.Y. 2026-27, assuming he has opted out of default tax regime u/s 115BAC.

Solution :

Computation of Total Income of Mr. V

Income from salary		3,40,000
Income from house property		50,000
Income from capital gains		
Long term capital gain	1,20,000	
Less: Short term capital loss	(20,000)	1,00,000
GROSS TOTAL INCOME		4,90,000
Less: Deduction under section 80C		(12,700)
➤ LIC [to the extent of 10% of sum assured]	500	
➤ Tuition fees	1200	
➤ 5 years term deposit	3,000	
➤ Repayment of home loan	8,000	
Less: Deduction under section 80D [Rs. 7,000 for self and medical premium paid of Rs. 61,000 for father, restricted to Rs. 50,000]		(57,000)
Less: Deduction under section 80DD [Flat deduction of Rs. 75,000 irrespective of actual expenditure]		(75,000)
Less: Deduction under section 80E [Interest on education loan taken for higher studies i.e. Rs. 90,000]		(90,000)
Less: Deduction under section 80G [Deposit to Prime Minister's relief fund, being a 100% without qualifying limit head is claimed fully.]		(10,000)
TOTAL INCOME		2,45,300



Question 10: Mr. X, being an author and a businessman, provides us the following information for the year ending 31.03.2026

Income from Business	4,20,000
Income from house property	4,80,000
Long term capital gain	2,10,000
Short term capital loss	70,000
LIP on his own life (sum assured-Rs. 10,000)	1,000
LIP on his wife (sum assured-Rs. 8,000)	400
Tuition fees of younger child	800
Deposit in PPF	13,000
Contribution to RPF	3,000
Premium of Medi-claim insurance taken for self	7,000
Premium of Medi-claim insurance taken for child (Independent)	8,000
Premium of Medi-claim insurance taken for wife	9,000
Payment for medical treatment of child (40% disabled)	20,000
Deposited to Prime Minister's Drought Relief Fund	50,000
Royalty received on a novel written [Included in business income mentioned above]	50,000
Royalty received on a registered patent [Included in business income mentioned above]	3,20,000

Calculate his total income for the A.Y. 2026-27, assuming he has opted out of default tax regime u/s 115BAC.

Solution :

Computation of Total Income of Mr. X

Income from business		4,20,000
Income from house property		4,80,000
Income from capital gains		
Long term capital gain	2,10,000	
Less: Short term capital loss	(70,000)	1,40,000
GROSS TOTAL INCOME		10,40,000
Less: Deduction under section 80C	18,200	
Less: Deduction under section 80D	16,000	
Less: Deduction under section 80DD	75,000	
Less: Deduction under section 80G	25,000	



Less: Deduction under section 80QQB	50,000	
Less: Deduction under section 80RRB	3,00,000	4,84,200
TOTAL INCOME		<u>5,55,800</u>

Working Notes -

Deduction u/s 80C :	
LIP on his own life	1,000
LIP on his wife	400
Tuition fee of younger child	800
Deposit in PPF	13,000
Deposit in RPF	3,000
Total	18,200
Deduction u/s 80D :	
Premium paid on Medi-claim taken for self	7,000
Medi-claim premium for independent child	NIL
Premium paid on Medi-claim taken for wife	9,000
Total	16,000
Deduction u/s 80DD :	75,000
➤ In case of 40% disability of dependent child flat 75,000 deduction provided irrespective of the amount paid.	
Deduction u/s 80G :	25,000
- Deposit to Prime Minister's Drought Relief Fund, being a 50% without qualifying limit i.e., 25,000 instead of 50,000.	
Deduction u/s 80QQB :	50,000
- Royalty received in his work of literacy maximum Rs. 3,00,000	
Deduction u/s 80RRB :	3,00,000
➤ Royalty received in respect of patent Rs. 3,20,000 but it is subject to a maximum of Rs. 3,00,000	

Summary

- ◆ **Section 80C:** Deduction on life insurance premia, contribution to provident fund, etc. available to individual/HUF for a maximum amount of Rs. 1,50,000.



- ◆ **Section 80CCC:** Deduction for contribution to pension fund – available to individual for maximum amount of Rs. 1,50,000.
- ◆ **Section 80CCD:** Deduction in respect of contribution to pension scheme of Central Government available to individual.
- ◆ **Section 80CCE:** Limit on deductions under Sections 80C, 80CCC and 80CCD –cannot exceed Rs. 1,50,000.
- ◆ **Section 80D:** Deduction in respect of medical insurance premia - available to individual/HUF.
- ◆ **Section 80DD:** Deduction in respect of maintenance including medical treatment of a dependant who is a person with disability – available to resident individual/HUF for a fixed amount of Rs. 75, 000 and Rs. 1, 25,000.
- ◆ **Section 80DDB read with Rule 11DD:** Deduction in respect of medical treatment, etc. available to resident individual/resident HUF for maximum of Rs. 40,000 and Rs. 1,00,000 in case of senior citizen
- ◆ **Section 80E:** Deduction in respect of repayment of loan taken for higher education – available to individual.
- ◆ **Section 80EE:** Deduction of upto Rs. 50,000 would be allowed to an individual in respect of interest on loan taken for acquisition of residential property from a financial institution during F.Y. 2016-17 for loan not exceeding Rs. 35 lakhs and value of house not exceeding Rs. 50 lakhs.
- ◆ **Section 80EEA:** Deduction of upto Rs. 1,50,000 allowed to an individual in respect of interest on loan taken for acquisition of residential property from a financial institution during the period from 1.4.2019 to 31.3.2022 and stamp duty value of house not exceeding Rs. 45 lakhs. Deduction u/s 80EE will not be allowed if claiming deduction u/s 80EE.
- ◆ **Section 80EEB:** Deduction of upto Rs. 1,50,000 allowed to an individual in respect of interest payable on loan taken from Financial Institution for purchase of electric vehicle.
- ◆ **Section 80G:** Deduction in respect of donations to certain funds, charitable institutions, etc. available to all assessee subject to maximum of 50% of qualifying amount, 100% as the case may be.
- ◆ **Section 80GG:** Deduction in respect of rent paid – available to individual for a maximum of Rs. 60,000 (Rs. 5000 per month).
- ◆ **Section 80GGA:** Deduction in respect of certain donations for scientific research or rural development.
- ◆ **Section 80GGB:** Deduction in respect of contributions given by companies to political parties.
- ◆ **Section 80GGC:** Deduction in respect of contributions given by any person to political parties.
- ◆ **Section 80QQB:** Deduction in respect of royalty income, etc., of authors of certain books other than text books – available to resident individual, for a maximum deduction of Rs. 3,00,000.
- ◆ **Section 80RRB:** Deduction in respect of royalty on patents – available to resident



individual, maximum of Rs. 3,00,000.

- ◆ **Section 80TTA:** Deduction in respect of interest on deposits in savings account – available to individual/HUF up-to Rs.10,000.
- ◆ **Section 80TTB:** Deduction in respect of interest on deposits (both fixed deposits and saving accounts) to a resident individual of the age of 60 years or more up to Rs. 50,000.
- ◆ **Section 80U:** Deduction in case of a person with disability – available to Resident individual subject to maximum of Rs. 75,000 and Rs. 1,25,000 in respect of person having severe disability

Exercise

I. Short Answer Questions

1. What are the basic rules governing deduction 80C to 80U?
2. What is the aggregate amount of deductions under Sections 80C, 80CCC and section 80CCD?
3. Name any five investments in respect of Section 80C which can be claimed as deduction under this section.
4. State the quantum of deduction in respect of Section 80D.

II. Long Answer Questions

1. Write short notes on:
 - a) Deduction u/s 80QQB in respect of royalty income of authors of certain books.
 - b) Deduction u/s 80DDB in respect of medical treatment.
 - c) Deduction u/s 80U in respect of a person with disability.
 - d) Deduction u/s 80GG in respect of rent paid.
 - e) Deduction u/s 80TTB in respect of interest on deposits.
2. What are the provisions relating to deductions from Gross total income in respect of donations to certain funds, charitable institutions etc. under section 80G of Income Tax Act?
3. What is the deduction available in respect of 80QQB?
4. Explain the deduction in respect of royalty on patents under section 80RRB.



III. Numerical Questions

Question 1: Mr. Vyapak, being a 40 year old Indian citizen and resident, provides us the following information for the year ending 31.03.2026

a.	Income from salary (Computed)	8,90,000
b.	Long term capital gain	1,20,000
c.	Short term capital gain	20,000
d.	Interest of Savings accounts	30,000
e.	LIP on his own life (sum assured-5,000)	1,000
f.	Tuition fees younger child	1,000
g.	5 year term deposit in post office	3,000
h.	Contribution to PPF	4,000
i.	Contribution to RPF	6,000
j.	Premium of Medi-claim insurance (self)	10,000
k.	Payment for medical treatment of wife (40% disabled)	30,000
l.	Interest on education loan taken (Loan taken for his elder son to pursue MBA)	80,000
m.	Interest on home loan taken for self-occupied house (Loan Sanctioned during F.Y. 2021-22) (Loan amount – 38 lakhs) (Stamp duty of house – 42 lakhs)	3,80,000



- n. Donation to PM National Relief Fund 15,000

Calculate his total income for the A.Y. 2026-27, assuming he has opt out of default tax regime.

(Answer – Rs. 5,05,500)

Question 2: Mr. Aarav (aged 61 years), being an author and a businessman, provides us the following information for the year ending 31.03.2026

a. Income from business	9,20,000
b. Loss from self occupied house property	2,00,000
c. Long term capital gain	2,10,000
d. Short term capital loss	10,000
e. Income from other sources	30,000
f. LIP on his own life (sum assured-10,000)	1,000
g. LIP on his wife (sum assured-8,000)	400

- h. Amount incurred on education of younger child 800
- i. Deposit in PPF 15,000
- j. Contribution to RPF 8,000
- k. Premium of Medi-claim insurance taken for wife 9,000
- l. Payment for medical treatment of child (60% disabled) 20,000
- m. Interest on home loan paid 4,50,000
(Sanction in the FY 2016-17)
(Loan amount being 32 lakhs)
(Cost of house being 48 lakhs)
- n. Royalty received on a novel written (Included in Business Income) 3,50,000
- o. Royalty received on a registered patent (Included in Business Income) 20,000

Calculate his total income for the A.Y. 2026-27, assuming he has opt out of default tax regime u/s 115BAC.

(Answer – Rs. 4,40,800)



Question 3: Mr. Siddhartha, being 42 years old resident, provides us the following information for the year ending 31.03.2026

a.	Income from salary (computed)	8,20,000
b.	Income from house property	28,000
c.	Interest on saving bank account	1,000
d.	Dividend Income	30,000
e.	LIP on his wife (sum assured-8,000)	900
f.	Amount spent on education of 3 children(each)	1000
g.	Deposit in PPF	18,000
h.	Contribution to RPF	5,000
i.	Preventive medical check-up of self	4,000
j.	Preventive health check-up of dependent child	2,000
k.	Premium of Medi-claim insurance taken for self	9,000
m.	Donation to family planning	20,000
n.	Donation to renovation of notified temple	15,000

Calculate his total income for the A.Y. 2026-27, assuming he has opted out of default tax regime.

(Answer – Rs. 8,09,700)



UNIT - 2

COMPUTATION OF TAX LIABILITY OF AN INDIVIDUAL

Unit-2	COMPUTATION OF TAX LIABILITY OF AN INDIVIDUAL			
Location: Classroom	SESSION 1: INTRODUCTION : CALCULATION OF TAX LIABILITY OF INDIVIDUAL			
	Learning Outcome	Knowledge Evaluation	Performance Evaluation	Teaching and Training Method
	1. Basic rules related to computation of tax liability.	1. How total taxable income and tax liability is calculated for an individual?	1. Write the basic steps to calculate tax liability. 2. List the rates of income tax for Assessment year 2026-27	Interactive Lecture: Discussion related to rules related to computation of tax liability.
	2. Practical illustration.	1. Calculation of tax liability and taxable income.	1. Calculation of tax liability and taxable income.	Interactive Lecture: Discussion on Practical problems.

UNIT: COMPUTATION OF TAX LIABILITY OF AN INDIVIDUAL

Learning Objectives:

After reading this unit, the students will be able to:

1. Understand the rules for computation of taxable income.
2. Calculate taxable income and tax liability of an individual.



SESSION 1

INTRODUCTION - CALCULATION OF TAX LIABILITY OF INDIVIDUAL

Introduction

An individual means a natural person i.e. human being. Individual includes a male, female, minor child and a lunatic or an idiot.

Income tax will be levied on Total Income of an Individual. As regards a minor child, the income of a minor after giving exemption up to Rs. 1,500 per minor child will be clubbed with the income of that parent who's Total Income, before clubbing such income, is greater. However, there are certain incomes which are not to be clubbed. Such income of the minor, which is not to be clubbed, will be assessable in his/her hands.

Further, section 115BAC of the Income Tax Act, 1961 prescribes an alternative regime for computation of total income and tax liability of an individual. Section 115BAC is a default tax regime. It implies that unless an individual and other eligible assessee opts out to pay tax as per default tax regime, his total income and tax liability shall be computed as per the provisions of section 115BAC. As per section 115BAC, assessee will pay tax as per the concessional tax rate subject to forgoing certain deductions and exemptions. Section 115BAC is discussed in the upcoming paras of the chapter.

Income of a lunatic or an idiot will be assessed in the hands of the representative assessee.

◆ An individual is liable to pay tax in respect of the following incomes :

- i) **Income Earned By an Individual Himself:** Income earned by an individual in his individual capacity.
- ii) **Income Earned as a Partner of a Firm or a Limited Liability Partnership:** Following types of incomes can be earned by an individual as partner of a firm or limited liability partnership:
 - (a) **Share of Profit of the Firm or Limited Liability Partnership:** The share of profit from a partnership firm or a limited liability partnership, is exempt from tax at the time of individual assessment of the partner; [Section 10(2A)];
 - (b) **Remuneration from a Firm:** The remuneration by way of salary, bonus, commission, etc., received by a partner, is taxable as business income in the hands of a partner [Section 28(v)];
 - (c) **Interest on Capital or Loan:** Interest on capital or loan to a firm or



limited liability partnership, in which he is a partner, is also assessed as income from business to the extent allowed as deduction to the firm or LLP.

- iii) **As a Member of an Association of Persons, etc.:** Where an individual is member of an association of persons or body of individuals, his share of income from such AOP/ BOI shall be taxed as under:
- Where the Income of Association of Persons or Body of Individuals is Chargeable at Maximum Marginal Rate:** Share of income of a member from such AOP or BOI will not be included in his taxable income at all.
 - Where the Income of AOP or BOI is Taxed at Normal Rates i.e. The Rates Applicable to an Individual:** Share of income of a member from such AOP or BOI will be included in the taxable income of the individual only for rate purposes and a relief under section 86 shall be allowed.
 - Where No Income Tax is Chargeable on the Income of the AOP or BOI:** Share of income of a member from such AOP or BOI will be chargeable to tax as part of his total income.
- iv) **Income of the Other Persons Included in the Income of the Individual [Section 60 to 65]:** As already discussed under the chapter on 'clubbing of income', the income of other persons will also be included in the individual's total income under respective heads of income.

◆ **Computation of total income and tax liability -**

- Step 1:** Compute the income of an individual under 5 heads of income on the basis of his residential status.
- Step 2:** Income of any other person, if includible under section 60 to 64, will be included under respective heads.
- Step 3:** Set off of the losses if permissible, while aggregating the income under 5 heads of income.
- Step 4:** Carry forward and set off of the losses of the past years, if permissible, from such income.
- Step 5:** The income computed under step 1 to 4 is known as Gross Total Income from which deductions under section 80C to 80U (Chapter VIA) will be allowed. However, no deduction under these sections will be allowed from short term capital gain covered under section 111A, any long term capital gain and winning of lotteries etc., though these incomes are part of gross total income.
- Step 6:** The balance income after allowing the deductions is known as total income which will be rounded off to the nearest Rs. 10.
- Step 7:** Compute tax on such total income at the prescribed rates of tax.
- Step 8:** Add Surcharge, if applicable/reduce rebate u/s 87A, if applicable



Step 8: Add: Health and education cess @ 4%.

Step 9: Allow relief under section 89, if any.

Step 10: Deduct the TDS and advance tax paid for the relevant assessment year. The balance is the net tax payable which must be rounded off to the nearest Rs. 10. This tax has to be paid as self-assessment tax before submitting the income tax return.

◆ **Rates of income tax for assessment year 2026-27 under optional tax regime.**

Particulars	Rate of Tax
i) Winnings from lotteries, crossword puzzles or races including horse races or card games and other games of any sort or from gambling or betting of any form or nature whatsoever [section 115BB]	30%
ii) Short term capital gains on equity shares in a company or units of an equity oriented fund where the transaction is chargeable to securities transaction tax [section 111A]	20%
iii) Long term capital gains (LTCG)	
(a) LTCG u/s 112 Without Indexation	12.50%
(b) LTCG u/s 112 With Indexation (Purchased prior to 23.07.2024)(Only for resident individuals) (Provided if such tax liability is less than the tax computed without indexation at the rate of 12.5%)	20%
(c) LTCG on listed equity shares in a company or units of an equity oriented fund where the transaction is chargeable to securities transaction tax [section 112A], on an amount of gain exceeding Rs. 1,25,000	12.5%
iv) The balance of total income in case of:-	
a) An individual, resident in India who is not more than 60 years of age, a non-resident individual, HUF, AOP/BOI (other than a co-operative society).	
Up to Rs. 2, 50,000	Nil
Rs. 2,50,001 to Rs. 5, 00,000	5%
Rs. 5, 00,001 to Rs. 10, 00,000	20%
Above Rs. 10,00,000	30%
An individual, resident in India, who is of the age of 60 years or more at any time during the previous year, but less than 80 years of age.	
Up to Rs. 3,00,000	Nil
Rs. 3,00,001 to Rs. 5, 00,000	5%



	Rs. 5, 00,001 to Rs. 10, 00,000	20%	
	Above Rs. 10,00,000	30%	
An individual (man or woman), resident in India who is of the age of 80 years or more at any time during the previous year.			
	Up to Rs. 5,00,000	Nil	
	Rs. 5, 00,001 to Rs. 10, 00,000	20%	
	Above Rs. 10,00,000	30%	

◆ **Rebate of maximum Rs. 12,500 for resident individuals having a total income up to Rs. 5 lakhs [section 87A]**

With a view to provide tax relief to the individual tax payers who are in lower income bracket, the Act has provided rebate for the tax payable by an assessee, if the following conditions are satisfied:

- The assessee is an individual,
- He is resident in India,
- His total income does not exceed Rs. 5, 00,000.

