

CA Inter **INCOME** **TAX LAW**

Question for every concept



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CA|CMA Inter

INCOME-TAX LAW

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**CHAPTER
1****BASIC CONCEPTS, GENERAL TAX RATES,
ALTERNATE TAX RATES SPECIAL TAX RATES**

1. Mr. B grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for ₹ 10 lakhs, and the cost of cultivation of such sugarcane is ₹ 5 lakhs. The cost of cultivation of the balance sugarcane (70%) is ₹ 14 lakhs and the market value of the same is ₹ 22 lakhs. After incurring ₹ 1.5 lakhs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25 lakhs. Compute B's business income and agricultural income. [SM]

Ans.

Computation of Business Income and Agriculture Income of Mr. B

Particulars	Business Income	Agricultural Income	
	(₹)	(₹)	(₹)
Sale of Sugar			
Business income			
Sale Proceeds of sugar	25,00,000		
Less: Market value of sugar- cane 70%)	22,00,000		
Less: Manufacturing exp.	1,50,000		
	1,50,000		
Agricultural income			
Market value of sugarcane (70%)		22,00,000	
Less: Cost of cultivation		14,00,000	
			8,00,000
Sale of sugarcane			
Agricultural Income			
Sale proceeds of sugarcane (30%)		10,00,000	
Less: Cost of cultivation		5,00,000	
			5,00,000
			13,00,000

2. Mr. C manufactures latex from the rubber plants grown by him in India. These are then sold in the market for ₹ 30 lakhs. The cost of growing rubber plants is ₹ 10 lakhs and that of manufacturing latex is ₹ 8 lakhs. Compute his total income. [SM]

Ans.

The total income of Mr. C comprises of agricultural income and business income.
 Total profits from the sale of latex= ₹ 30 lakhs – ₹ 10 lakhs – ₹ 8 lakhs= ₹ 12 lakhs.
 Agricultural income = 65% of ₹ 12 lakhs = ₹ 7.8 lakhs
 Business income = 35% of ₹ 12 lakhs = ₹ 4.2 lakhs

3. Mr. X has a total income of ₹ 30,00,000 for P.Y.2025-26, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2026-27 under the default tax regime under section 115BAC. [SM]

Ans.

Computation of tax liability of Mr. X for A.Y. 2026-27**Tax liability:**

First ₹ 4,00,000	- Nil	
Next ₹ 4,00,001 – ₹ 8,00,000	- @5% of ₹ 4,00,000	= ₹ 20,000
Next ₹ 8,00,001 – ₹ 12,00,000	- @10% of ₹ 4,00,000	= ₹ 40,000
Next ₹ 12,00,001 – ₹ 16,00,000	- @15% of ₹ 4,00,000	= ₹ 60,000
Next ₹ 16,00,001 – ₹ 20,00,000	- @20% of ₹ 4,00,000	= ₹ 80,000
Next i.e., ₹ 20,00,000 minus ₹ 24,00,000	- @25% of ₹ 4,00,000	= ₹ 1,00,000

	Balance 6,00,000 - @ 30% of 6,00,000 = ₹ 1,80,000 = ₹ 4,80,000 Add: Health and Education cess@4% = ₹ 19,200 = ₹ 4,99,200
4.	Mr. X has a total income of ₹ 16,00,000 for P.Y.2025-26, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2026-27 assuming his age is – (a) 45 years (b) 63 years (c) 82 years Assume that Mr. X has exercised the option to shift out/ opt out of the default tax regime [SM]
Ans.	(a) Computation of tax liability of Mr. X (aged 45 years) Tax liability: First ₹ 2,50,000 - Nil Next ₹ 2,50,001 – ₹ 5,00,000 - @5% of ₹ 2,50,000 = ₹ 12,500 Next ₹ 5,00,001 – ₹ 10,00,000 - @20% of ₹ 5,00,000 = ₹ 1,00,000 Balance i.e., ₹ 16,00,000 minus ₹ 10,00,000- @30% of ₹ 6,00,000 = ₹ 1,80,000 = ₹ 2,92,500 Add: Health and Education cess@4% = ₹ 11,700 = ₹ 3,04,200 (b) Computation of tax liability of Mr. X (aged 63 years) Tax liability: First ₹ 3,00,000 - Nil Next ₹ 3,00,001 – ₹ 5,00,000 - @5% of ₹ 2,00,000 = ₹ 10,000 Next ₹ 5,00,001 – ₹ 10,00,000 - @20% of ₹ 5,00,000 = ₹ 1,00,000 Balance i.e., ₹ 16,00,000 minus ₹ 10,00,000- @30% of ₹ 6,00,000 = ₹ 1,80,000 = ₹ 2,90,000 Add: Health and Education cess@4% = ₹ 11,600 = ₹ 3,01,600 (c) Computation of tax liability of Mr. X (aged 82 years) Tax liability: First ₹ 5,00,000 - Nil Next ₹ 5,00,001 – ₹ 10,00,000 - @ 20% of ₹ 5,00,000 = ₹ 1,00,000 Balance i.e., ₹ 16,00,000 minus ₹ 10,00,000 - @ 30% of ₹ 6,00,000 = ₹ 1,80,000 = ₹ 2,80,000 Add: Health and Education cess@4% = ₹ 11,200 = ₹ 2,91,200
5.	Compute the tax liability of Mr. A (aged 42), having total income of ₹ 51 lakhs for the Assessment Year 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. A has exercised the option to shift out of section 115BAC. [SM]
Ans.	Computation of tax liability of Mr. A for the A.Y.2026-27 (A) Income-tax (including surcharge) computed on total income of ₹ 51,00,000 ₹ 2,50,000 – ₹ 5,00,000 @5% ₹ 12,500 ₹ 5,00,001 – ₹ 10,00,000 @20% ₹ 1,00,000 ₹ 10,00,001 – ₹ 51,00,000 @30% ₹ 12,30,000 Total ₹ 13,42,500 Add: Surcharge @ 10% ₹ 1,34,250 ₹ 14,76,750 (B) Income-tax computed on total income of ₹ 50 lakhs