Quantum of Rebate: The rebate shall be equal to:

- The amount of income tax payable on the total income for any assessment year, or,
- Rs. 12,500

Whichever is less

The rebate u/s 87A is not allowed on the income tax payable under section 112A.

◆ **Rates of income tax for assessment year 2026-27 as per Default Tax Regime u/s 115BAC**

Individuals/ HUF/ AoPs/ BoIs or artificial judicial persons, other than those who exercise the option to opt out this regime (default tax regime) under section 115BAC, have to pay tax in respect of their total income (other than income chargeable to tax at special rates such as section 111A, 112, 112A, 115BB, 115BBJ etc.) at the following concessional rates, subject to certain conditions specified under section 115BAC:

Particulars	Rate of Tax
Upto Rs. 4,00,000	NIL
Rs. 4,00,001 to Rs. 8,00,000	5%
Rs. 8,00,001 to Rs. 12,00,000	10%
Rs. 12,00,001 to Rs. 16,00,00	15%



Rs. 16,00,001 to Rs. 20,00,000	20%
Rs. 20,00,001 to Rs. 24,00,000	25%
Above Rs. 24,00,000	30%

➤ **The following deductions are not allowed under the default tax regime under section 115BAC:**

1. Exemption in respect of Leave travel concession, House rent allowance
2. Exemption in respect of special allowances or benefit to meet expenses relating to duties or personal expenses (other than those as may be prescribed for this purpose), Daily allowance or constituency allowance of MPs and MLAs
3. Exemption in respect of income of minor child included in the income of parent,
4. SEZ deduction u/s 10AA,
5. Deduction for entertainment allowance, professional tax under the head "Salaries".
6. Deduction in respect of interest on loan in respect of self-occupied property
7. Additional depreciation
8. Deduction in respect of contribution to certain institutions for scientific research, Investment linked tax incentives for specified businesses,
9. Chapter VI-A deductions 80C to 80U except for 80CCD(2), 80CCH(2) and 80JJAA.
10. No loss under the head house property would be allowed to be set off against any other head of income.

➤ **Time limit for exercising the option to shift out of the default tax regime**

✚ **In case of an assessee having no income from business or profession:**

Where such individual/HUF/AoP/BoI or Artificial Juridical person is **not** having income from business or profession, he/it can exercise an option to shift out/opt out of the default tax regime under this section and such option has to be exercised along with the return of income to be furnished under section 139(1).

✚ **In case of an assessee having income from business or profession**

Such individual/HUF/AoP/BoI or Artificial Juridical person having income from business or profession has an option to shift out/ opt out of the default tax regime under this section and the option has to be exercised on or before the due date specified under section 139(1) for furnishing the return of income for such previous year and once such option is exercised, it would apply to subsequent assessment years.

- Once an assessee is under the default regime u/s 115BAC, the provisions of AMT shall not be applicable.
- Standard deduction allowed while computing salary of Rs. 75,000.

Quantum of Rebate under section 87A under default tax regime u/s 115BAC : The rebate shall be equal to:

- ◆ The amount of income tax payable on the total income for any assessment year, or,
- ◆ Rs. 60,000,



Whichever is less.

- ◆ If an assessee pays tax as per default tax regime u/s 115BAC, then the rebate u/s 87A is allowed only on the tax computed as per section 115BAC. Hence, rebate is not allowed on any tax computed as per the special rates, i.e. 111A, 112, 112A, etc.

Alternate Minimum Tax (AMT) on all persons other than companies [section 115JC to 115JF]

Where the regular income tax payable for a previous year by a person (other than a company) is less than the alternate minimum tax payable for such previous year, the adjusted total income shall be deemed to be the total income of such person and he shall be liable to pay income tax on such total income at the rate of 18.5%. [Section 115JC (1)]

Report from an accountant [section 115JC (3)]: Every person to whom this section applies shall obtain a report, before the specified date referred to in section 44AB(i.e. one month prior to the due date for filing the return of income), in such form as may be prescribed, from an accountant, certifying that the adjusted total income and the alternate minimum tax have been computed in accordance with the provisions of this Chapter and furnish such report by that date.

To whom AMT shall be applicable [section 115JEE (1)]:

The provisions of AMT shall apply to a person who has claimed any deduction under –

- (a) Sections 80-IA to 80RRB other than section 80P; or
- (b) Section 10AA, or
- (c) Section 35AD

To whom AMT shall not be applicable [section 115JEE (2)]:

The provisions of AMT under Chapter XII-BA shall not apply to –

- (a) An individual; or
- (b) A HUF; or
- (c) An AOP or a BOI (whether incorporated or not); or
- (d) An artificial juridical person referred to in section 2(31)(vii).

If the adjusted total income of such person does not exceed Rs. 20,00,000.

Tax credit for AMT: Section 115JD provides the credit for tax (tax credit) paid by a person on account of AMT under Chapter XII-BA shall be allowed to the extent of the excess of the AMT paid over the regular income tax. This tax credit shall be allowed to be carried forward up to the **fifteenth assessment year** immediately succeeding the assessment year for which such credit becomes allowable. It shall be allowed to be set off for an assessment year in which the regular income tax exceeds the AMT to the extent of the excess of the regular income tax over the AMT. No interest shall be payable on tax credit allowed under section 115JD.

With a view to enable an assessee who has paid AMT in any earlier previous year to claim



credit of the same, in any subsequent year, the Act has inserted section 115JEE (3) so as to provide that the credit for tax paid under section 115JC shall be allowed in accordance with the provisions of section 115JD, notwithstanding the conditions mentioned in section 115JEE (1) or (2).

For this purpose:

- (a) “Adjusted total income” shall be the total income before giving effect to provisions of sections 115JC to 115JF as increased by the deductions claimed under sections 80-IA to 80RRB other than section 80P included in Chapter VI-A, deduction claimed under section 10AA and deduction claimed, if any, under section 35AD. [section 115JC(2)].
- (b) “Alternate minimum tax” shall be the amount of tax computed on adjusted total income
 - In case of an assessee being unit located in International Financial Service Centre (IFSC), at the rate of 9%
 - In case of assessee being a co-operative society, at the rate of 15%
 - In any other case, at a rate of 18.5% [section 115JF(b)].

“Regular income tax” shall be the income tax payable for a previous year by a person other than a company on his total income in accordance with the provisions of Chapter XII-BA (i.e. sections 115JC to 115JF). [Section 115JF (d)].

Surcharge

Surcharge is an additional tax payable over and above the income-tax. Surcharge is levied as a percentage of income-tax. Surcharge is presently being levied beyond a particular threshold of income for different persons. Also, higher rates of surcharge are prescribed for higher thresholds of income. However, under the special tax regimes for domestic companies and co-operative societies, a uniform surcharge is prescribed irrespective of the level of total income.

In case the Individual/HUF/AoP¹/BoI and Artificial Juridical Person pays tax under default tax regime under section 115BAC

Income-tax computed in accordance with the provisions of section 115BAC and/ or section 111A or section 112 or section 112A or 115BBE or section 115BBJ would be increased by surcharge given under the following table:

	<i>Particulars</i>	Rate of surcharge on income-tax	Example	
			Components of total income	Applicable rate of surcharge
(i)	Where the total income (including dividend income and capital gains	10%	Example	
			<ul style="list-style-type: none"> • Dividend ` 15 lakhs; • STCG u/s 111A 	Surcharge would be levied @10% on income-tax computed on total income of

¹ (other than an AOP consisting of only companies as members)



	chargeable to tax u/s 111A, 112 and 112A) > ` 50 lakhs but ≤ ` 1 crore		<ul style="list-style-type: none"> ` 15 lakhs; • LTCG u/s 112 ` 25 lakhs; • LTCG u/s 112A ` 20 lakhs; and • Other income ` 25 lakhs 	` 1 crore.
(ii)	Where total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ` 1 crore but ≤ ` 2 crore	15%	Example <ul style="list-style-type: none"> • Dividend income ` 10 lakhs; • STCG u/s 111A ` 35 lakhs; • LTCG u/s 112 ` 50 lakhs; • LTCG u/s 112A ` 35 lakhs; and • Other income ` 55 lakhs 	
(iii)	Where total income (excluding dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ` 2 crore	25%	Example <ul style="list-style-type: none"> • Dividend income ` 51 lakhs; • STCG u/s 111A ` 44 lakh; • LTCG u/s 112 ` 42 lakhs; • LTCG u/s 112A ` 55 lakh; and • Other income ` 6 crores 	
	The rate of surcharge on the income-tax payable on the portion of dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A	Not exceeding 15%	Surcharge@15% would be levied on income-tax on: <ul style="list-style-type: none"> • Dividend income of ` 51 lakhs; • STCG of ` 44 lakhs chargeable to tax u/s 111A; • LTCG of ` 42 lakhs chargeable to tax u/s 112; and • LTCG of ` 55 lakhs chargeable to tax u/s 112A. Surcharge@25% would be leviable on income-tax computed on other income of ` 6 crores included in total income	
(iv)	Where total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ` 2 crore in cases not covered under (iii) above	15%	Example <ul style="list-style-type: none"> • Dividend income ` 40 lakhs; • STCG u/s 111A ` 35 lakhs; • LTCG u/s 112 ` 42 lakhs; • LTCG u/s 112A ` 50 lakhs; and • Other income ` 1.10 crore 	



In case the Individual/HUF/AoP²/BoI and Artificial Juridical Person exercises the option to shift out of the default tax regime

Income-tax computed in accordance with normal provisions of the Act or section 111A or section 112 or section 112A or 115BBE or section 115BBJ would be increased by surcharge given under the following table:

	Particulars	Rate of surcharge on income-tax	Example	
			Components of total income	Applicable rate of surcharge
(i)	Where the total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ` 50 lakhs but ≤ ` 1 crore	10%	Example	
			<ul style="list-style-type: none"> Dividend income ` 10 lakhs; STCG u/s 111A ` 20 lakhs; LTCG u/s 112 ` 15 lakhs; LTCG u/s 112A ` 20 lakhs; and Other income ` 25 lakhs 	Surcharge would be levied @ 10% on income-tax computed on total income of ` 90 lakhs.
(ii)	Where total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ` 1 crore but ≤ ` 2 crore	15%	Example	
			<ul style="list-style-type: none"> Dividend income ` 10 lakhs; STCG u/s 111A ` 40 lakhs; LTCG u/s 112 ` 55 lakhs; LTCG u/s 112A ` 35 lakhs; and Other income ` 50 lakhs 	Surcharge would be levied @ 15% on income-tax computed on total income of ` 1.90 crores.
(iii)	Where total income (excluding dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ` 2 crore but ≤ ` 5 crore	25%	Example	
	The rate of surcharge on the income-tax payable on the portion of dividend income	Not exceeding 15%	<ul style="list-style-type: none"> Dividend income ` 51 lakhs; STCG u/s 111A ` 44 lakh; LTCG u/s 112 ` 42 lakhs; LTCG u/s 112A ` 55 lakh; and Other income 	Surcharge @ 15% would be levied on income-tax on: <ul style="list-style-type: none"> Dividend income of ` 51 lakhs; STCG of ` 44 lakhs chargeable to tax u/s 111A; LTCG of ` 42 lakhs chargeable to tax u/s 112; and LTCG of ` 55 lakhs chargeable to tax u/s 112A.

² (other than an AOP consisting of only companies as members)



	and capital gains chargeable to tax u/s 111A, 112 and 112A		₹ 3 crores	Surcharge@25% would be leviable on income-tax computed on other income of ₹ 3 crores included in total income
(iv)	Where total income (excluding dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 5 crore	37%	Example <ul style="list-style-type: none"> Dividend income ₹ 60 lakhs; STCG u/s 111A ₹ 50 lakhs; LTCG u/s 112 ₹ 42 lakhs; LTCG u/s 112A ₹ 25 lakhs; and Other income ₹ 6 crore 	
	Rate of surcharge on the income-tax payable on the portion of dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A	Not exceeding 15%	Surcharge@15% would be levied on income-tax on: <ul style="list-style-type: none"> Dividend income of ₹ 60 lakhs; STCG of ₹ 50 lakhs chargeable to tax u/s 111A; LTCG of ₹ 42 lakhs chargeable to tax u/s 112; and LTCG of ₹ 25 lakhs chargeable to tax u/s 112A. Surcharge@37% would be leviable on the income-tax computed on other income of ₹ 6 crores included in total income.	
(v)	Where total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 2 crore in cases not covered under (iii) and (iv) above	15%	Example <ul style="list-style-type: none"> Dividend income ₹ 55 lakhs; STCG u/s 111A ₹ 60 lakhs; LTCG u/s 112 ₹ 42 lakhs; LTCG u/s 112A ₹ 35 lakhs; and Other income ₹ 1.10 crore 	
			Surcharge would be levied@15% on income-tax computed on total income of ₹ 3.02 crore.	

Exercise

- Income tax is rounded off to :
 - Nearest ten rupees
 - Nearest one rupee
 - No rounding of tax
- Health and Education cess is leviable @ :
 - 4%
 - 3%
 - 5%
- The maximum amount on which income tax is not chargeable for the assessment year 2026-27 in case of an individual who is of age 60 years or above but



not resident of India is who has opt out of default tax regime u/s 115BAC:

- a) 2,00,000
 - b) 2,50,000
 - c) 5,00,000
4. Health and Education Cess (HEC) is leviable on :
- a) Income tax,
 - b) Income tax, surcharge if applicable
 - c) Income tax, surcharge and interest if applicable
5. Mrs. A, a resident of India, is 56 years old. Her total income for assessment year 2026-27 is Rs. 7,26,500. Her tax liability, assuming he has opted out of default tax regime u/s 115BAC, shall be :
- a) Rs. 60,110
 - b) Rs. 83,670
 - c) Rs. 73,110

Answer: 1. a, 2. a, 3. b, 4. b, 5. a



Question 1: Mr. X, being a 64 year old Indian citizen, provides the following information for the year ending 31.03.2026

a. Basic Pay	3,40,000
b. Education Allowance (Rs. 350 per month for a son and Rs. 400 per month each for 2 daughters)	13,800
c. Transport Allowance (For journey between office and residence)	8,000
d. Employer's contribution towards UPF	4,000
e. Share of profit from a firm	50,000
f. X's contribution towards UPF	8,900
g. Premium of medi-claim insurance policy	
i) Self	15,000
ii) Wife's	2,000
Donations made to PM's national relief fund	10,000
Donations made to PM drought relief fund	8,000

Compute the total income of X for the A.Y. 2026-27, assuming he has opted out of default tax regime u/s 115BAC

Solution : **Computation the total income of X for the A.Y. 2026-27**

Gross salary [Refer working note below]	3,59,400
Less: Standard deduction u/s 16	<u>(50,000)</u>
Net Income from the head "Salaries"	3,09,400
Income from Business [Refer working note below]	Nil
GROSS TOTAL INCOME	<u>3,09,400</u>
Less: Deduction under section 80D [Refer working note below]	17,000
Less: Deduction under section 80G [Refer working note below]	<u>14,000</u>
TOTAL INCOME	<u><u>2,78,400</u></u>



Working Notes :

1. Gross salary –		
Basic Pay		3,40,000
Education Allowance	13,800	
Exempt: (100×2×12)	<u>(2,400)</u>	11,400
Transport Allowance		8,000
Employer's contribution to UPF (Not taxable at the time of contribution)		Nil
Total		<u>3,59,400</u>
2. Income from business – Profit from a firm is fully exempted.		
3. Deduction u/s 80 D (15000+2000)		17,000
4. Deduction u/s 80G		
a) PM national relief fund (100%)		10,000
b) PM drought relief fund (50%)		4,000

Question 2: Compute the total income of Mr. Varun, aged 29 years, from the following particulars for the assessment year 2026-27, assuming he has opted out of default tax regime u/s 115BAC. Also, compute the total income under default tax regime under section 115BAC.

a. Basic Pay	12,00,000
b. Free watchman	80,000
c. Free gardener	15,000
d. Share of profit from a firm	12,000
e. Winnings from horse race	12,000
f. Royalty income from patent (Being true and first inventor)	30,000
g. Contribution to PPF	30,000
h. Donation to PM drought relief fund	80,000
i. Interest on Post Office saving account	20,000
j. Loss from a business	50,000
k. Purchase of a work of art from a friend for Rs. 50,000; market value, however, being Rs. 90,000	
l. Expenditure incurred for the medical treatment of his elder dependent brother of Rs. 20,000; being a person with disability (80%).	



Solution : Computation the total income of Varun for the A.Y. 2026-27 under optional tax regime

Gross Salary	12,95,000
Less: Standard deduction u/s 16	<u>(50,000)</u>
Net Income under the "Salaries"	12,45,000
Income from profession/business (Set off against income from other sources)	(50,000)
Income from other sources	<u>1,02,000</u>
GROSS TOTAL INCOME	12,97,000
Less: Deduction under section 80C to 80 U	<u>2,35,000</u>
NET TOTAL INCOME	10,62,000

Working Notes :

1. Gross salary –	
Basic Pay	12,00,000
Free watchman	80,000
Free gardener	<u>15,000</u>
	12,95,000
2. Income from profession/business – Profit from a firm is fully exempted	Nil
3. Income from other sources –	
Winnings from horse race	12,000
Royalty income from patent	30,000
Interest on Post Office saving account	20,000
Art work (inadequate consideration)(90,000-50,000)	<u>40,000</u>
	1,02,000
4. Deduction u/s 80C (PPF)	30,000
Deduction u/s 80DD (disability 80%)	1,25,000
Deduction u/s 80 G (50% without qualifying limit)	
-PM drought relief fund (80,000)	40,000
Deduction u/s 80RRB	30,000
Deduction u/s 80TTA (to the extent of 10,000)	10,000



2,35,000

Computation of total income of Mr. Varun under default tax regime

Total Income as per optional tax regime =	10,62,000
Add: Deductions under chapter VI-A =	2,35,000
Less: Additional standard deduction under section 16(ia)	(25,000)
Total income	= 12,72,000

Question 3: Mr. Harish, being an author and a businessman, aged 61 years, provides the following information for the year ending 31.03.2026. Compute total income of Mr. Harish for the A.Y. 2026-27 under both the regimes and advise the option beneficial for him.

a. Income from business	4,20,000
b. Income from house property (computed)	20,000
c. Long term capital gain u/s 112	2,40,000
d. Short term capital loss	40,000
e. Income from other sources	50,000
f. LIP on his own life (sum assured- 10,000)	2,000
g. LIP on his wife (sum assured- 8,000)	1,000
h. Amount incurred on tuition fees of younger child	800
i. Deposit in PPF	18,000
j. Contribution to RPF	5,000
k. Preventive medical check-up of self	5,000
l. Preventive health check-up of independent child	3,000
m. Payment for medical treatment of child (60% disabled)	20,000

Solution : **Computation the total income of Harish for the A.Y. 2026-27 as per default tax regime under section 115BAC**

Income from business			4,20,000
Income from house property			20,000
Income from capital gains			
Long term capital gain u/s 112		2,40,000	
Less: Short term capital loss		<u>40,000</u>	2,00,000
Income from other sources			50,000
GROSS TOTAL INCOME			6,90,000
Less: Deduction u/s Chapter VI-A are not allowed under the default tax regime			Nil 53
TOTAL INCOME			6,90,000



TAX LIABILITY			
Tax on LTCG u/s 112 @12.5% of Rs. 2,00,000			25,000
Tax on normal income of Rs. 4, 90,000 Up to 4,00,000			Nil
Balance 90,000 @5%			4,500
			29,500
Less: Rebate under section 87A			<u>4,500</u>
			25,000
Add: Health and Education Cess @ 4%			1,000
			26,000

Computation of total income and tax payable under optional tax regime

Total income as per default tax regime = 6,90,000

Less: Deductions under chapter VI-A = 1,05,600

Total Income as per optional tax regime = 5,84,400

Tax liability

LTCG of Rs. 2,00,000 taxable @12.5% = 25,000

Balance income = 3,84,400

0-3,00,000 = Nil

3,00,000-3,84,400 @5% = 4,220

Tax liability = 29,220 plus cess@4% = 30,390.

As the tax liability under section 115BAC is lower, it is beneficial for him to pay tax as per default tax regime.

Working Notes :

Deduction u/s 80C to 80U		
Section 80C		
LIP on self to maximum of 10% of sum assured)	1000	
LIP on wife (sum Assured- Rs. 8000)	800	
54 Amt on tuition fees of child	800	
Contribution to PPF	18,000	
Contribution to RPF	5,000	25,600



Section 80D Preventive health -check-up (Max. 5,000)		
Self	5000	
Independent child	NA	5,000
Section 80DD Payment for medical treatment of disabled child		
(Irrespective of amount spent)		<u>75,000</u>
		<u>1,05,600</u>

Question 4: Mr. Aarav, aged 36, being an author and a salaried individual, provides the following information for the year ending 31.03.2026.

- Salary – Rs. 32,500 per month
- D.A. – Rs. 8,000 per month
- Commission on turnover achieved by him @ 5% of Rs. 20,00,000
- He is provided a car of 1.8 litre engine capacity with chauffeur for his official and private Purposes. The expenses are met by the employer.
- Bonus – Rs. 20,000
- He is provided a rent-free furnished house in Delhi and the employer pays Rs. 10,000 per month for the house and Rs. 5,000 per month for the furniture.
- Premium of medi-claim insurance taken for wife Rs. 9,000
- Royalty received on a text book written for school Rs. 3,50,000

Compute his total income for the A.Y. 2026-27, assuming he has opted out of default tax regime u/s 115BAC.

Solution : Computation of total income of Mr. Aarav for A.Y. 2026-27–

Gross salary [Refer W.N]	7,66,200
Less: Standard Deduction u/s 16	50,000
Income under the head “Salaries”	7,16,200
Income from other sources - Royalty Income	<u>3,50,000</u>
GROSS TOTAL INCOME	10,66,200
Less: Deduction under section 80D	9,000
Deduction under section 80QQB	
(Not allowable for textbook of school)	<u>Nil</u>
TOTAL TAXABLE INCOME	<u>10,57,200</u>

Working Notes :

55

Gross salary –



Basic salary	3,90,000
Dearness Allowance	96,000
Car facility with chauffeur (2400 × 12 + 900 × 12)	39,600
Commission on turnover (5% of 20,00,000)	1,00,000
Bonus	20,000
Rent free accommodation	1,20,600
Lower of Actual Rent Paid (10,000 × 12) = 1,20,000, or 10% of salary (6,06,000 × 10%) = 60,600 whichever is lower (Salary = Basic + DA + comm. + bonus) Add: Value of furniture (5,000 × 12) Rs. 60,000	
Total	<u>7,66,200</u>

Question 5: Mr. J, an employee and a citizen of India, was sent to New Zealand on official duty, on 1.8.2025. He stayed there up to 28.2.2026. The salary and allowances drawn by him during this period are given below. Compute his total income for the A.Y. 2026-27, assuming he has opted out of default tax regime u/s 115BAC.

5 months' salary in India	4,50,000
7 months' salary of New Zealand in Bank account in India	6,30,000

He has a house property in Mumbai which is self-occupied. During his stay in New Zealand his wife and children were staying in this property throughout the previous year. The fair rental value of the house is Rs. 60,000. He has paid Rs. 8,000 as municipal taxes and Rs. 2,000 as ground rent during the year.

He earned dividend from an Indian company amounting to Rs. 5,000.

He has donated a sum of Rs. 10,000 to National relief fund of Prime Minister.



Gross salary	10,80,000
Less: Standard Deduction u/s 16	<u>50,000</u>
Net Income under the head salary	10,30,000
Income from house property	Nil
Income from other sources	<u>5000</u>
GROSS TOTAL INCOME	10,35,000
Less: Deduction under section 80G	<u>10,000</u>
TOTAL INCOME	<u>10,25,000</u>

Working Notes :

1. Gross salary –	
Salary in India	4,50,000
Salary of New Zealand	<u>6,30,000</u>
Total	10,80,000
2. Income from house property –	<u> </u>
Self-occupied house is not taxable	<u> </u>
3. Income from other sources –	
Dividend income	5,000
4. Deduction u/s 80G –	
100% in respect of donation without qualifying limit	10,000

Question 6: Mrs. Rati, being 55 years old resident, is employed with R Ltd. at Delhi Branch. She furnishes the following details regarding the previous year 2025-26. Compute her total income for the A.Y. 2026-27, assuming she has opted out of default tax regime u/s 115BAC. Also determine her total income if she wishes to pay tax as per the default tax regime.

- Basic salary – Rs. 25,000 per month
- D.A. (50% of which forms a part of salary for retirement purposes) – Rs. 8,000 per month
- Medical bills reimbursement (out of which Rs. 20,000 is in respect of treatment in a Government hospital) – Rs. 40,000
- Free electricity for personal use – Rs. 20,000
- Free telephone at residence – Rs. 24,000
- House rent allowance for 4 months – Rs. 10,000 per month
- Rent paid for house in Mumbai – Rs. 15,000 per month



a) t

h) After 4 months he was provided rent free unfurnished house in Mumbai owned by employer.

i) R Ltd. Spent Rs. 20,000 for repairs of the house.

j) Amount deposited in PPF – Rs. 50,000

k) Income from other sources – Rs. 1,20,000

Solution : Computation of total income of Mrs. Rati for A.Y. 2026-27

Gross Salary [Refer W.N. below]	4,59,200
Less: Standard Deduction u/s 16	<u>(50,000)</u>
Net Income under the head salary	4,09,200
Income from other sources	<u>1,20,000</u>
GROSS TOTAL INCOME	5,29,200
Less: Deduction under section 80C	<u>50,000</u>
TOTAL TAXABLE INCOME	<u>4,79,200</u>

Working Notes :

1. Gross Salary –		
Basic salary (25,000 × 12)		3,00,000
D.A. (8,000 × 12)		96,000
Medical bills reimbursed		20,000
(40,000 - 20,000)		
Free electricity		20,000
Free telephone at residence		Tax free
H.R.A received	40,000	
Less: Exempt (see note below)	<u>(40,000)</u>	Nil
Rent free unfurnished house		<u>23,200</u>
(See note below)		
Total		<u>4, 59,200</u>

Note -

◆ Calculation of HRA:

- | | |
|---|--------|
| 1. Actual HRA received (10,000 × 4) | 40,000 |
| 2. Rent paid-10% of salary | 48,400 |
| [60,000- 1,16,000 (Basic salary + 40% DA) for 4 | |



months x 10%]

- | | | |
|----|--|--------|
| 3. | 50% of salary (29,000 × 4)
(Basic + 50% of DA)
Whichever is less | 58,000 |
|----|--|--------|

◆ **Calculation of Rent free accommodation:**

- | | | |
|---|--|--------|
| 10% of salary, [Basic Salary + 50% of DA
i.e. 10% of (29,000 × 8)] | | 23,200 |
|---|--|--------|

2. Deduction u/s 80C –

- | | | |
|-------------------------|--|--------|
| Amount deposited to PPF | | 50,000 |
|-------------------------|--|--------|

Computation of total income under default tax regime

Income as per the regular provisions -	4,79,200
Add: Deductions under chapter VI-A	50,000
Add: Allowances exempt under salary head not allowed u/s 115BAC	
HRA Exemption	40,000
Less: Additional standard deduction under section 16(ia)	<u>25,000</u>
Income taxable under section 115BAC	5,44,200

Question 7: Mr. Xavier, submits the following particulars of income for assessment year 2026-27

1.	Income from salary (computed)	2,50,000
2.	Income from house property (computed)	30,000
3.	Long term capital gain	40,000
4.	Short term capital loss	(15,000)
5.	Interest on securities (Gross)	11,000
6.	Interest on Bank Deposits	8,000
7.	LIP on his own life	2,000
8.	PPF	20,000
9.	Donation to National children fund	5,000
10.	Donations to PM's Relief Fund	6,000
11.	Payment by cheque to GIC for medical insurance of:	
	- his wife	9,000
	- dependant son	9,000



	- Father not dependant who is 67 years old	25,000	
12.	Expenses on medical treatment of dependant brother being a disabled (60%)		25,000
13.	Payment of interest on loan taken from approved charitable institution for the education of his daughter pursuing M. Tech.		30,000

Compute his total income & tax payable for the A.Y. 2026-27, assuming he has opted out of default tax regime u/s 115BAC.

Solution: Computation of total income and tax payable of Mr. Xavier

Income from salary		2,50,000
Income from House Property		30,000
Income from capital gain		
Long term capital gain	40,000	
Short term Capital loss	<u>(15,000)</u>	25,000
Income from other sources		
Interest on securities	11,000	
Interest on Bank Deposits	<u>8,000</u>	<u>19,000</u>
Gross Taxable Income		3,24,000
Less: Deduction u/s 80C to 80U		
Section 80C (LIP premium of Rs. 2,000+PPF of Rs. 20,000)		22,000
Section 80D – Medical Insurance of wife	9,000	
-Medical Insurance of dependent Son	<u>9,000</u>	
	18,000	
Medical Insurance on father Rs. 25,000	25,000	
		<u>43,000</u>
U/s 80DD – Medical treatment of dependent brother, flat deduction of Rs. 75,000 irrespective of actual expenditure		75,000
U/s 80E – Interest on education loan		30,000



U/s 80G – Donation to			
National Children Fund (100%)	5,000		
PM's Relief Fund (100%)	<u>6,000</u>	11,000	
	—		<u>1,81,000</u>
			1,43,000
Tax on Rs. 1,43,000 shall be			
On Long Term Capital Gain (Rs.25, 000 - Rs. 25,000, unexhausted basic exemption limit)			<u>NIL</u>
On other income (Rs. 1,43,000 - Rs. 25,000]			<u>NIL</u>
Tax Liability			<u>NIL</u>

Question 8: Mr. Avijit, a businessman submits the following details for the assessment year 2026-27.

Income from House Property (Computed)	8,000
Profit gain from personal business	25,000
Short term capital gain	68,000
Long term capital gain on sale of a building	17,000
The following items have been brought forward from the preceding assessment year:	
Business Loss of P.Y. 2024-25	30,000
House Property of P.Y. 2024-25	10,000

Compute his gross total income & determine which losses are to be set-off and carried forward for the A.Y. 2026-27, assuming he has opted out of default tax regime u/s 115BAC.

Solution:

Income from House Property	8,000	
(-) Loss of past year	<u>(10,000)</u>	NIL



To be carried forward	(2,000)	
Profit gains from personal business	25,000	
(-) Business Loss of past year	<u>(30,000)</u>	NIL
To be carried forward	(5,000)	
Income under Head Capital Gain		
Short term capital gain		68,000
Long term capital gain		<u>17,000</u>
Gross Total Income		<u>85,000</u>

1. Balance house property loss of Rs. 2,000 shall be carried forward & set off only against the income from House Property.
2. Brought forward business loss of Rs. 5,000 shall be carried forward and set off only against business income.

Summary

- ◆ The taxable income of an individual is calculated by adding incomes from all the five heads of income and income of any other person includible under Section 60 to Sec 64 and then any loss is set off while calculating the aggregate income under five heads.
- ◆ Next, any brought forward loss is settled if permissible and this gives us Gross Total Income.
- ◆ From Gross Total Income, deductions under chapter VI –A is done to arrive at total income. However, no deduction from gross total income except under section 80CCD(2), 80CCH(2) and 80JJAA is allowed if assessee is paying tax as per default tax regime.
- ◆ Last, tax is computed on such total income at the prescribed rate. Thereafter add surcharge, if applicable or reduce rebate u/s 87A, if applicable. Then, add Health and Education cess @ 4%.

Exercise

I. Short Answer Questions

1. Who is an individual for the purpose of the Income tax Act, 1961?
2. When is an individual liable to pay tax?
3. State the tax rate slabs for Indian citizen aged (i) 45 years (ii) 65 years (iii) 89 years who has shifted out of default tax regime.

II. Long Answer Questions

1. How is the total income of an individual computed?
2. Discuss in brief, the deductions available to an individual from Gross Total Income.
3. State the incomes in respect of which an individual is liable to pay tax.



III. Numerical Questions

Question 1: Mr. Y, being a 61 year old Indian citizen, is an employee of M Ltd. Compute his total income for the assessment year 2026-2027, assuming he has opted out of default tax regime u/s 115BAC, from the following particulars: Also, compute the income if he pays tax under default regime.

(a)	Basic Pay	8,00,000
(b)	Free meals in office (290 working days)	15,000
(c)	Contribution of Y to PPF	80,000
(d)	Income from interest on securities	50,000
(e)	Business Loss of Y	40,000
(f)	Payment of premium on Medi-claim (Policy taken for independent son)	8,000
(g)	Free car (1150cc) facility for Y's official and private purposes, cost to the employer being Rs. 28,000	
(h)	Y has taken a loan for the education of his major son. The loan was taken for pursuing BBS course from University of Uttarakhand. Amount of interest for the previous year 2025-26 is 30,000. However, he has paid Rs. 60,000 on account of interest, i.e. Rs. 30,000 for the current year and 30,000 for the previous year.	

Answer: Total income under optional tax regime = Rs.6,42,100

Total Income if he pays tax under default regime = 7,71,600 (6,42,100 – 500+15000 (for meal) – 25,000 (additional standard deduction) + 1,40,000 (Deductions under Chapter VI-A)



Question 2: Z, a lecturer (34 years) in Delhi University submits the following particulars of incomes and payments for the A.Y. 2026-27, assuming he has opted out of default tax regime u/s 115BAC. Ignore AMT

(a)	Basic salary :	32,500 per month
(b)	Dearness allowance :	8,000 per month
(c)	Examiner-ship remuneration –	Rs. 8,000
(d)	Royalty on books for school students’ textbook –	Rs. 70,000
(e)	Royalty on books of literature –	Rs. 50,000
(f)	Income from house property	Rs. 18,000
	(Computed) –	
(g)	Contribution to SPF –	Rs. 20,000
(h)	Contribution to PPF –	Rs. 50,000
(i)	Medical insurance premium on the health of spouse –	Rs. 20,000
(j)	Interest paid on education loan of daughter pursuing LLB –	Rs. 50,000
(k)	Medi-claim premium of father (aged: 52 years)–	Rs. 18,000
(l)	Donation to PM Cares fund –	Rs. 20,000

Compute his total taxable income and tax liability.

Answer: Total Income ; 3,54,000 and Tax liability; Nil



Question 3: Mr. B 66 years old provides us the following information for the year ending 31.03.2026. Compute his total income for the A.Y. 2026-27, assuming he has opted out of default tax regime u/s 115BAC.

(a)	Basic salary	6,00,000
(b)	Bonus	50,000
(c)	City Compensatory Allowance	30,000
(d)	Winnings from lotteries	50,000
(e)	Loss in betting	20,000
(f)	House Rent Allowance (No actual rent paid)	25,000
(g)	Winning from horse races	70,000
(h)	Tuition fee of son	15,000
(i)	Contribution to RPF	20,000
(j)	Medical Insurance premium of self	30,000
(k)	Medical treatment of a child (85% disabled)	20,000
(l)	He owns a 1510 cc car which is used for personal and official purposes. Expenditure reimbursed by the employer – Rs. 2,00,000 (Rs 1,80,000 for official purposes).	

Answer: Total Income – Rs. 7,63,400

Question 4: Mrs. Z, 22 years of age, is a resident Indian working in private company as a Finance Head at Mumbai. She was appointed in the grade of Rs. 30,000 – 500 – 60,000 on April 1, 2025 (salary falls due on the last day of each month). Besides, she gets Rs. 8,000 per month as Dearness Allowance. She owns a house property, which consists of 2 floors. One floor is used by Mrs. Z for private residential purpose and one floor is let out to a tenant for residential purpose at monthly rent of Rs. 15,000. Municipal valuation of the house property is Rs. 3,00,000; fair rent is Rs. 2,70,000 and the standard rent of the house is Rs. 3,20,000. During the previous year, she contributes Rs. 80,000 to a RPF. She even donates Rs. 30,000 to Prime Minister's relief Fund. She even pays Rs. 800 per month as tuition fee of her son. Compute his total taxable income and tax liability for the A.Y. 2026-27, assuming he has opted out of default tax regime u/s 115BAC.