	(₹ 12,500 plus ₹ 1,00,000 plus ₹ 12,00,000) ₹ 13,12,500 (C) Total Income Less ₹ 50 lakhs ₹ 1,00,000 (D) Income-tax computed on total income of ₹ 50 lakhs plus the excess of total income over ₹ 50 lakhs (B + C) ₹ 14,12,500 (E) Tax liability: lower of (A) and (D) ₹ 14,12,500 Add: Health and education cess @4% ₹ 56,500 Tax liability (including cess) <u>₹ 14,69,000</u> (F) Marginal Relief (A - D) ₹ 64,250 Alternative method - (A) Income-tax (including surcharge) computed on total income of ₹ 51,00,000 ₹ 2,50,000 - ₹ 5,00,000@5% ₹ 12,500 ₹ 5,00,001 - ₹ 10,00,000@20% ₹ 1,00,000 ₹ 10,00,001 - ₹ 51,00,000@30% ₹ 12,30,000 Total ₹ 13,42,500 Add: Surcharge@10% ₹ 1,34,250 ₹ 14,76,750 (B) Income-tax computed on total income of ₹ 50 lakhs (₹ 12,500 plus ₹ 1,00,000 plus ₹ 12,00,000) <u>₹ 13,12,500</u> (C) Excess tax payable (A)-(B) ₹ 1,64,250 (D) Marginal Relief (₹ 1,64,250 - ₹ 1,00,000, being the amount of income in excess of ₹ 50,00,000) ₹ 64,250 (E) Tax liability (A)-(D) ₹ 14,12,500 Add: Health and education cess @4% ₹ 56,500 Tax liability (including cess) <u>₹ 14,69,000</u>
6.	Compute the tax liability of Mr. B (aged 51) under the default tax regime, having total income of ₹ 1,01,00,000 for the Assessment Year 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. [SM]
Ans.	Computation of tax liability of Mr. B for the A.Y. 2025-26 (A) Income-tax (including surcharge) computed on total income of ₹ 1,01,00,000 ₹ 3,00,000 - ₹ 8,00,000@5% ₹ 20,000 ₹ 8,00,001 - ₹ 12,00,000@10% ₹ 40,000 ₹ 12,00,001 - ₹ 16,00,000@15% ₹ 60,000 ₹ 16,00,001 - ₹ 20,00,000@20% ₹ 80,000 ₹ 20,00,001 - ₹ 24,00,000@25% ₹ 1,00,000 ₹ 24,00,001 - ₹ 1,01,00,000@30% ₹ 23,10,000 Total ₹ 26,10,000 Add: Surcharge@15% ₹ 3,91,500 Tax liability without marginal relief ₹ 3,00,1500 (B) Income-tax computed on total income of ₹ 1 crore (₹ 3,00,000 plus ₹ 22,80,000) ₹ 25,80,000 Add: Surcharge@10% ₹ 2,58,000 ₹ 28,38,000 (C) Total Income Less ₹ 1 crore ₹ 1,00,000 (D) Income-tax computed on total income of ₹ 1 crore plus the excess of total income over ₹ 1 crore (B + C) ₹ 29,38,000 (E) Tax liability: lower of (A) & (D) ₹ 29,38,000