Answer: Total Income – Rs. 4,12,400 and Tax Liability - Nil



Question 5: Mr. V (aged 28 years) provides the following information for the year ending 31.03.2026. Compute his total taxable income and tax liability for the A.Y. 2026-27, assuming he has opted out of default tax regime u/s 115BAC. Also compute the income as per section 115BAC

(a)	Basic salary	12,50,000
(b)	Commission on sales @ 5% on turnover of Rs. 20,00,000	
(c)	Advance salary of April and May	2,00,000
(d)	Rent free furnished house in Bhopal (rent of unfurnished house paid by employee – Rs. 90,000 and rent of furniture – Rs. 30,000)	
(e)	Free services of cook (Rs. 2,000 per month) and of watchman (Rs. 1,000 per month)	
(f)	Income from business	1,00,000
(g)	Winning of lottery(gross)	30,000
(h)	Long term capital gain u/s 112	2,10,000
(i)	Short term capital loss	70,000
(j)	LIP on his own life (sum assured-10,000)	1,000
(k)	LIP on his wife (sum assured-8,000)	400
(l)	Amount incurred on tuition fees of younger child	800
(m)	Premium of Medi-claim insurance taken for child (Independent)	8,000
(n)	5 year term deposit in post office	3,000
(o)	Payment for medical treatment of wife (60% disabled)	50,000
(p)	Interest on education loan taken (Loan taken for his elder son to pursue B.Arch)	90,000
(q)	Deposited to PM's Relief fund	10,000

Answer: Total income under optional tax regime = Rs.17,45,800 and Tax liability – Rs. 3,24,210

Total Income under default tax regime = 19,01,000 (17,45,800+180,200-25,000)

Question 6: Mr. K being a 45 year old Indian citizen, provides the following information for the year ending 31.03.2026. Compute his total income and tax liability for the A.Y. 2026-27 assuming he has opted out of default tax regime.

(a)	Income from salary (computed)	6,40,000
(b)	Income from house property (computed)	30,000
(c)	Long term capital gain	1,40,000
(d)	Short term capital gain	30,000
(e)	Income from other sources	40,000



(f)	LIP on his own life (sum assured-5,000)	2,000
(g)	Amount incurred on tuition fees of younger child	1,500
(h)	5 year term deposit in post office	5,000
(i)	Contribution to PPF	2,000
(j)	Contribution to RPF	5,000
(k)	Premium of Medi-claim insurance taken for self	12,000
(l)	Payment for medical treatment of wife (40% disabled)	20,000
(m)	Interest on education loan taken (Loan taken for his elder son to pursue MFC)	50,000
(o)	Premium on Medi-claim of his father of Rs. 30,000 who is 68 years of age.	
(p)	Donation to PM Drought Relief Fund	20,000

Answer: Total Income - Rs. 6,39,000 and Tax Liability – Rs. 41,910

Question 7: Mr. Siddhartha (non govt. employee) being 25 years old resident provides the following information for the year ending 31.03.2026. He lives in Delhi. Compute his taxable income, for the A.Y. 2026-27, assuming he has opted out of default tax regime u/s 115BAC. Compute total income under section 115BAC as well.

- Salary – Rs. 30,000 per month
- Conveyance allowance – Rs. 800 per month.
- Entertainment allowance at Rs 1000 per month.
- Received HRA of Rs. 5000 per month. But he paid a rent of Rs. 6000 per month.
- Personal preventive health-check up of Rs 18000.
- Contribution to PPF 30,000.
- Interest on saving bank deposits received Rs. 15000.
- Donation paid to PM's Drought Relief Fund, Rs. 50,000
- LIP paid during the year – Rs. 8400

Answer: Total Income as per optional tax regime Rs. 2,92,200 and Total Income under section 115BAC Rs. 3,81,600



Question 8: Mr. Utsav 32 years, residing in Delhi, furnishes with the following information for the year ended 31.03.2026.

- (a) Basic Salary @ Rs. 40,000 p.m.
- (b) Bonus equal to 3 month's salary
- (c) Conveyance allowance Rs. 2,400 p.m.
- (d) House rent allowance @ Rs. 12,000 p.m. He paid Rs. 20,000 p.m. as rent of the house where he resides. The employer reimbursed his personal medical bills of Rs. 10,000 and he also gave education allowance in respect of his four children @ Rs. 600 p.m. per child.
- (e) The employer contributed to Statutory Provident Fund @ 10%, whereas the assessee's contribution was 20% of basic salary.
- (f) Interest on Government securities Rs. 12,000
- (g) Interest received on Bank fixed deposits Rs. 24,000
- (h) Income from units of U.T.I. Rs. 8,000
- (i) He paid premium of Rs. 16,000 on his life policy.
- (j) He paid 1,000 as tax on employment.

Compute the total income of Mr. Utsav for the assessment year 2026-27, assuming he has opted out of default tax regime u/s 115BAC. Also, compute income under section 115BAC.

Answer: Total Income as per optional tax regime – Rs. 5,46,200; Total Income as per default tax regime Rs. 7,80,600

Question 9: R, General manager of a Private Ltd. Company retired on 31.3.2026 after 30 years of service. Compute his total for the assessment year 2026-27, assuming he is paying tax as per default tax regime u/s 115BAC, on the basis of following information.

- (a) Salary Rs. 7,500 p.m. from 1.4.2025. House rent allowance Rs. 3500 p.m. He lives in his own house.
- (b) Medical expenses reimbursed by employer Rs. 11,600.
- (c) R went to his home town with his family and he was reimbursed Rs. 5,600 being the return fare by 1st class (train).
- (d) A car of 1400cc is provided by the company for official and personal use and all expenses of its running and maintenance including drivers salary are borne by the Company.
- (e) R contributes 20% of his salary to recognized provident fund which includes 8% additional voluntary contribution. The company matches his regular contribution, i.e. 12%.
- (f) Reimbursement of personal club bills of R: Rs. 360.
- (g) He has invested Rs. 30,000 in National Savings Certificate (VIII Issue) and Rs. 18,000 in Public Provident Fund Account.



(h) Deposit under National Savings Scheme, 1992 Rs. 20,000.

Answer: Total Income – Rs. 1,06,960

Question 10: Mrs. M, a salaried employee, furnishes the following information in respect of the Previous year ending 31.3.2026:

- (a) Salary income(computed) - Rs. 6,40,000
- (b) Interest on debentures - Rs. 2,25,000
- (c) Payment of medical insurance premium on the life of her grandfather - Rs. 4,000
- (d) Donation to the Prime Minister's Drought Relief Fund - Rs. 1,00,000
- (e) Donations to a public charitable institution - 1,50,000
- (f) Dividend income - 40,000
- (g) Long-term capital gains u/s 112 of Rs. 25,00,000.

Determine the total income of Mrs. M for the assessment year 2026-27, assuming he is paying tax as per default tax regime u/s 115BAC.

Answer: Total Income Rs. 34,05,000

Question 11: Mrs. Nika, 62 years old, is a Finance manager of a private company at Chennai. Her Basic salary is Rs. 34,000 per month. Besides, she gets Rs. 6,000 p.m. as dearness pay which does not form part of retirement benefits. She had been provided with a rent free unfurnished house whose lease rental value is Rs. 70,000 per annum, which is taken on lease by the employer. She uses company's car for official purposes. Mrs. Nika and her employer contribute 16% of salary towards the recognized provident fund. She gets prize of Rs. 90,000 (being winning from camel race) and bank's interest of Rs. 4,00,000 (i.e., fixed deposit interest: Rs. 3,71,500 + saving bank: Rs. 28,500) during the previous year 2025-26. On January 20, 2025, she transfers bonus listed equity in Tata chemicals (held since 2023) for Rs. 8,23,000. Determine the taxable income of Nika for the assessment year 2026-27, assuming he has not opted out of default tax regime u/s 115BAC .

Answer: Total Income - Rs.17,75,120



Question 12 - Mr. Aman had the following incomes and investments during the AY 2026-27.
Compute the total income and tax as per section 115BAC

Salary

Basic

12,50,000

HRA [Residing in his own house]

4,50,000

Other allowances [Not exempted]

20,000

PGBP Income

Income before depreciation

6,80,000

Depreciation

40,000

Additional depreciation

35,000

Other sources

SB interest

24,000

Solution: Total Income – Rs. 23,09,000 ; Tax Rs. 2,88,340



UNIT 3

TDS AND ADVANCE PAYMENT OF TAX

Unit - 3	TDS AND ADVANCE PAYMENT OF TAX			
Location: Classroom	SESSION 1: TAX DEDUCTED AT SOURCE			
	Learning Outcome	Knowledge Evaluation	Performance Evaluation	Teaching and Training Method
	1. Meaning of Tax Deducted at Source.	1. State various ways for collection and recovery of income-tax. 2. Explain the meaning of tax deducted at source. 3. Explain the significance of TDS to government and taxpayers.	1. Analyse the utility of TDS in the taxation system.	Interactive Lecture: Introduction of various ways for collection and recovery of income-tax and TDS.
	2. Provisions relating to deduction of tax at source in respect of various incomes.	1. State and explain various sections relating to deduction of tax at source in respect of different incomes.	1. Compare and differentiate between the provisions of sections 192 to 206 relating to deduction of tax at source in respect of various incomes.	Interactive Lecture: Discussion of the provisions relating to deduction of tax at source in respect of different incomes.



			<ol style="list-style-type: none"> 2. State various rates of TDS applicable to different incomes. 3. State when the obligation to deduct TDS shall arise in respect of various incomes. 	<p>Activity: Collection and analysis of TDS returns of various taxpayers such as salaried employee, corporate assessee, etc.</p>
	<ol style="list-style-type: none"> 3. Other provisions related to tax deducted at source. 	<ol style="list-style-type: none"> 1. Explain the provisions related to lower or non-deduction of tax, deposition of TDS, credit of TDS, refund of TDS, requirement of E- TDS, etc. 2. State the form numbers of certificates of tax deducted and form numbers of various returns. 3. State the various duties of persons deducting tax at source and rights of tax payers. 	<ol style="list-style-type: none"> 1. State and explain the conditions for lower or non-deduction of tax, refund of tax, etc. 2. Explain the prosecution proceedings in case of defaults. 	<p>Interactive Lecture: Acquaint with various provisions related to lower or non-deduction, duties of persons deducting tax at source and rights of tax payers, possible defaults and prosecution proceedings, etc.</p>



		4. State the possible defaults on part of persons deducting tax and tax payers.		
	SESSION 2: ADVANCE PAYMENT OF TAX			
	1. Meaning of Advance payment of tax.	1. Explain the meaning of advance payment of tax. 2. State the persons liable to pay and not liable to pay advance tax.	1. Differentiate between TDS and Advance Payment of Tax.	Interactive Lecture: Acquaint with the concept advance payment of tax.



	<p>3. Due dates for payment of Advance Tax.</p>	<ol style="list-style-type: none"> 1. State the various due dates for payment of advance tax for corporate and non-corporate assesses. 2. State the percentage of advance tax to be paid by the assesses on due dates. 	<ol style="list-style-type: none"> 1. Calculating the liability of Advance Tax on various due dates for different assesseees. 	<p>Interactive Lecture: Discussion of method to calculate the liability of advance tax on due dates.</p>
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	Provisions of Presumptive Taxation Scheme.	1. State the Provisions of Presumptive Taxation Scheme.	2. Explain and analyze the Presumptive Taxation Scheme. 3. Determine the applicability of Presumptive Taxation Scheme on a particular assessee.	Interactive Lecture: Discussion of provisions of Presumptive Taxation Scheme.
	4. Role of Assessing Officer	1. Explain the role of Assessing Officer	1. State under what condition AO can order payment of tax. 2. State when can AO revise his order.	Interactive Lecture: Discussion of the role of AO.

(Note: The location would depend upon the topic under discussion. Major portion of the unit will be covered in classroom. The students can visit different assesses to collect and analyze their TDS returns. The students may also visit the website www.incometaxindia.gov.in to collect various forms and certificates required by different assesses.)

Learning Objectives:

After reading this unit, the students will be able to:

1. State various ways for collection and recovery of income-tax.
2. Explain the meaning of tax deducted at source.
3. Describe the Sources and applications of cash.
4. Explain various provisions relating to deduction of tax at source in respect of various incomes.
5. Explain the meaning of advance payment of tax.
6. Explain the Presumptive Taxation Scheme.
7. Calculate the liability of advance tax on various due dates for different assesses.
8. Explain the meaning of certain keywords.



SESSION 1

TAX DEDUCTED AT SOURCE

The Income-tax Act provides for collection and recovery of income-tax in the following ways:

- a) Advance Tax
- b) Self Assessment Tax
- c) Tax Deducted at Source (TDS)
- d) Tax Collected at Source
- e) Tax on Regular Assessment

The provisions relating to tax deduction at source and payment of tax in advance of assessment are discussed in this chapter.

Meaning of Tax Deducted at Source

Tax deducted at source (TDS) means collection of tax at the very source of income. The concept of TDS requires that the person, on whom the responsibility has been cast by the Act, is to deduct tax at the appropriate rates, from payments of specific nature which are being made to a specified recipient. The person who deducts the amount of tax from the payment has the responsibility to deposit such deducted amount to the credit of the Central Government according to the prescribed rules and procedures. The recipient from whose income, the tax has been deducted at source, gets the credit of the amount deducted in his personal assessment on the basis of the certificate issued by the deductor.

Significance to Government

Its significance to the government lies in the fact that:

- i) It pre-pones the collection of tax.
- ii) Ensures a regular source of revenue to government.
- iii) Provides for a greater reach and wider base for tax.

Significance to Taxpayer

It is also significant to the tax payer because:

- i) It distributes the incidence of tax, and
- ii) Provides for a simple and convenient mode of payment.

Provisions Related to Deduction of TDS

Sections 192 to 206 of the Income-tax Act lay down the provisions relating to deduction of tax at source. The provisions in respect of different incomes are as follows:



1. SALARY (Section 192)

1. This section casts an obligation on every person responsible for paying any income (employer) which is chargeable under the head 'salary', to deduct income tax on the amount payable.
2. The tax is required to be calculated at the average rate of income tax as computed on the basis of the rates in force for the relevant financial year in which the payment is made.
3. Average rate of income tax means the rate arrived at by dividing the amount of income tax calculated on total income, by such total income.
4. The salary shall be computed in the same manner as discussed under the head 'Salaries'.
5. Unlike the provisions of TDS, pertaining to payments other than salary where the obligation to deduct tax arises at the time of credit or payment, whichever is earlier, the responsibility to deduct tax from salaries arises only at the time of payment.
6. It is provided that the assessee (employee) may furnish the details of the losses under the head 'Income from House Property' to the employer who shall adjust such loss in the salary income for the purposes of computing the tax deductible from salaries. Thus, the TDS from salaries may be reduced in such a case. No other loss from any other income shall be adjusted to reduce the TDS deductible from the head salaries.
7. No tax will be required to be deducted at source in case the Total income does not exceeds limits prescribed Finance Act of relevant financial year.
8. A deductor, being an employer, has to seek information from each of its employees having income under section 192 regarding their intended tax regime and each such employee would intimate the same to the deductor, being his employer, regarding his intended tax regime for each year and upon intimation, the deductor has to compute his total income, and deduct tax at source thereon according to the option exercised.

If intimation is not made by the employee, it would be presumed that the employee continues to be in the default tax regime u/s 115BAC and has not exercised the option to opt out of the default tax regime. Accordingly, in such a case, the employer has to deduct tax at source, on income under section 192, in accordance with the rates provided under section 115BAC(1A).

9. In cases where an assessee is employed simultaneously under more than one employer or the assessee takes up a job with another employer during the financial year after his resignation or retirement from the services of the former employer, he may furnish the details of the income under the head "Salaries" due or received by him from the other employer, the tax deducted therefrom and such other particulars to his current employer. Thereupon, the



subsequent employer should take such information into consideration and then deduct the tax remaining payable in respect of the employee's remuneration from both the employers put together for the relevant financial year.

10. An employee can inform his employer for a financial year, the details of the following:
 - such other income chargeable to tax (not being a loss under any such head;
 - any tax deducted or collected under any other provision of the Act; and
 - loss, if any, under the head "Income from house property" if the assessee intimated to the employer his intent to exercise the option of shifting out of the default tax regime provided under section 115BAC(1A),
 for calculating tax deductible at source.
11. The employer shall issue a certificate of deduction of tax to the employee in Form No. 16. This certificate is to be referred by the employee with his income tax return after which he gets the credit of the TDS in his personal income tax assessment.
12. The employer is required to furnish, to the employee, a statement giving correct and complete particulars of perquisites or profits in lieu of salary provided to him and the value thereof in prescribed form (Form 12BA) and manner.
13. Finally, the employer/deductor is required to prepare and file quarterly statements in Form No.24Q with the Income-tax Department showing:
 - a) The name and address of every employee who is drawing such amount as may be prescribed;
 - b) The amount of income so received by or so due to each such person; and
 - c) The amount of tax deducted and deposited from the income of such person.



Question 1:

Mr. Ram Kishore has a salary of Rs. 70,000 per month. He has claimed HRA Exemption of Rs. 1,00,000 during the previous year 2025-26. Calculate the average rate of TDS payable on his salary and amount that would be deducted every month as TDS on salary. Assuming he has opted out of default tax regime u/s 115BAC.

Solution:

The normal tax rates for the Assessment Year 2026-27 applicable to an individual below the age of 60 years who has opted out of default tax regime, are as follows:

- ◆ Nil up to income of Rs. 2,50,000
- ◆ 5% for income above Rs. 2,50,000 but up to Rs. 5,00,000
- ◆ 20% for income above Rs. 5,00,000 but up to Rs. 10,00,000
- ◆ 30% for income above Rs. 10,00,000

Calculation of TDS payable every month on salary

Monthly income	Rs. 70,000
Annual income	Rs. 8,40,000
Less: HRA Exemption	<u>Rs. 1,00,000</u>
	Rs. 7,40,000
Less: Standard Deduction	<u>Rs. 50,000</u>
	Rs. 6,90,000
Net Taxable Income	Rs. 6,90,000
Income Tax Rs. [12,500 + 20% of 6,90,000 – 5,00,000]	Rs. 50,500
Surcharge	Nil
Heath and Education Cess	Rs. 2,020
Total Tax Liability	Rs. 52,520

$$\begin{aligned}
 \text{Average Rate of Tax on Salary} &= \text{Total tax payable} \times 100 \div \text{Total Income} \\
 &= 52,520 \times 100 \div 6,90,000 \\
 &= 7.62\%
 \end{aligned}$$

Therefore, in case of Mr. Ram Kishore, Rs. 4,377 (Rs. 52,520/12 months) would be deducted every month as TDS on salary.

2. Interest on Securities (Section 193)

1. Section 193 provides that the person responsible for paying to a resident any income by way of interest on securities being the amount or the aggregate of the amount exceeds Rs. 10,000 shall deduct income-tax at the rates in force on the amount of the interest payable.



Such tax should be deducted at the time of:

- a) Payment thereof in cash or by issue of a cheque or draft or by any other mode, or
 - b) Credit of such income to the account of the payee, or
 - c) Transfer of such income to interest payable account or suspense account, whichever is earlier.
2. However, payments from certain categories of bonds, debentures etc. are exempt from TDS.
 3. The rate of TDS on Interest on securities is 10%.

3. Dividends (Section 194)

1. Where any amount is payable in the nature of “Dividends” by an Indian Company or a Company that has made arrangement for declaration and payment of dividend within India, the said company has to deduct tax at source as per rates in force.
2. The deduction has to be done
 - a) Before the payment is made in cash or issue of cheque or dividend warrant or
 - b) Before making any distribution or payment to the shareholder of any dividend.
3. **Exemption:**
 - a) No such deduction shall be made in the case of a shareholder (being an individual, who is resident in India), of a company, if:
 - b) The dividend is paid by LIC, GIC, subsidiaries of GIC, or any other person notified by the central government
 - c) The amount of dividend paid by any mode other than cash during the financial year by the company to the shareholder does not exceed Rs. 10,000.

4. Interest other than Interest on Securities (Section 194A)

1. Section 194A casts the obligation on any person not being an individual or a H.U.F. who is responsible for paying to a resident any interest other than interest on securities amounting to more than Rs. 10,000 or Rs. 50,000 as the case may be to deduct tax at source. The limit is Rs. 1,00,000, in case of payee, being a senior citizen.
2. Payments made to non-residents are also covered under TDS mechanism, however, tax in such a case is to be deducted as per section 195.



3. The obligation to deduct TDS shall arise at the time of:
 - a) Credit of such income to the account of the payee, or
 - b) At the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, or
 - c) Transfer of such income to interest payable account or suspense account;
 whichever is earlier.
4. Individuals and HUF whose gross turnover of the business in the immediately preceding financial year exceeds Rs. 1 crore (or receipts from the profession Rs. 50 lakhs), are also required to deduct tax at source.
5. Rate of Tax: 10% in both case of non-corporate assessee and domestic companies
6. The obligation to deduct tax shall arise only if aggregate interest during the financial year, does not exceed Rs. 10,000 (Rs. 50,000 in case of banking company, a co-operative society engaged in the business of banking or a post office. The amount shall be Rs. 1,00,000 for resident senior citizens).

5. Winning from Lotteries or Crossword Puzzles (Section 194B)

1. Under Section 194B, winnings from lottery or crossword puzzle or card game and other game of any sum exceeding Rs. 10,000 are also subject to deduction of tax at source as per rates in force.
2. The deduction is to be done at the time of payment of the winnings.
3. **Rate of Tax:** The prescribed rate is 30%.
4. When the prize is given partly in cash and partly in kind, income tax will be deducted from cash prize with reference to the aggregate amount of the cash prize and the value of the prize in kind.
5. No income tax will be deducted from the prize given only in kind.
6. When the prize is given in installments, the tax will be deducted only at the time of actual payment of each installment.

6. Winnings from online games [Section 194BA]

1. Under section 194BA tax is required to be deducted at source @30% on the net winnings from online games in a person's user account at the end of the F.Y.
2. In case there is withdrawal from user account during the F.Y., tax would be deducted at the time of such withdrawal on net winnings comprised in such withdrawal. In addition, tax would also be deducted on the remaining amount of net winnings in the user account.
3. Tax is required to be deducted at source on winnings wholly in kind or partly in cash and partly in kind.

7. Winning from Horse Races (Section 194BB)

1. Section 194BB casts the obligation on the following persons to deduct tax at



source-

- i) A book maker, or
- ii) A person to whom a license has been granted by the Government under any law for the time being in force;
 - For horse racing in any race course or;
 - For arranging for wagering or betting in any race course.
2. The obligation to deduct tax at source arises when the above mentioned persons make payments by way of winnings from horse races in excess of Rs.10,000.
3. Rate of Tax: The prescribed rate is 30%.

8. Payments to contractors and sub-contractors [Section 194C]

1. Section 194C provides for deduction of tax at source from the payment made to resident contractors and sub-contractors.
2. Tax has to be deducted at source under section 194C by any person responsible for paying any sum to a resident contractor for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract.
3. The rate of TDS under section 194C on payments to contractors would be 1%, where the payee is an individual or HUF and 2% in respect of other payees. The same rates of TDS would apply for both contractors and sub-contractors.
4. Tax has to be deducted at the time of payment of such sum or at the time of credit of such sum to the account of the contractor, whichever is earlier.
5. No deduction will be required to be made if the consideration for the contract does not exceed Rs. 30,000. However, to prevent the practice of composite contracts being split up into contracts valued at less than Rs. 30,000 to avoid tax deduction, it has been provided that tax will be required to be deducted at source where the amount credited or paid or likely to be credited or paid to a contractor or sub-contractor exceeds Rs. 30,000 in a single payment or Rs. 1,00,000 in the aggregate during a financial year.
6. **Exemption:** No deduction is required to be made from the sum credited or paid or likely to be credited or paid during the previous year to the account of a contractor, during the course of the business of plying, hiring or leasing goods carriages, if he furnishes his PAN to the deductor.

9. Insurance Commission (Section 194D)

1. Section 194D casts the obligation on any person responsible for paying to a resident any income by way of commission or otherwise for soliciting or procuring insurance business (including continuance or renewal of policies).
2. Such person shall deduct income tax, at the time of crediting the account of the



payee or at the time of payment thereof, whichever is earlier.

3. No deduction shall be made from the amount of any sum credited or paid to, if such sum does not exceed Rs. 20,000.
4. Rate of Tax: The prescribed rate is 2% in case of payee is non-corporate entities and 10% if the payee is domestic company.

10. Commission, Etc. on Sale of Lottery Tickets (Section 194G)

1. The person responsible for paying any income by way of commission, remuneration or prize on lottery ticket has to deduct tax @ 2%.
2. Tax shall be deducted at the time of:
 - a) Credit of such income to the account of the payee, or
 - b) At the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, or
 - c) Transfer of such income to suspense account, whichever is earlier.
3. However, no tax is to be deducted, if the amount does not exceed Rs.20,000.
4. Rate of Tax - The prescribed rate is 2%.

11. Commission or Brokerage (Section 194H)

1. Any person, not being an individual or a Hindu Undivided Family, who is responsible for paying, to a resident any income by way of commission (not being insurance commission referred to in Section 194D) or brokerage, shall deduct income-tax thereon.
2. The obligation to deduct TDS shall arise at the time of:
 - a) Credit of such income to the account of the payee, or
 - b) At the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, or
 - c) Transfer of such income to suspense account, whichever is earlier.
3. Rate of Tax: The prescribed rate is 2%. No surcharge, health and education cess shall be added.
4. No deduction is required if the amount of such income or the aggregate of such amount does not exceed Rs. 20,000 during the financial year.
5. An individual or HUF whose total sales, gross receipts or turnover from the business or profession carried on by him exceed Rs. 1 crore in case of business and Rs. 50 lakhs in case of profession during the financial year immediately preceding financial year in which such commission or brokerage is credited or paid, is liable to deduct tax at source.

12. Rent (Section 194-I)

1. Any person not being an individual / HUF responsible for paying to a resident any income by way of rent, has to deduct tax at source.
2. The obligation to deduct TDS shall arise at the time of:



- a) At the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, or
 - b) Credit of such income to the account of the payee, or
 - c) Transfer of such income to suspense account, whichever is earlier.
3. The obligation to deduct TDS shall arise only if the amount paid as rent exceeds Rs. 50,000 per month or part of month. .
4. Essential features of rent are following :
 - a) Payment is made under any lease, sub-lease tenancy, or any other agreement or arrangement.
 - b) Payment is made either for use of land or building (including factory building) (together or separately) with or without furniture, fittings & land appurtenant thereto.
 - c) Immaterial whether land or not of such building is owned by the person to whom rent is paid.
5. Individuals and HUF whose gross turnover of the business in the immediately preceding financial year exceeds Rs. 1 crore or receipts from the profession Rs. 50 lakhs are required to deduct tax at source.
6. **Rate of Tax:**
 - a) TDS has to be deducted at the following rates:
 - i) 2% for the use of any machinery, plant or equipment.
 - ii) 10% for other rental payments (i.e., rent for use of land or building including factory building or land appurtenant to a building or furniture or fittings).

13. **Payment of rent by certain individuals or Hindu undivided family [Section 194-IB]**

1. Section 194-IB applies to Individuals or HUFs paying rent to a resident, but not to those whose turnover in the preceding financial year is more than Rs. 1 crore in case of business or Rs. 50 lakh in case of profession.
2. TDS is deducted at the rate of 2%.
3. TDS is required only if the monthly rent is more than Rs. 50,000.
4. Deduction is made once in a year, either at the time of paying/crediting rent for the last month of the financial year, or the last month of tenancy if the property is vacated earlier.
5. No need to obtain TAN; PAN is sufficient for depositing TDS.
6. Rent means any payment under lease, sub-lease, tenancy or agreement for the use of land or building or both.

14. **Professional and Technical Fees (Section 194J)**

1. Every person other than an individual or a HUF, who is responsible for paying



to a resident any sum by way of –

- (i) fees for professional services; or
- (ii) fees for technical services; or
- (iii) any remuneration or fees or commission, by whatever name called, other than those on which tax is deductible under section 192, to a director of a company; or
- (iv) royalty, or
- (v) non-compete fees referred to in section 28(va)

shall deduct tax at source.

2. The obligation to deduct TDS shall arise at the time of payment or credit whichever is earlier.
3. Individuals and HUF whose gross turnover of the business in the immediately preceding financial year exceeds Rs. 1 crore or receipts from the profession Rs. 50 lakhs are required to deduct tax at source.
4. **Summary of rates and threshold limit under section 194J for deduction of tax at source**

Nature of payment	TDS rate	Separate Limit
Fees for technical services (not being professional services)	2%	₹ 50,000
Fees for professional services	10%	₹ 50,000
Royalty in the nature of consideration for sale, distribution or exhibition of cinematographic films	2%	₹ 50,000
Other royalty	10%	
Any remuneration or fees or commission, by whatever name called, other than those on which tax is deductible under section 192, to a director of a company	10%	Nil
Non-compete fees	10%	₹ 50,000

15. Payment made by an individual or a HUF for contract work or by way of commission or brokerage or fees for professional services [Section 194M]

1. Section 194M applies to Individuals or HUFs who are not required to deduct TDS under section 194C, 194H, or 194J (i.e., those not having



business/profession turnover exceeding ₹1 crore / ₹50 lakh).

2. Such persons must deduct TDS if they pay to a resident:
 - Contractor (work contract), or
 - Professional (fees), or
 - Commission or brokerage.
3. TDS rate is 2%.
4. TDS applies only if the sum paid or aggregate payment in a financial year exceeds Rs. 50 lakh to a single payee.
5. Deduction is to be made at the time of credit or payment, whichever is earlier.
6. No need to obtain TAN; deduction and deposit can be made using PAN.

16. TDS on cash withdrawal [Section 194N]

1. Section 194N applies to **banks, co-operative banks, and post offices** paying cash to any person from an account.
2. TDS is deducted on **cash withdrawals** exceeding certain limits in a financial year:
 - If the person has filed **Income Tax Return (ITR)** for last 3 years → TDS @ **2%** on cash withdrawal above **₹1 crore (Rs. 3 crore in case of co-operative society)**.
 - If the person has **not filed ITR for all of the last 3 years**
 - TDS @ **2%** on cash withdrawal above **₹ 20 lakh up to ₹ 1 crore (Rs. 3 crore in case of co-operative society)**, and
 - TDS @ **5%** on cash withdrawal above **₹ 1 crore (Rs. 3 crore in case of co-operative society)**.
3. TDS is deducted at the time of payment of cash.
4. This section does **not apply** to:
 - Government,
 - Banks/co-operative societies (carrying business of banking)/post offices,
 - Business correspondents of banks or co-operative societies (carrying business of banking),
 - White label ATM operators, and
 - Other persons notified by the government.
5. The purpose of this section is to **discourage cash transactions** and promote digital payments.



Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction	Other relevant points
192A	Premature withdrawal from Employees' Provident Fund	Payment or aggregate payment \geq ₹ 50,000	Trustees of the EPF Scheme or any authorised person under the Scheme	Individual (Employee)	10% on premature taxable withdrawal.	At the time of payment	Exemption from TDS <ol style="list-style-type: none"> Withdrawal after continuous service of 5 years In case of withdrawal before continuous service of 5 years and – <ol style="list-style-type: none"> employee opts for transfer of accumulated balance to the new employer termination is due to ill health, contraction or discontinuance of business, cessation of employment etc.
194DA	Any sum under a Life Insurance Policy not fulfilling the conditions specified u/s 10(10D)	Amount or aggregate amount \geq ₹ 1,00,000 in a financial year	Any person responsible for paying any sum under a LIP, including the sum allocated by way of bonus	Any resident	2% of the amount of income comprised therein.	At the time of payment	Exemption from TDS The sum received under a life insurance policy which fulfills the conditions specified under section 10(10D).
194G	Commission on sale of lottery tickets	$>$ ₹ 20,000 in a F.Y.	Any person responsible for paying any income by way of commission, remuneration or prize (by whatever name called) on lottery tickets	Any person stocking, distributing, purchasing or selling lottery tickets	2%	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier.	Where income is credited to some other account, whether called "Suspense account" or by any other name, in the books of account of the person liable to pay such income, such crediting shall be deemed to be credit to the account of the payee for the purposes of this section.



Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction	Other relevant points
194-IA	Payment on transfer of certain immovable property other than agricultural land	≥ ` 50 lakh (Consideration for transfer or stamp duty value)	Any person, being a transferee (other than a person referred to in section 194LA responsible for paying compensation for compulsory acquisition of immovable property other than rural agricultural land)	Resident transferor	1% of consideration for transfer or stamp duty value, whichever is higher. No requirement of obtaining TAN u/s 203A.	At the time of credit of such sum to the account of the transferor or at the time of payment, whichever is earlier.	<p>Meaning of consideration for transfer of immovable property</p> <p>Consideration for transfer of immovable property include all charges of the nature of club membership fee, car parking fee, electricity or water facility fee, maintenance fee, advance fee or any other charges of similar nature, which are incidental to transfer of the immovable property. It is clarified, that where there is more than one transferor or transferee in respect of any immovable property, then the consideration shall be the aggregate of amount paid or payable by all the transferees to the transferor or all the transferors for transfer of such immovable property.</p>
194K	Income on units other than in the nature of capital gains	Amount or aggregate amount > ` 10,000 in a F.Y.	Any person responsible for paying any income in respect of units of a mutual fund/ Administrator of the specified undertaking / specified	Any resident	10%	At the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier.	



Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction	Other relevant points
			company				
194LA	Compensation on acquisition of certain immovable property (other than agricultural land situated in India)	Amount or aggregate amount > ₹ 5,00,000 in a F.Y.	Any person responsible for paying any sum in the nature of compensation or enhanced compensation on compulsory acquisition of immovable property (other than agricultural land situated in India)	Any Resident	10%	At the time of payment	TDS provisions are not applicable on compensation on acquisition of agricultural land in India, whether rural or urban.
194P	Pension (along with interest on bank account)	Basic exemption limit [₹ 4,00,000 (in case the specified senior citizen pays tax under the default tax regime u/s 115BAC), ₹ 3,00,000 / ₹ 5,00,000, as the case may be, if the specified senior citizen has exercised the option of shifting out of the default tax	Notified specified bank (a banking company which is a scheduled bank and has been appointed as agents of RBI u/s 45 of the RBI Act, 1934	Specified senior citizen	Rates in force, where the individual has exercised the option of shifting out of the default tax regime. Rates specified in section 115BAC, where the individual pays tax under the default tax regime.		Specified senior citizen means an individual, being a resident in India, who – - is of the age of 75 years or more at any time during the P.Y.; - is having pension income and no other income except interest income received or receivable from any account maintained by such individual in the same specified bank in which he is receiving his pension income; and - has furnished a declaration to the specified bank. Specified bank to compute the total income



Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction	Other relevant points
		regime providing u/s 115BAC] [i.e., total income after giving effect to the deduction allowable under Chapter VI-A, if any allowable should exceed the basic exemption limit. Further, in case the individual is entitled to rebate u/s 87A from tax payable, then the same should be given effect to]					for the relevant A.Y. of the specified senior citizen who furnishes declaration in prescribed form, and deduct income-tax, after giving effect to deduction under Chapter VI-A, if any allowable (on the basis of evidence furnished by the specified senior citizen) and rebate allowable u/s 87A. [CBDT Notification No. 99/2021 dated 2.9.2021] The provisions of section 139, relating to filing of return, would not apply to a specified senior citizen for the A.Y. relevant to the P.Y. in which tax has been deducted u/s 194P(1).
194Q	Purchase of goods	> ` 50 lakhs in a previous year	Buyer, who is responsible for paying any sum to any resident for purchase of goods. Buyer means a person whose total sales, gross receipts or turnover from business exceeds ` 10 crores during the FY immediately	Any resident	0.1% of sum exceeding ` 50 lakhs	At the time of credit of such sum to the account of the seller or at the time of payment, whichever is earlier.	Non-applicability of TDS u/s 194Q Transactions on which (a) Tax is deductible under any of the provisions of the Act; (b) Tax is collectible u/s 206C Other points Where the sum is credited to any account, whether called "Suspense account" or by any other name, in the books of account of the person liable to pay such income, such crediting shall be deemed to be credit to the



Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction	Other relevant points
			preceding the FY in which the purchase of goods is carried out.				account of the payee for the purposes of this section.
194R	Any benefit or perquisite, whether convertible into money or not, arising from business or the exercise of a profession. The provisions would apply to any benefit or perquisite, whether in cash or in kind or partly in cash and partly in kind.	Value or aggregate of value of benefit or perquisite > ₹ 20,000 in a F.Y.	Any person (other than an individual or HUF whose total sales, gross receipts or turnover does not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the immediately preceding F.Y.) responsible for providing to a resident, any benefit or perquisite. In case of a company, "person responsible for paying" means the company itself including the Principal Officer thereof.	Any resident	10% of value or aggregate of value of such benefit or perquisite	Before providing such benefit or perquisite	Where the benefit or perquisite is wholly in kind or partly in cash and partly in kind but the part in cash is not sufficient to meet the liability of deduction of tax in respect of whole of such benefit or perquisite, the person responsible for providing such benefit or perquisite shall, before releasing the benefit or perquisite, ensure that tax has been paid in respect of the benefit or perquisite.



Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction	Other relevant points
194T	Any sum in the nature of salary, remuneration, commission, bonus or interest	Sum or aggregate of such sum > ₹ 20,000 during the F.Y.	Any person, being a firm	Partner of such firm	10%	At the time of credit of such sum to the account of the partner (including the capital account) or at the time of payment, whichever is earlier.	