	Add: Health and education cess @4%	<u>₹1,17,520</u>
	Tax liability (including cess)	<u>₹30,55,520</u>
	(F) Marginal relief (A-D)	₹ 63,500
7.	Compute the tax liability of Mr. C (aged 58), having total income of ₹ 2,01,00,000 for the Assessment Year 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. C has exercised the option to shift out of section 115BAC. [SM]	
Ans.	Computation of tax liability of Mr. C for the A.Y. 2025-26	
	(A) Income-tax (including surcharge) computed on total income of ₹ 2,01,00,000	
	₹ 2,50,000 – ₹ 5,00,000 @ 5%	₹ 12,500
	₹ 5,00,001 – ₹ 10,00,000 @ 20%	₹ 1,00,000
	₹ 10,00,001 – ₹ 2,01,00,000@30%	<u>₹ 57,30,000</u>
	Total	₹ 58,42,500
	Add: Surcharge @ 25%	<u>₹ 14,60,625</u>
		₹ 73,03,125
	(B) Income-tax computed on total income of ₹ 2 crore	
	(₹ 12,500 plus ₹ 1,00,000 plus ₹ 57,00,000)	₹ 58,12,500
	Add: Surcharge@15%	<u>₹ 8,71,875</u>
		₹ 66,84,375
	(C) Total Income Less ₹ 2 crore	₹ 1,00,000
	(D) Income-tax computed on total income of ₹ 2 crore plus the excess of total income over ₹ 2 crore (B +C)	₹ 67,84,375
	(E) Tax liability (A) or (D), whichever is lower	₹ 67,84,375
	Add: Health and education cess @4%	<u>₹ 2,71,375</u>
	Tax liability (including cess)	<u>₹ 70,55,750</u>
	(F) Marginal relief (A-D)	₹ 5,18,750
	Alternative method	
	(A) Income-tax (including surcharge) computed on total income of ₹ 2,01,00,000	
	₹ 2,50,000 – ₹ 5,00,000 @ 5%	₹ 12,500
	₹ 5,00,001 – ₹ 10,00,000 @ 20%	₹ 1,00,000
	₹ 10,00,001 – ₹ 2,01,00,000@30%	<u>₹ 57,30,000</u>
	Total	₹ 58,42,500
	Add: Surcharge@25%	<u>₹ 14,60,625</u>
		₹ 73,03,125
	(B) Income-tax computed on total income of ₹ 2 crore [(₹ 12,500 plus ₹ 1,00,000 plus ₹ 57,00,000) plus surcharge@15%]	<u>₹ 66,84,375</u>
	(C) Excess tax payable (A)-(B)	₹ 6,18,750
	(D) Marginal Relief (₹ 6,18,750 – ₹ 1,00,000, being the amount of income in excess of ₹ 2,00,00,000)	₹ 5,18,750
	(E) Tax liability (A) - (D)	₹ 67,84,375
	Add: Health and education cess@4%	<u>₹ 2,71,375</u>
	Tax liability (including cess)	<u>₹ 70,55,750</u>
8.	Compute the tax liability of Mr. D (aged 65) in a most beneficial manner. He is having total income of ₹ 5,01,00,000 for the Assessment Year 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit and is the same under both tax regimes. [SM]	

Ans. Computation of tax liability of Mr. D under default tax regime for the A.Y. 2026-27

Income-tax (including surcharge) computed on total income of ₹ 5,01,00,000

₹ 4,00,000 – ₹ 8,00,000@5% ₹ 20,000

₹ 8,00,001 – ₹ 12,00,000@10% ₹ 40,000

₹ 12,00,001 – ₹ 16,00,000@15% ₹ 60,000

₹ 16,00,001 – ₹ 20,00,000@20% ₹ 80,000

₹ 20,00,000 – ₹ 24,00,000@25% ₹ 1,00,000

₹ 24,00,001 – ₹ 5,01,00,000@30% ₹ 1,43,10,000

Total ₹ 1,46,10,000

Add: Surcharge@25% ₹ 36,52,500

₹ 1,82,62,500

Add: Health and education cess @4% ₹ 7,30,500Tax liability **₹ 1,89,93,000**

Computation of tax liability of Mr. D under optional tax regime for the A.Y. 2026-27