17. Payments of other Sums to Non- Residents (Section 195)

- Any person responsible for paying to a non-resident or foreign company any interest or any other sum chargeable to income-tax in India, shall at the time of payment, deduct tax at the rates in force. This sum should not be in nature of salaries.
- Tax is to be deducted at the time of actual payment or at the time of credit to A/c of payee, interest payable a/c or suspense a/c, whichever is earlier.
- In case of interest of mutual fund payable by Govt / public sector bank or in financial institution, TDS is to be done only at the time of payment in cash or issue of cheque/draft or any other mode.
- It is important to note that surcharge and health and education cess are not applicable while deducting tax at source on payments made to a resident payee. However, while tax is deducted at source on the payments made to non-residents, surcharge if any and health and education cess @ 4% has to be added.

18. Interest or Dividend or any Sum Payable to Government / RBI / Certain Corporations (Sec. 196)

- No deduction of tax shall be made by any person from any sums payable to -
 - the Government; or



- (ii) the Reserve Bank of India; or
 - (iii) a corporation established by or under a Central Act, which is, under any law for the time being in force, exempt from income-tax on its income; or
 - (iv) a Mutual Fund³.
- (2) This provision for non-deduction is applicable when such sum is payable to the above entities by way of -
- (i) interest or dividend in respect of securities or shares -
 - (a) owned by the above entities; or
 - (b) in which they have full beneficial interest or
 - (ii) any income accruing or arising to them.

Question 2:

Mukesh Enterprises, a partnership firm took a loan of Rs. 9,60,000 from a non-resident. Interest on loan for the financial year 2026-27 amounted to Rs. 96,000. Should the firm deduct tax at source from the interest?

Solution

Tax is to be deducted under section 194A on interest (other than interest on securities) if the interest is paid to a resident. In this case, the firm has paid interest (other than interest on securities) to a non-resident and hence, the firm is not liable to deduct tax at source under section 194A. However, section 195 requires deduction of tax at source from payment made to a non-resident. Hence, the firm is not required to deduct tax at source under section 194A but it is required to deduct tax at source under section 195.

Mandatory requirement of furnishing PAN [Section 206AA]

- (1) The non-furnishing of PAN by deductees in many cases have led to delay in issue of refund on account of problems in the processing of returns of income and in granting credit for tax deducted at source.
- (2) With a view to strengthening the PAN mechanism, section 206AA provides that any person whose receipts are subject to deduction of tax at source i.e. the deductee, shall mandatorily furnish his PAN to the deductor failing which the deductor shall deduct tax at source at higher of the following rates –
 - (i) the rate prescribed in the Act;
 - (ii) at the rate in force i.e., the rate mentioned in the Finance Act; or
 - (iii) at the rate of **20%** [5% in case tax is required to be deducted at source u/s 194Q]

Lower Deduction/ Non- Deduction of Tax

Section 197 gives a right to the assessee to apply to the Assessing Officer for obtaining a certificate that tax may not be deducted or be deducted at a lower rate in case of any sum

³ Specified under section 10(23D)



payable under Sections 192, 193, 194, 194A, 194C, 194D, 194G, 194H, 194I, 194J, 194K, 194LA, 194M, 194O, 194Q and 195.

1. For issue of a certificate u/s 197 the assessing officer should be satisfied that the non-deduction/deduction of tax at a lower rate in the hands of recipient is justified.
2. The application u/s 197 has to be made in Form No. 13 enclosing the documents and furnishing particulars specified therein.
3. Where the Assessing Officer is satisfied that existing and estimated tax liability of the person justifies the deduction of tax at lower rate or no deduction of tax, as the case may be, he shall issue a certificate for deduction of tax at such lower rate or no deduction of tax.
4. Where the Assessing Officer issues such a certificate, then the person responsible for paying the income shall deduct income-tax at such lower rates specified in the certificate or deduct no tax, as the case may be, until such certificate is cancelled by the Assessing Officer.

Credit of TDS

Where taxes have been deducted in accordance with the foregoing provisions of this chapter and income-tax paid outside India, by way of deduction, in respect of which an assessee is allowed a credit against the tax payable under this Act, shall for the purpose of computing the income of the assessee and would be deemed to be the income received (Section 198).

Further credit will be given to the assessee while calculating the net tax payable by him and the tax deducted at source will be treated as a payment of tax on his behalf (Section 199).

Deposit of Tax deducted at source

The persons responsible for deducting the tax at source should deposit the sum so deducted to the credit of the Central Government or as the Board directs, within the prescribed time.

Rule 30 prescribes the time and mode of payment to Government account of TDS and Rule 31A provides for submission of quarterly statements by every person responsible for deduction of tax.

Certificate of Tax Deducted (Section 203)

The person who deducts tax has to issue a certificate in the prescribed form to the person from whose payments deduction has been made, showing therein the particulars of payment, the date of tax deducted at source and the date of its credit to the Central Government. It is on the basis of this certificate that the payee can claim credit for tax paid on his behalf and can claim refund, if any, due to him on the basis of tax liability for the relevant year.

Following certificates have to be issued:

- a) Form No. 16, if the deduction or payment of tax is under section 192 (case of salary); and
- b) Form No. 16A if the deduction is under any other provision of Chapter XVII-B (cases other than salary).



The deductor is also required to specify the following in Form No. 16:

- a) Valid Permanent account number (PAN) of the deductee;
- b) Valid tax deduction and collection account number (TAN) of the deductor;
- c)
 - (i) Book identification number or numbers where deposit of tax deducted is without production of challan in case of an office of the Government.
 - (ii) Challan identification number or numbers in case of payment through bank.
- d)
 - (i) Receipt number of the relevant quarterly statement of tax deducted at source which is furnished in accordance with the provisions of rule 31A;
 - (ii) Receipt numbers of all the relevant quarterly statements in case the statement referred to in clause(i) is for tax deducted at source from income chargeable under the head "Salaries".

Refund of TDS

In case of excess deduction of tax at source, claim of refund of such excess TDS can be made by the deductor in prescribed format. The difference between the actual payment made by the deductor and the tax deductible at source will be treated as the excess payment made.

E-TDS Return

At present, all statements of tax deducted at source are filed in an electronic mode, thereby facilitating computerised processing of these statements. Therefore, in order to process TDS statements on computer, electronic processing on the same lines as processing of income-tax returns.

E-TDS Returns is currently filed online through the official Income Tax e-filing portal. Deductors prepare the TDS statements using software and then validate the file using the File Validation Utility (FVU) provided by Protean (NSDL eGov). The validated file is then uploaded to the e-filing portal.

Tax Deduction and Collection Account Number (TAN)

A person who deducts tax at source, if not already allotted a TAN (or a tax collection account number) should apply for allotment of TAN. The application has to be made in Form No. 49B in duplicate to the Assessing Officer (AO) or to any particular Assessing Officer where this duty is assigned by the Chief Commissioner or the Commissioner to that A.O. The assessee has to file the application within one month from the end of the month in which the tax is deducted or collected for the first time

Rights of Tax Payer

1. **Credit of TDS :** The person from whose income (payment) the tax has been deducted i.e. Payee or assessee shall not be asked upon to pay the tax himself to the extent tax has been deducted (Section 205). Moreover such tax deducted at source shall be treated as payment of tax on behalf of the payee (assessee).
2. **TDS Certificate :** U/s 203 payee (tax payer) is entitled to obtain a certificate from the payer (tax deductor) in Form 16-A specifying the amount of tax deducted and other



prescribed particulars. This has been discussed in detail earlier.

Penalties and Prosecution

Any default in compliance of various provisions of TDS can attract levy of interest, penalty and in certain cases initiation of prosecution proceedings. The possible defaults and the consequential proceedings are as follows:

1. **Failure to deduct tax at source** : Where the employer has failed to deduct tax or when short deduction of tax has been done, following statutory provisions are attracted:-
 - a) **Interest u/s 201(1A)** : The deductor is treated to be 'assessee in default' in respect of the short deduction/non deduction of tax. is liable to pay simple interest @ 1% for every month or part of month on the amount of such tax from the date on which tax was deductible to the date on which such tax was actually deducted and simple interest @ 1½% for every month or part of month from the date on which tax was deducted to the date on which such tax is actually paid . Such interest should be paid before furnishing the quarterly statements

Charging of interest u/s 201(1A) is mandatory and there is no provision for its waiver.
 - b) **Penalty u/s 271C** : A penalty equivalent to the amount of tax the deductor has failed to deduct, is leviable u/s 271C. Such penalty is however, only leviable by a Assessing Officer .
2. **Failure to deposit tax in govt. account after deduction** : Where the employer has deducted the tax at source but failed to deposit wholly or partly, the tax so deducted in Government account, then he is punishable with rigorous imprisonment for a term extends from 3 months to 7 years and with fine under section 276B. However, no prosecution will be initiated if tax is deposited before filing statement of TDS.
3. **Failure to apply for TAN or to quote TAN. (tax deduction and collection account number) [Section 272BB]** : Where a person who is responsible to deduct tax at source has failed, without reasonable cause:-
 - a) To apply for T.A.N. within prescribed period or,
 - b) After allotment, failed to quote such TAN in challans for payment of tax or TDS certificate or returns of TDS, then a penalty of a sum of Rs.10,000 and is imposable by the assessing officer. However, a reasonable opportunity of hearing must be given to the employer/ deductor.
4. **Failure to furnish TDS certificate or returns/ statement of tax deduction at source (penalty u/s 272A(2))** : Where the employer has failed to issue TDS certificate (form 16) within one month of the end of financial year or has failed to furnish the quarterly statement of tax in form 24Q, within the time prescribed u/s 200(3) (rule 31A), then a penalty of Rs. 500 is leviable for each day during the period for which default continues. The quantum of penalty is not to exceed the tax deductible and it is to be levied only by a Joint Commissioner or Joint D.I.T. after giving the



assessee an opportunity of being heard.

5. **Prosecution u/s 277 :** Where a person, who is required to furnish statement u/s 200(3) (quarterly statements) makes a false statement in verification or, delivers an account or statement which is false and which the person knows or believes to be false or does not believe to be true , then he is punishable -
 - in case where the amount of tax, which would have been evaded if the statement or account had been accepted as true, exceeds Rs. 25,00,000, with rigorous imprisonment for a term which shall not be less than 6 months but which may extend to 7 years along with fine;
 - in any other case, with rigorous imprisonment for a term which shall be not less than 3 months but may extend to 2 years and with fine.

Exercise

1. The obligation to deduct TDS shall arise only if the amount paid as rent exceeds
 - a) Rs. 60,000
 - b) Rs. 2,40,000
 - c) Rs. 1,20,000 per month
 - d) Rs. 50,000 per month
2. Which of the following does not relate to the meaning of 'rent'?
 - a) Payment under lease
 - b) Payment under purchase
 - c) Payment under sub-lease
 - d) Payment under tenancy
3. The responsibility to deduct tax from source arises only at the time of payment in which of the following case:
 - a) Salary
 - b) Dividends
 - c) Insurance commission
 - d) Interest other than securities



4. Which of the following form is used, if the deduction or payment of tax is under section 192:
- a) Form 16
 - b) Form 16A
 - c) Form 24Q
 - d) Form 26Q

Answers: 1. d, 2. b, 3. a, 4. a



SESSION 2

ADVANCE PAYMENT OF TAX

Section 207-219 of the Income Tax Act deals with the issues relating to advance payment of tax. Advance tax payment is the payment of tax liability by an assessee before the end of the financial year. As the name suggests, advance tax refers to paying a part of the taxes before the end of the financial year. Also called 'pay-as-you-earn' scheme, it should be paid in the year in which the income is received. It is kind of mandatory payment of tax, assessed by the assessee himself on income before completion of the Financial Year. For instance: if the advance tax liability of the assessee for the financial year 2025-26 is Rs. 70,000, he is expected to pay it in FY 2025-26 itself.

Advance tax receipts help the government to get a constant flow of income throughout the year so that expenses can be incurred rather than receiving all tax payments at the end of the year.

Liability of Assessee to Pay Advance Tax

As per section 208, every person whose estimated tax liability for the year is Rs. 10,000 or more, shall pay his tax in advance, in the form of "advance tax".

Person Not Liable to Pay Advance Tax

An individual resident assessee who is of the age of 60 years or more and not having any income from business or profession, need not pay advance tax and are allowed to discharge their tax liability (other than TDS) by payment of self-assessment tax even if his tax liability is 10,000 or more.

Instalments of advance tax and due dates

- (1) **Common advance tax payment schedule for both corporates and non-corporates [Other than assessee computing profits on presumptive basis under section 44AD(1) or section 44ADA(1)]:**

Due date of instalment	Amount payable
On or before 15th June	Not less than 15% of advance tax liability
On or before 15th September	Not less than 45% of advance tax liability, as reduced by the amount, if any, paid in the earlier instalment.
On or before 15th December	Not less than 75% of advance tax liability, as reduced by the amount or amounts, if any, paid in the earlier instalment or instalments.



On or before 15th March	The whole amount of advance tax liability as reduced by the amount or amounts, if any, paid in the earlier instalment or instalments.
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Note - Any amount paid by way of advance tax on or before 31st March shall also be treated as advance tax paid during each financial year ending on 31st March.

(2) **Advance tax payment by assessee computing profits on presumptive basis under section 44AD(1) or section 44ADA(1)**

An eligible assessee, opting for computation of profits or gains of business on presumptive basis in respect of eligible business referred to in section 44AD(1) or for computation of profits or gains of profession on presumptive basis in respect of eligible profession referred to in section 44ADA(1), shall be required to pay advance tax of the whole amount in one instalment on or before 15th March of the financial year.

However, any amount paid by way of advance tax on or before 31st March shall also be treated as advance tax paid during each financial year ending on 31st March.

Presumptive taxation

Presumptive taxation is a simplified method of taxation introduced to reduce the compliance burden for small taxpayers such as small businesses, professionals, and certain transport operators. Under this scheme, income is presumed at a fixed percentage of turnover or receipts, and the assessee is not required to maintain detailed books of accounts or get them audited (subject to conditions).

The relevant provisions are covered under Sections 44AD, 44ADA, and 44AE of the Income-tax Act, 1961:

	Particulars	Section 44AD	Section 44ADA	Section 44AE
(1)	Eligible Assessee	Resident individual, HUF or Partnership firm (but not LLP) Non-applicability of section 44AD in respect of the following persons: <ul style="list-style-type: none"> - A person carrying on profession specified u/s 44AA(1); - A person earning income in the nature of commission or brokerage; - A person carrying on 	Resident individual or Partnership firm (but not LLP) engaged in any profession specified u/s 44AA(1), namely, legal, medical, engineering, architectural profession or profession of accountancy or technical consultancy or interior decoration or notified profession (authorized	An assessee owning not more than 10 goods carriages at any time during the P.Y.



		any agency business.	representative, film artist, company secretary, profession of information technology)	
(2)	Eligible business/ profession	Any business, other than business referred to in section 44AE, whose total turnover/gross receipts in the P.Y. ≤ ₹ 200 lakhs in the relevant P.Y.	Any profession specified u/s 44AA(1), whose gross receipts ≤ ₹ 50 lakhs in the relevant P.Y.	Business of plying, hiring or leasing goods carriages
		Any business, other than business referred to in section 44AE, whose total turnover/gross receipts in the P.Y. ≤ ₹ 300 lakhs in the relevant P.Y., if aggregate cash receipts in the relevant PY ≤ 5% of total turnover or gross receipts.	Any profession specified u/s 44AA(1), whose gross receipts ≤ ₹ 75 lakhs in the relevant P.Y., if aggregate cash receipts in the relevant PY ≤ 5% of total gross receipts.	
(3)	Presumptive income	8% of total turnover/sales/gross receipts or a sum higher than the aforesaid sum claimed to have been earned by the assessee. 6% of total turnover/gross receipts received by A/c payee cheque/ bank draft/ ECS through a bank account or through such other prescribed electronic modes (credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, and BHIM Aadhar Pay) during the P.Y. or before due date of filing of return u/s 139(1) in respect of that P.Y. (or) such higher sum claimed to have been	50% of gross receipts of such profession or a sum higher than the aforesaid sum claimed to have been earned by the assessee.	For each heavy goods vehicle ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, for every month or part of a month; For each vehicle, other than heavy goods vehicle: ₹ 7,500 per month or part of a month during which such vehicle is owned by the assessee or an amount claimed to have been actually earned from such vehicle, whichever is



		earned by the assessee.		higher.
(4)	Requirement of maintenance of books of account u/s 44AA and audit u/s 44AB	If eligible assessee declares profits and gains as per presumptive taxation, he is not required to maintain books of account or get them audited.	If eligible assessee declares profits and gains in accordance with the provisions of section 44ADA, he is not required to maintain books of account or get them audited.	If eligible assessee declares profits and gains in accordance with the provisions of section 44AE, he is not required to maintain books of account or get them audited.
(5)	Advance tax obligation	The eligible assessee opting for section 44AD is required to pay advance tax by 15th March of the financial year (F.Y.) .	The eligible assessee opting for section 44ADA is required to pay advance tax by 15th March of the F.Y.	The eligible assessee has to pay advance tax in four installments

Adjustment of Advance Tax

Section 219 states that the total advance tax paid by an assessee other than for interest is to be adjusted against the total tax liability computed under regular assessment.

Interest for non-payment or short-payment of advance tax [Section 234B]

- (1) Interest under section 234B is attracted for non-payment of advance tax or payment of advance tax of an amount less than 90% of assessed tax.
- (2) The interest liability would be 1% per month or part of the month from 1st April following the financial year upto the date of determination of income under section 143(1) and where a regular assessment is made, upto the date of such regular assessment.

Question 3: Mr. Pandey is running a departmental store. The turnover of the store for the financial year 2025-26 amounted to Rs. 75,00,000. He wants to declare income under section 44AD at 8% of the turnover. He does not have any other source of income. Is he liable to pay advance tax?

Solution :

As Mr. Pandey satisfies the criteria of section 44AD in respect of departmental store business, so he can opt for the provisions of section 44AD and declare income at 8% of the turnover.

An assessee who is adopting the provisions of section 44AD will not be liable to pay advance tax in respect of business covered under section 44AD. Thus, if Mr. Pandey adopts the scheme of section 44AD, he will be liable to pay advance tax in single installment by 15th of March 2026 for the FY 2025-26 respect of income generated from business of departmental store.



Question 4: Mr. Gupta (age 45 years) is running an interior decoration business. His turnover for the financial year 2025-26 amounted to Rs. 60,00,000. He has not adopted the presumptive taxation scheme of section 44AD and has maintained the books of accounts. The accounts revealed a net profit of Rs 6,00,000 (assuming being the taxable as business income) and he has opted out of default tax regime u/s 115BAC. Is he liable to pay advance tax?

Solution

Mr. Gupta has not adopted the provisions of section 44AD. Therefore, he will be liable to pay advance tax in respect of income generated from his business if his estimated tax liability for the financial year comes out to Rs. 10,000 or more.

The taxable income of Mr. Gupta is Rs. 6,00,000. His tax will be Rs. 33,800 [(Rs. 12,500 + Rs. 20,000) x 104%] which is more than Rs. 10,000. Thus, Mr. Gupta will be liable to pay advance tax.

Question 5: Mr. Khanna is a architect. His estimated tax liability for the financial year 2025-26 amounted to Rs. 2,00,000. By which dates he should pay advance tax and how much, assuming he has not opted for presumptive taxation u/s 44ADA ?

Solution

Installments	Due date	Amount due to be paid	Amount to be paid
First installment	15 th June, 2025	Upto 15% of the advance tax payable	Rs. 30,000
Second installment	15 th September, 2025	Upto 45% of the advance tax payable as reduced by amount paid in earlier installments, i.e., Rs. 90,000 – Rs. 30,000	Rs. 60,000
Third installment	15 th December, 2025	Upto 75% of the advance tax payable as reduced by amount paid in earlier installments i.e. Rs. 1,50,000 – Rs. 90,000	Rs. 60,000
Fourth installment	15 th March, 2026	Upto 100% of the advance tax payable as reduced by amount paid in earlier installments	Rs. 50,000

Change in Tax Liability after Making Payment of First or Second Installment

If, after paying first or second installment of advance tax, there is a change in the tax liability, then the taxpayer can revise the amount of advance tax in the remaining installments and pay the tax according to revised tax liability.

Role of Assessing Officer

Under the Income-tax Act, 1961, the Assessing Officer (AO) is an income-tax authority. The AO is responsible for the administration of the Act in relation to assessment, collection, and



enforcement of income tax within their assigned jurisdiction. The AO performs the certain functions such as -

- examines the return of income filed by the assessee and processes it.
- Where necessary, conduct a assessments or if required also do reassessments
- issue notices to the assessee to furnish further information or documents.
- computes the total income of the assessee and determines the tax liability in accordance with the provisions of the Act while doing the assessments.
- Ensures proper collection and recovery of tax, interest, penalty, etc., as per the Act.
- levy penalties for various defaults, such as concealment of income, failure to file returns, etc.
- Determines and grants refunds due to the assessee, along with applicable interest under section 244A.
- Rectify any mistake apparent from the record or reassess escaped income.
- After due process, the AO passes an assessment order, penalty order, or other applicable orders under relevant provisions.

Exercise

State whether the following statements are true or false:

1. If a person responsible for deduction of tax at source fails to deduct the appropriate tax, or after making the due deduction fails to deposit it into the Government treasury, he is liable to prosecution.
2. It is obligatory for an assessee to pay advance tax where the amount of tax payable is Rs. 5000 or more.
3. Presumptive Taxation Scheme is incorporated to give relief to a resident assessee of 60 years or more.
4. A tax payer must pay 15% of the advance tax due by 15th June of the previous year.

Answers : 1. False, 2. False, 3. False, 4. True

Summary

- ◆ The Income-tax Act provides for collection and recovery of income-tax in the following ways, namely :
 - ◆ Deduction of tax at source in respect of income by way of salaries, interest on securities, interest other than interest on securities, winnings from lotteries and crossword puzzles, winnings from horse-race, insurance commission, dividends, payment to contractors or subcontractors and payments to non-residents.
 - ◆ Advance payment of income-tax before the assessment by the assessee himself.
 - ◆ Direct payment of income-tax by the assessee on self-assessment.
 - ◆ After the assessment is made by the Assessing Officer.
 - ◆ Tax collected at source.



- ◆ Sections 192 to 206 of the Income-tax Act lay down the provisions relating to deduction of tax at source.
- ◆ Section 197 gives a right to the assessee to apply to the Assessing Officer for obtaining a certificate that tax may not be deducted or be deducted at a lower rate.
- ◆ Certificate of tax deducted at source is to be issued by the person deducting TDS to the assessee so that the latter can claim credit for tax paid on his behalf and can claim refund, if any, due to him on the basis of tax liability for the relevant year.
- ◆ Section 207-219 of the Income Tax Act deals with the issues relating to advance payment of tax. In advance payment of tax, the assessee has to pay tax in a financial year under estimated income which is to be taxed in the subsequent assessment year. It follows the doctrine known as pay as you earn scheme.
- ◆ It is obligatory for an assessee to pay advance tax where the advance tax payable is Rs. 10,000 or more (Section 208).

Exercise

I. Short Answer Questions

1. What is Tax deducted at Source?
2. What is Advance Tax payment? Which persons are not liable to pay advance tax?
3. Differentiate between TDS and Advance Tax Payment.
4. Explain the benefits of tax deducted at source to government.
5. What is TAN? Which form is required to apply for TAN?
6. State which forms have to be issued as certificate of tax deducted at source.

II. Long Answer Questions

1. Explain the provisions of section 197 regarding lower deduction/non-deduction of tax.
2. Explain the various duties of persons deducting tax at source and the rights of taxpayers.
3. Explain the Presumptive Taxation Scheme under section 44AD.
4. Explain the role of Assessing Officer in relation to Advance Payment of Tax.
5. Explain the possible defaults in compliance of provisions of TDS and the consequential proceedings.
6. State the provisions regarding deduction of tax at source in respect of the following incomes:
 - a) Rent
 - b) Dividends
 - c) Professional or technical fees
 - d) Winning from horse races

III. Numerical Questions



1. Mr. Sharma is an architect. His estimated tax liability for the year 2025-26 amounts to Rs. 3,00,000. He has paid advance tax of Rs. 45,000 by 15th June 2025. On 26th November, 2025, he got a contract after which his income for the year increased and his revised tax liability for the year amounted to Rs. 4,00,000. In this case, how much advance tax he is required to pay in subsequent installments?

(Answer: 15th September-135000; 15th December- Rs. 1,20,000; 15th March- Rs. 1,00,000)

2. Mr. Tondon (age 45 years) runs a furniture business. The turnover of the business for the financial year 2025-26 amounted to Rs. 50,00,000. He has not adopted the provisions of section 44AD or 44ADA and has maintained the regular books of account as per the provisions of section 44AA. The accounts revealed a net profit of Rs. 2,64,000. Will he be liable to pay advance tax?

(Answer: No)

3. Mr. Umesh Kumar has a monthly salary of Rs. 1,80,000. He claimed HRA Exemption of Rs. 50,000 during the previous year 2025-26 . Calculate the average rate of TDS payable on his salary and amount that would be deducted every month as TDS on salary assuming he has opted out of default tax regime u/s 115BAC.

(Answer: Total tax liability- Rs. 2,08,750, Average Tax Rate- Rs. 10.67%, Rs.17,396 would be deducted every month)



UNIT 4

GOODS AND SERVICE TAX (GST)

Unit-4	Goods and Service Tax (GST)			
Location:	Meaning of Direct Tax and GST			
Classroom	Learning Outcome	Knowledge Evaluation	Performance Evaluation	Teaching and Training Method
	1. Meaning of Direct and Indirect Taxes.	1. Explain the meaning of Direct and Indirect Taxes.	1. Differentiate between Direct and Indirect Taxes. 2. Identify various taxes into Direct and Indirect tax.	Interactive Lecture: Introduction of various types of Indirect Taxes prior to coming of GST on 01/07/2017
SESSION 2: INTRODUCTION TO GST				
	1. Previous (upto 30/06/2017) Indirect Tax Structure and its difficulties.	1. Explain the previous indirect system of VAT, Central Excise & Service Tax. 2. Describe the difficulties of previous system.	1. Understand the multiplicity of taxes and other difficulties in the previous taxation regime.	Interactive Lecture: Discussion on the various taxes and tax rates under the pre - GST system.
	1. Meaning of GST & why GST.	1. Explain the concept of GST.	1. Analyze the meaning of GST as an Indirect Tax.	Interactive Lecture: Discussion on meaning and objectives of GST.



Classroom	Learning Outcome	Knowledge Evaluation	Performance Evaluation	Teaching and Training Method
			2. Understand the importance of Constitutional Amendment for introduction of GST & constitution of GST Council.	
	1. Features of GST	1. Explain the features of GST (CGST/SGST/UTGST/IGST) 2. State the advantages and challenges of introducing GST regime.	1. Analyze the features of GST. 2. Understand the difference between GST and previous system of indirect taxation. 3. Explain the advantages and challenges of introducing GST.	Interactive Lecture: 1. Discussion of various features of GST Law (CGST Act & SGST Act of any state). 2. Discussion on the advantages and the challenges of GST.
		1. Method of computing GST liability in case of intra-state and inter-state supplies. 2. Registration in GST. 3. Filling of GST Returns.	1. Solve the problems of calculating GST liability in different situations. 2. Solve are explain due date of registration and discussion on dates/eligibility prescribed for Registration under Section 22 & 24 of CGST Act, 2017. 3. Dates for Filing of GST Returns.	Interactive Lecture: <ul style="list-style-type: none"> Discussion on the dual GST and IGST calculation. Discussion on various types of Returns in GST.

(Note: The location for discussion will be the classroom for the theoretical interactions, the student will be required to visit registered and unregistered dealers and also the websites of tax department of respective states like <http://www.gstindia.com/>, <http://finmin.nic.in>, <http://dor.gov.in/>, <http://www.cbec.gov.in/> and websites of respective states)



Learning Objectives:

After reading this unit, the students will be able to:

1. Understand the difference between direct taxes and Indirect taxes.
2. Explain the present indirect tax structure.
3. Explain the meaning of GST.
4. Explain the features of GST.
5. Identify the difference between GST and previous taxation system (VAT/Central Excise & Service Tax).
6. Describe the advantages and disadvantages of GST.



SESSION 1

MEANING OF DIRECT TAX AND INDIRECT TAX

Direct Tax

A **Direct tax** is the tax whose burden is directly borne by the person on whom it is imposed, i.e., its burden cannot be shifted to others.

It is deducted at source from the income of person who is taxed.

For example: Income tax is a direct tax because the person, whose income is taxed, is liable to pay the tax directly to the Government and bear the burden of the tax himself.

Other examples of direct tax are Income-tax or Tax on Undisclosed Foreign Income And Assets. It is not desirable to avoid payment of taxes. They are levied directly on income and property of persons, who pay directly to the Government.

Indirect Tax

On the other hand when (i) liability to pay a tax is on one person and (ii) the burden of that tax shifts on some other person, this type of tax is called an **indirect tax**.

Thus, Indirect Tax is a tax whose burden can be shifted to others.

For example: Goods and Services Tax (GST) or Custom Duty

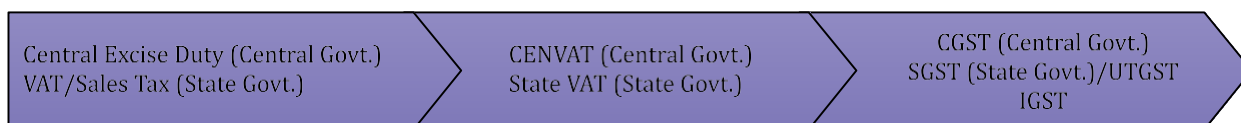


SESSION 2

INTRODUCTION TO GST

PREVIOUS (upto 30/06/2017) INDIRECT TAX STRUCTURE AND ITS DIFFICULTIES

The history of Indian taxation goes back to ancient period. According to Arthashastra, the book written by Kautilya, in ancient times, taxes were levied and collected in both cash and kind. The modern history of Indirect taxes begins in the early 20th century when Central Excise Duty was imposed on Salt, Sugar, Motor Spirit, etc. Gradually the base of Excise duties was widened. At the time of independence, the system of Central Excise Duty at the national level and the Sales Tax at the State level was prevailing. After prolonged efforts and amendments, VAT was introduced first in Indian State of Haryana in 2003 and thereafter in 24 States/UTs including Punjab, Chandigarh, HP, J&K and Delhi in 2005. If the VAT was a major improvement over the pre-existing Sales Tax regime, then the Goods and Services Tax (GST) is indeed a remarkable improvement and the next logical step towards realising perfection in taxation system in the country. Initially, it was proposed that there would be a single and national level GST. However, with the release of First Discussion Paper by the Empowered Committee of the State Finance Ministers on 10.11.2009, it was made clear that there would be a “Dual GST” in India, i.e., the taxation power will be in the hands of the Centre and the States (both) to levy the taxes on the Goods and Services. Again, the decision to introduce GST kept on getting delayed due to political, technical and administrative causes. However, the GST tax regime has been finally implemented from 1st July, 2017 across India. Thus, there is an economic union of the country with ONE TAX, ONE MARKET AND ONE NATION.



EVOLUTION OF TAXATION SYSTEM IN INDIA

Previously, the powers to levy tax between the Centre and the States were clearly divided in the Constitution with almost no overlap between the respective domains. The Constitution empowered the Central Government to impose:

- ◆ Excise Duty on manufacture and production (except alcoholic liquor for human consumption, opium, narcotics etc.), and
- ◆ Service Tax on the provision of services.

Further, constitution empowered the State Governments to impose sales tax or value added tax (VAT) on the sale of goods.



This division of fiscal powers on goods and services has led to a multiplicity of indirect taxes in the country with varying compliance system & rates etc. In case of inter-State sales, the Centre had the power to impose a tax (the Central Sales Tax). However the tax was collected and retained entirely by the State where sale occurs. Further, many States imposed an entry tax / octroi on the entry/sale of goods in local areas. This had resulted in the following difficulties:

- ◆ This multiplicity of taxes at the State and Central levels had resulted in a complex indirect tax structure in the country with hidden costs for the trade and industry. Also, there was no uniformity in various taxes and tax rates across States.
- ◆ Secondly, there was a cascading effect of taxes due to 'tax on tax'. No credit of excise duty and service tax paid at the stage of manufacture/ provision of service was available to the consumers while paying the State level sales tax or VAT and vice-versa.
- ◆ Further, no credit of taxes paid in one State could be availed in other States. Hence, the prices of goods and services used to get inflated.

MEANING OF GOODS AND SERVICE TAX

GST is a destination based indirect tax on consumption of goods and services, i.e., the tax would accrue to the taxing authority (State/Union Territory) which has jurisdiction over the place of consumption, which is termed as place of supply. Under the GST scheme, no distinction is made between goods and services for levying of tax. In other words, goods and services attract the GST. It is imposed at all stages right from manufacture/supply of goods/services up to final consumption with credit of input taxes paid at each stage available as setoff in the subsequent stage of taxation. In short, only value addition will be taxed and burden of tax is to be borne by the final consumer.

SALIENT FEATURES OF GST

GST Council

GST Council is the main decision making body, which is formed to finalize the design of Goods and Services Tax. It is a Governing body and Union Finance Minister is the chairman of this council, it also includes the Minister of State (Revenue) and the State Finance / Taxation Ministers. The GST council will make recommendation on:

- ◆ Taxes, cesses and surcharges to be subsumed under GST;
- ◆ Goods and services, which may be taxed to, or exempt from GST;
- ◆ The threshold limit of turnover for application of GST;
- ◆ Rates of GST;
- ◆ Principles of levy, apportionment of IGST and principles that govern;
- ◆ The place of supply;
- ◆ Rates including floor rates with bands of GST;



- ◆ Special provisions with respect to the Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh, Jammu and Kashmir, and Uttarakhand; and other related matters.

1. **Supply Based Tax**

GST is applicable on “supply” of goods or services as against the previous concept of tax on the manufacture of goods or on sale of goods or on provision of services.

2. **Destination- Based Consumption Tax**

GST is a destination-based tax. This implies that all SGST (or UTGST) collected will ordinarily accrue to the State (or Union Territory) where the consumer of the goods or services receives supply.

3. **Dual GST**

Both Centre and States simultaneously have the power to impose GST across the entire supply chain. Centre would levy and collect Central Goods and Services Tax (CGST) and States would levy and collect the State Goods and Services Tax (SGST) on all supplies within a State. (Intra-state supply).

Example:

Suppose Vikas, a dealer in Haryana sold goods to Anand in Haryana worth Rs. 10,000. If GST rate applicable on those goods is 18%, it would comprise of CGST 9% and SGST 9%. In such a case, the dealer collects Rs. 1800 of which Rs. 900 will go to the Central Government and Rs. 900 will go to the Government of Haryana.

4. **INTER-STATE SUPPLIES AND IGST MECHANISM**

The Centre would levy and collect the Integrated Goods and Services Tax (IGST) on:

- ◆ All inter-State supply of goods and services in India.
- ◆ Inter-state stock transfers of goods.
- ◆ Import of goods / services.
- ◆ Export of goods / services.

The IGST mechanism has been designed to ensure seamless flow of input tax credit from one State to another. The inter-State supplier would pay IGST on the supply of his goods and/ or services to the Central Government, which will be collected by the Central Government as IGST.

The importing consumer(dealer/manufacturer) will claim credit of IGST while discharging his output tax liability (both CGST and SGST) in his own State. Centre will transfer to the importing State the credit of IGST used in payment of GST.

5. **REPLACEMENT OF EXISTING TAXES**

The following taxes from previous taxation system have been subsumed under GST:



Central Taxes subsumed under CGST or IGST

- i. Central Excise Duty.
- ii. Additional Excise Duty.
- iii. Excise Duty levied under the Medicinal and Toiletries Preparation Act.
- iv. Service Tax.
- v. Additional Customs Duty, commonly known as Countervailing Duty (CVD).
- vi. Special Additional Duty of Customs (SAD).
- vii. Cesses and surcharges in so far as they relate to supply of goods and services.
- viii. Central Sales Tax (levied by the Centre and collected by the States).

State Taxes to be subsumed under SGST-

- i. VAT/Sales Tax.
- ii. ss
- iii. Entertainment Tax (Except those levied by local bodies like Panchayat).
- iv. Octroi and Entry Tax (all forms).
- v. Purchase Tax.
- vi. Luxury Tax.
- vii. Taxes on lottery, betting and gambling.
- viii. State cesses and surcharges in so far as they relate to supply of goods.

6. TAX SLABS OF GST

GST rates will be uniform across the country. The Government has notified six tax rates, i.e., 0%, 3%, 5%, 12%, 18% and 28%. Some of the items also attract GST Compensation Cess in addition to GST at the applicable rates.



7. EXPORTS (Zero Rated)

Zero Rating means export or supply to SEZ developer/SEZ unit. Though apparently, it looks similar to an exempted transaction, there is a significant difference between the two. While in an exempted transaction, the tax paid on input lapses i.e. it cannot be set off, while under the Zero rated supplies, prior stage tax is allowed to be set off and effectively the entire tax paid on inputs used in export is eligible for refund. Thus, 'Zero Rating' is advantageous to the exporter as compared to 'exempting' of other supplies. Thus, exports are zero rated and thereby, exporters are granted refund of taxes paid by them on their inputs. Exporters gain significantly due to the 'Zero Rating'. Supply to SEZ/EOU are also zero-rated.