(A) Income-tax (including surcharge) computed on total income of ₹ 5,01,00,000

₹ 3,00,000 – ₹ 5,00,000 @ 5% ₹ 10,000

₹ 5,00,001 – ₹ 10,00,000 @ 20% ₹ 1,00,000

₹ 10,00,001 – ₹ 5,01,00,000@30% ₹ 1,47,30,000

Total ₹ 1,48,40,000

Add: Surcharge @ 37% ₹ 54,90,800

₹ 2,03,30,800

(B) Income-tax computed on total income of ₹ 5 crore

(₹ 10,000 plus ₹ 1,00,000 plus ₹ 1,47,00,000) ₹ 1,48,10,000

Add: Surcharge@25% ₹ 37,02,500**₹ 1,85,12,500**

(C) Total Income Less ₹ 5 crore ₹ 1,00,000

(D) Income-tax computed on total income of ₹ 5 crore plus the excess of total income over ₹ 5 crore (B + C) ₹ 1,86,12,500

(E) **Tax liability (A) or (D), whichever is lower** ₹ 1,86,12,500Add: Health and education cess@4% ₹ 7,44,500**Tax liability (including cess)** **₹ 1,93,57,000**(F) **Marginal Relief (A – D)** **₹ 17,18,300****Alternative method**

(A) Income-tax (including surcharge) computed on total income of ₹ 5,01,00,000

₹ 3,00,000 – ₹ 5,00,000@5% ₹ 10,000

₹ 5,00,001 – ₹ 10,00,000@20% ₹ 1,00,000

₹ 10,00,001 – ₹ 5,01,00,000@30% ₹ 1,47,30,000

Total ₹ 1,48,40,000

Add: Surcharge @ 37% ₹ 54,90,800 ₹ 2,03,30,800

(B) Income-tax computed on total income of ₹ 5 crore [(₹ 10,000 plus ₹ 1,00,000 plus ₹ 1,47,00,000)

plus surcharge@25% ₹ 1,85,12,500

(C) Excess tax payable (A)-(B) ₹ 18,18,300

(D) Marginal Relief (₹ 18,18,300 – ₹ 1,00,000, being the amount of income in excess of ₹ 5,00,00,000)	₹ 17,18,300
(E) Tax liability (A) - (D)	₹ 1,86,12,500
Add: Health and education cess @4%	<u>₹ 7,44,500</u>
Tax liability (including cess)	<u>₹ 1,93,57,000</u>
It is beneficial for Mr. D to pay tax under default tax regime under section 115BAC, since his tax liability would be lower by ₹ 2,21,000 (₹ 1,93,57,000 - ₹ 1,91,36,000).	

9. Mr. Raghav aged 26 years and a resident in India, has a total income of ₹ 6,50,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2026-27 under default tax regime under section 115BAC. **[SM]**

Ans.

(i) **Computation of tax liability of Mr. Raghav for A.Y. 2026-27**

Particulars	₹
Tax on total income of ₹ 6,50,000	
Tax@5% of ₹ 2,50,000	12,500
Less: Rebate u/s 87A (Lower of tax payable or ₹ 60,000)	12,500
Tax Liability	Nil

- (ii) If the total income of the resident individual is chargeable to tax under section 115BAC and the total income of such individual exceeds ₹ 12,00,000 and income-tax payable on such total income exceeds the amount by which the total income is in excess of ₹ 12,00,000, the rebate would be as follows.

Step 1 – Total income (-) ₹ 12 lakhs **(A)**

Step 2 – Compute income-tax liability on total income **(B)**

Step 3 – If **B > A**, rebate under section 87A would be a **B – A**.

The amount of rebate under section 87A shall not exceed the amount of income-tax (as computed before allowing such rebate) on the total income of the assessee.

10. Mr. Pawan aged 35 years and a resident in India, has a total income of ₹ 12,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2026-27 under default tax regime under section 115BAC. **[SM]**

Ans.

Computation of tax liability of Mr. Pawan for A.Y. 2026-27

Particulars	₹	
Step 1: Total Income of ₹ 7,15,000 - ₹ 7,00,000	15,000	(A)
Step 2: Tax on total income of ₹ 7,15,000		
Tax@10% of ₹ 15,000 + ₹ 20,000	21,500	(B)
Step 3: Since B > A , rebate u/s 87A would be B-A	6,500	
[₹ 21,500 - ₹ 15,000]	15,000	
Add: HEC@4%	600	
Tax Liability	15,600	

Rebate to a resident individual paying tax under optional tax regime (normal provisions of the Act)

If total income of such individual **does not exceed ₹ 5,00,000**, the rebate shall be equal to the amount of income-tax payable on his total income for any assessment year or an amount of **₹ 12,500**, whichever is less.

The amount of rebate under section 87A shall not exceed the amount of income-tax (as computed before allowing such rebate) on the total income of the assessee with which he is chargeable for any assessment year.