8. COMPOSITION SCHEME (Section 10)

Small taxpayers including start ups and many Small and Medium Enterprises may find it difficult to have resources and expertise to meet the increased tax compliances under GST regime. Thus, a taxpayer with an aggregate turnover in a financial year up to Rs. One crore fifty lakhs may register under composition scheme. (Rs. 75 lakhs in case of specified special category states). A dealer registered under composition scheme is not required to maintain detailed records as in the case of a normal taxpayer and shall pay tax as a percentage of his turnover during the year without the benefit of ITC (Input Tax Credit). Such a dealer cannot issue a tax invoice as well. A buyer from composition dealer will not be able to claim input tax on such goods. A Composition dealer shall not collect any tax from his customers. Tax payers making inter- state supplies shall not be eligible for composition scheme. These tax payers are allowed to supply services (other than restaurants) along with goods to an extent of 10% of turnover or Rs. 5 lakh, whichever is higher.

The rates for this scheme are as follows:

Category of Registered Person	Rate of CGST	Rate of SGST	Total
Manufacturer (other than manufacturers of notified goods)	1/2%	1/2%	1%
Supplier of food and drinks for human consumption (except alcohol)	2.5%	2.5%	5%
Other supplies like traders	0.5%	0.5%	1%
Service Providers (other than restaurants)	Separate composition scheme		

Composition for service providers (Section 10(2A) of the CGST Act, 2017)

Service providers having turnover upto INR 50 Lakhs may opt for composition levy. The tax rate shall be 6% (3% CGST and 3% SGST) of the turnover of supplies of goods and services, in the state or Union Territory.



9. Threshold Limit to obtain registration

Threshold exemption is built into a tax regime to free the small suppliers from compliance cost and effort. Thus, suppliers below the threshold limit are not required to register or pay tax. Moreover, it is difficult to administer small suppliers and cost of administering such suppliers is very high in comparison to the tax paid by them.

Under VAT regime, the threshold limits varied from state to state. Under the system of GST, the threshold limit is Rs. 20 lakh (Rs. 10 lakh Mizoram, Tripura, Manipur and Nagaland). For persons engaged exclusively in supply of goods making only intra-state supplies, the limit is 40 lakhs, subject to certain conditions.

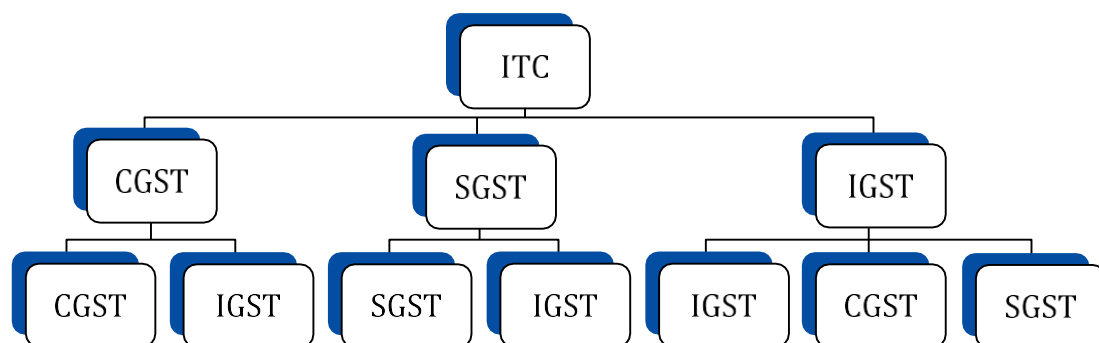
10. Input Tax Credit

The basic concept of GST is based on providing the set-off for the tax paid on the inputs used and this is given effect through the concept of input tax credit. This input tax credit means setting off the amount of input tax by a registered dealer against his output tax liability. The GST is based on the value addition to the goods and the related tax liability of the dealer can be arrived at by the supplier by using input tax credit from tax collected on supplies during the payment period.

The credit would be permitted to be utilized in the following manner:

First, IGST credit should be utilized towards IGST payment, and then towards payment of CGST & SGST/UTGST in any order and in any proportion. After entire ITC of IGST is utilized, ITC of CGST can be utilized for payment of CGST and IGST. ITC of SGST/UTGST can be utilized for payment of SGST/UTGST and IGST.

It may be noted that ITC of CGST cannot be utilized for payment of SGST/UTGST and vice versa.



HIERARCHY OF UTILISATION OF INPUT TAX CREDIT (ITC)

Accounts are settled periodically between the Centre and the States to ensure that the credit of SGST used for discharge of IGST is transferred to the consumer state. Similarly the IGST used for payment of SGST would be transferred by the Centre to the Importing State. Further the SGST portion of IGST collected on B2C supplies would also be transferred by the



Centre to the destination State. The transfer of funds would be carried out on the basis of information contained in the returns filed by the taxpayers.

ITC of tax paid on goods and/or services used for making taxable supplies by a taxable person (receiver) will be allowed subject to below mentioned conditions:

- ◆ He is in possession of tax invoice.
- ◆ He has received the goods or services.
- ◆ Tax has been actually paid by supplier to Government.
- ◆ The valid return is filed under section 39.

Illustration 1

Suppose goods worth Rs. 1,000 are sold within Uttar Pradesh. The VAT applicable on goods is 12% while CGST, SGST, or IGST applicable under the new regime are 6%, 6% or 12% respectively.

Solution

Particulars	Under VAT	Under GST
Product sold within U.P	1,000	1,000
VAT- 10%	<u>100</u>	
GST- 12%		<u>120</u>
Product value	1,100	1,000 [Since input tax credit of GST paid is available, so same will not form part of cost]
Profit	<u>s</u>	<u>1,000</u>
Selling Price	2,100	2,000
CST- 12%	252	-
GST- 12%		240
Less: Input Tax Credit		<u>120</u>
Final price of product	2,352	2,120

Note: Either IGST @ 12% will be applicable or CGST @6% and SGST 6% will be applicable.

Advantages of Introducing GST

(A) For Government and Economy

1. Dual GST



The introduction of GST has marked an end to the scheme of distribution of fiscal powers envisaged in the Constitution. The dual GST considers taxation of the same taxable event, i.e., supply of goods and/or services, simultaneously by both the Centre and the States. Therefore, both Centre and States have the power to impose GST across the supply chain from the stage of manufacture/provision of service (supply) to consumption.

2. Effective Administration of Taxation

GST has simplified and harmonised the indirect tax regime in the country. The complexity of the tax structure due to multiplicity of taxes and tax rates are reduced to a great extent. This helps in effective administration of taxation system in the country.



3. Increase in Competitiveness of Indian Industry

It is expected to reduce cost of production and inflation in the economy, thereby making the Indian trade and industry more competitive, domestically as well as internationally. Introduction of GST also fosters a common or seamless Indian market and contribute significantly to the growth of the economy.

4. Broaden Tax Base

GST has broadened the tax base, and result in better tax compliance due to a robust IT and online infrastructure, seamless transfer of input tax credit from one stage to another in the entire supply chain of value addition and decline in number of tax on goods and services.

(B) FOR TRADERS AND MANUFACTURERS

1. Easy Compliance

A robust and comprehensive IT system is the foundation of the GST regime in India. Therefore, all tax payer services such as Registrations, Returns, Payments, etc. are available to the taxpayers online, also making compliance easy and transparent.

2. Uniformity of Tax Rates and Structures

GST ensures that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST makes doing business in the country tax neutral, irrespective of the choice of place of doing business.

3. Removal of Cascading

A system of seamless tax-credits throughout the entire supply chain, and across boundaries of States, ensures that there is no cascading of taxes. This reduces hidden costs of doing business.

4. Increase in Competitiveness

The new regime reduces the cost of locally manufactured goods and services. This increases the competitiveness of Indian goods and services in the international market and gives boost to Indian exports. The uniformity in tax rates and procedures across the country also goes a long way in reducing the compliance cost.

(C) For Consumers

1. Reduction in Overall Tax Burden

From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods and services.



2. **Simpler Tax System**

Life for a common man becomes simpler as GST replaces a number of indirect tax levies. Complexity of taxation is reduced to a great extent and tax compliance becomes easier and cheaper.

3. **Reduction in Prices of Goods & Services due to Elimination of Cascading**

In the GST system, taxes for both Centre and State are collected at the point of supplies. Also, the credit of GST paid on inputs at every stage of supply chain is available for the discharge of GST liability on the output, thereby ensuring GST is charged only on the component of value addition at each stage. This ensures that there is no 'tax on tax' in the country.

4. **Uniform Prices**

Tackling with the problem of multiplicity of tax rates helps to approach uniform prices throughout the country.

5. **Transparency in Taxation System**

Computerisation of the processes of registration, payment and return filing by tax payers and maintenance of electronic cash ledger and electronic ITC ledger ensures transparency in the taxation system.

6. **Increase in Employment Opportunities**

Augmentation of human resource in the field of accountancy, taxation and information technology leads to an increase in employment opportunities.

Returns

The term "return" ordinarily means statement of information (facts), which is filed by the taxpayer according to law with the tax administrative authorities. Under Goods and Service Tax law a normal taxpayer will be required to furnish few statements/returns monthly and one annual return. Similarly, there are separate returns for a taxpayer who have opted the composition scheme, taxpayer registered as an Input Service Distributor, a person, who is liable to deduct or collect the (TDS/TCS).

Type of Return or Form No.	Persons Liable to File	Due Date
*GSTR-1 (Outward supply of taxable goods and/or services)	Registered Taxable Person	11 th of Next Month/13 th of the next month for quarterly scheme
GSTR-2 (Inward supply of taxable goods and/or services)	Registered Taxable Person	15 th of Next Month
GSTR-3B (Monthly Return)	Registered Taxable Person	20 th of Next Month/22 nd or 24 th of the next month in quarterly scheme based on State



GSTR-9 (Annual Return)	Registered Taxable Person	31 st December of next financial year
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Type of Return or Form No.	Persons Liable to File	Due Date
GSTR-4 (Quarterly Return for composition Suppliers)	Composition Supplier	Annual – 30 th June Payment is to be done quarterly – 18 th of the next month
GSTR-5 (Return for Non-Resident taxable person)	Non-Resident Taxable Person	13 th of Next Month or 7 days from validity period of registration, whichever is earlier
GSTR-6 (Return for Input Service Distributor)	Input Service Distributor	13 th of the next month
GSTR-7 (Returns for authorities deducted Tax at Source)	Tax Deductor	10 th of Next month
GSTR-8 (Details of supplies effected through e-commerce operator)	E-commerce operator	10 th of Next month
GSTR-10 (Final Return)	Taxable Person whose registration has been surrendered or cancelled	Within three months of the date of cancellation or date of order of cancellation, whichever is later.



CHALLENGES

1. Establishment and upgradation of IT framework

The number of taxpayers is likely to go up significantly. Also, the process of tracking inter (or intra) State transactions will be online. The type of clearing house mechanism through GSTN considered in the dual model GST will handle large volumes of data.

For this purpose, the Goods and Service Tax Network (GSTN) has been set up by the Government to create enabling environment for smooth introduction and implementation of GST

2. Meeting Implementation Challenges

The implementation of GST systems and procedures would not be very lengthy and complex process in a long run. A GST implementation Advisory Committee has been constituted within CBIC for overall supervision and monitoring of progress towards implementation of GST.

3. Tax Administration

The Central Board of Indirect Taxes and Customs (CBIC) and the State Tax Administrations will be responsible for implementing CGST and SGST respectively. For implementing dual GST, a robust and integrated tax administration is required to efficiently track supply of goods and services across the country as also to precisely account for the taxes. Implementing a risk management system will give meaningful results only when there will be an efficient tax administration.

4. Effective Coordination between Centre & State Tax Administrations

The assignment of concurrent jurisdiction to the Centre and the States for the levy of GST would require a unique institutional mechanism that would ensure that decisions about the structure, design and operation of GST are taken jointly by them. For it to be effective, such a mechanism also needs to have Constitutional force. There is a need for harmonization of processes & procedures between CGST / SGST & IGST Law.

5. Training of Officials and Trade & Industry

Until the people from trade and industry are adequately educated about the laws and procedures related to GST, there is possibility of non-compliance and tax evasion. Training / Familiarization of trade industry on a large scale will also be required.

6. Spreading Accounting and IT Literacy

Augmentation of human resources would be necessary to handle the large taxpayer base in GST scattered all over the country. Capacity building, particularly in the field of Accountancy and Information Technology, for the departmental officers has to be taken up in a big way.

7. Reorganization of Audit Procedures

The various rules and procedures of conducting audit will have to be modified in tune with the GST laws as against the earlier systems of VAT / Central Excise/Service Tax.



Exercise

State whether the following statements are true or false:

1. Goods and Services tax is a direct tax.
2. The threshold limit for tax exemption is Rs. 10 lakhs across India.
3. GST is an origin based tax.
4. Under GST regime, Constitution confers concurrent powers to both parliament and state legislatures to make laws with respect to tax on intra state supplies.
5. IGST will be levied by State Governments for the sales made in their states.
6. A taxpayer registered in Himachal Pradesh with an aggregate turnover of Rs. 75 lakhs in a financial year is eligible to get registered under composition scheme.

Answers: 1. False, 2. False, 3. False, 4. True, 5. False, 6. True

Key Words

1. **Direct Tax:** A direct tax is the tax whose burden is borne by the person on whom it is imposed, i.e., its burden cannot be shifted to others.
2. **Indirect Tax:** An indirect tax is a tax wherein (i) liability to pay a tax is on one person and (ii) the burden of that tax falls on some other person.
3. **Input Tax:** means the central tax, State tax, integrated tax or Union territory tax charged on any supply of goods or services or both made to him and includes—
 - (a) the integrated goods and services tax charged on import of goods;
 - (b) the tax payable under reverse charge;
 but does not include the tax paid under the composition levy
4. **Output Tax:** means the tax chargeable under this Act on taxable supply of goods or services or both made by him or by his agent but excludes tax payable by him on reverse charge basis.
5. **CGST:** Central GST (CGST) is the tax levied by Central Government on intra-State supplies of goods / services in India.
6. **SGST:** State GST (SGST) is the tax levied by State Government on intra-State supplies of goods / services in India.
7. **IGST:** IGST is levied & collected by the Centre and is applicable to :
 - ◆ Inter-State supplies of goods / services in India.
 - ◆ Inter-state stock transfers of goods.
 - ◆ Import of goods / services.
 - ◆ Export of goods / services (whenever applicable).
8. **Destination Based Tax:** This implies that all tax collected accrues to the State where goods/services are consumed.
9. **Zero- rated supply:** “Zero rated supply” means any of the following supplies of



goods or services or both, namely :-

- (a) export of goods or services or both; or
- (b) supply of goods or services or both for authorised operations to a Special Economic Zone developer or a Special Economic Zone unit.

The concept of zero rating of outward supplies requires the outward supplies as well as the inputs or input services used in supplying the outward supplies to be free of GST. This is done by employing the following means:

- a) The outward supplies which are zero rated can be made without payment of integrated tax, under bond or Letter of Undertaking or where such zero-rated supplies are exempted, they may be supplied without payment of tax; or
- b) The refund of unutilized credit input tax credit on supply of goods or services or both used in supplying the zero rated supply is allowed;

Thus, a registered person making zero rated supply may supply goods and/or services under bond or Letter of Undertaking (LUT) without payment of IGST and claim refund of unutilized ITC.

Further, notified class of persons may make zero-rated supply or notified class of goods or services may be exported, on payment of IGST and refund of such tax paid on goods and/or services supplied may be claimed.

10. Inter-State Supply: where the location of the supplier and the place of supply are in—

- (a) two different States;
- (b) two different Union territories; or
- (c) a State and a Union territory,

Supply of goods/services shall be treated as a supply of goods/services in the course of inter-State trade or commerce.

11. Intra-State Supply: If the location of the supplier and the place of supply is in the same State/ Union territory, it would be treated as an intra-State supply.



Summary

- ◆ A direct tax is the tax whose burden is borne by the person on whom it is imposed, i.e., its burden cannot be shifted to others. On the other hand when (i) liability to pay a tax is on one person and (ii) the burden of that tax falls on some other person, the tax is called an indirect tax.
- ◆ GST is a destination based indirect tax on consumption of goods and services. Under the GST, goods and services attract the same rate of tax. Practically, value addition is taxed and burden of tax is to be borne by the final consumer.
- ◆ Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State. (Intra state supplies).
- ◆ The Centre would levy and collect the Integrated Goods and Services Tax (IGST). A part of IGST will be transferred to the State/UT, where the goods / services are consumed / supplied.
- ◆ Small taxpayers with an aggregate turnover in a financial year up to Rs. One Crore and fifty lakh (Rs. 75 lakh for Arunachal Pradesh, Uttarakhand, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura) shall be eligible for composition levy.
- ◆ GST will be payable by a taxable person only when his turnover crosses the threshold exemption limit, i.e. Rs.20 lakhs (Rs.10 lakhs for Mizoram, Tripura, Manipur and Nagaland). For persons engaged exclusively in supply of goods making only intra-state supplies, the enhanced threshold limit is 40 lakhs, subject to certain conditions.
- ◆ ITC of IGST will be allowed for payment of IGST and then for CGST & SGST in any order and in any proportion. ITC of CGST cannot be used for payment of SGST and vice versa.

Exercise Questions

I. Short Answer Questions

1. Who is liable to pay GST under the proposed GST regime?
2. What is the concept of destination based tax on consumption?
3. What are the benefits available to small tax payers under the GST regime?
4. How will imports be taxed under GST?
5. How will Exports be treated under GST?
6. What is the taxable event under GST?
7. Which taxes have been subsumed under GST?

II. Long Answer Questions

1. Discuss the features of GST.
2. Why did introduction of GST require a Constitutional Amendment?
3. What are the benefits that will accrue to the country from GST?
4. What is the scope of composition scheme under GST? Whether the composition scheme will be optional or compulsory?
5. Discuss the importance of Input Tax Credit.
6. Explain the challenges of introducing GST.

III. Numerical Question

1. A retailer or supplier in Tamil Nadu sold goods to a consumer within the state worth Rs. 15,000. The GST rate applicable on these goods is 18%- CGST @ 9% and SGST @ 9%. Calculate the total GST paid by the retailer and the tax collected by Tamil Nadu Government and the centre.

(Answer: Total tax payable- Rs. 2,700, SGST- Rs. 1,350, CGST- Rs. 1,350).