11. Mr. Piyush, aged 35 years and a resident in India, has a total income of ₹ 4,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2026-27 if he exercises the option to shift out of the default tax regime **[SM]**

Ans.

Computation of tax liability of Mr. Piyush for A.Y. 2026-27

Particulars	₹
Tax on total income of ₹ 4,15,000	
Tax@5% of ₹ 1,65,000	8,250
Less: Rebate u/s 87A (Lower of tax payable or ₹ 12,500)	8,250
Tax Liability	Nil

- Rebate under section 87A is allowed from income-tax computed before adding Health and education cess on income-tax.
- Rebate under section 87A is, however, not available in respect of tax payable on long-term capital gains taxable u/s 112A.

12.

Mr. X, a resident, has provided the following particulars of his income for the P.Y. 2025-26 .

- | | |
|---|---------------|
| i. Income from salary (computed) | - ₹ 10,80,000 |
| ii. Income from house property (computed) | - ₹ 2,50,000 |
| iii. Agricultural income from a land in Jaipur | - ₹ 4,80,000 |
| iv. Expenses incurred for earning agricultural income | - ₹ 1,70,000 |

Compute his tax liability for A.Y. 2026-27 assuming his age is -

(a) 45 years

(b) 70 years

[SM]

Ans.

(a) Computation of tax liability (age 45 years)**Computation of total income of Mr. X for the A.Y. 2026-27 under default tax regime under section 115BAC**

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

1. Net agricultural income exceeds ₹ 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of ₹ 4,00,000.

His tax liability is computed in the following manner:

Particulars	₹	₹
Income from salary		10,80,000
Income from house property		2,50,000
Net agricultural income [₹ 4,80,000 – ₹ 1,70,000]	3,10,000	
Less: Exempt under section 10(1)	(3,10,000)	-
Gross Total Income		13,30,000
Less: Deductions under Chapter VI-A		-
Total Income		13,30,000

Step 1 : ₹ 13,30,000 + ₹ 3,10,000 = ₹ 16,40,000

Tax on ₹ 16,40,000 = ₹ 1,28,000

(i.e., 5% of ₹ 4,00,000 plus 10% of ₹ 400,000 plus 15% of ₹ 4,00,000 plus 20% of ₹ 40,000)

Step 2 : ₹ 3,10,000 + ₹ 3,00,000 = ₹ 6,10,000

Tax on ₹ 6,10,000 = ₹ 10,500

(i.e. 5% of ₹ 2,10,000)

Step 3 : ₹ 1,28,000 – ₹ 10,500 = ₹ 1,17,500**Step 4 & 5** : Total tax payable = ₹ 1,17,500

= ₹ 1,17,500 + 4% of ₹ 1,17,500 = ₹ 1,22,200

Computation of total income of Mr. X for the A.Y. 2026-27 under normal provisions of the Act

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

1. Net agricultural income exceeds ₹ 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of ₹ 2,50,000.

His tax liability is computed in the following manner:

Particulars	₹	₹
Income from salary		10,80,000
Income from house property		2,50,000
Net agricultural income [₹ 4,80,000 – ₹ 1,70,000]	3,10,000	
Less: Exempt under section 10(1)	(3,10,000)	-
Gross Total Income		13,30,000
Less: Deductions under Chapter VI-A		-
Total Income		13,30,000

Step 1 : ₹ 13,30,000 + ₹ 3,10,000 = ₹ 16,40,000
 Tax on ₹ 16,40,000 = ₹ 3,04,500
 (i.e., 5% of ₹ 2,50,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 6,40,000)

Step 2 : ₹ 3,10,000 + ₹ 2,50,000 = ₹ 5,60,000
 Tax on ₹ 5,60,000 = ₹ 24,500
 (i.e. 5% of ₹ 2,50,000 plus 20% of ₹ 60,000)

Step 3 : ₹ 3,04,500 – ₹ 24,500 = ₹ 2,80,000

Step 4 & 5 : Total tax payable = ₹ 2,80,000
 = ₹ 2,80,000 + 4% of ₹ 2,80,000 = ₹ 2,91,200.

(b) Computation of tax liability (age 70 years)

Computation of total income of Mr. X for the A.Y. 2026-27 under default tax regime under section 115BAC

Tax liability of Mr. X would be same under default tax regime whether he is of age of 45 years of 70 years i.e., ₹ 1,22,200.

Computation of total income of Mr. X for the A.Y. 2026-27 under normal provisions of the Act

His tax liability is computed in the following manner:

Step 1 : ₹ 13,30,000 + ₹ 3,10,000 = ₹ 16,40,000
 Tax on ₹ 16,40,000 = ₹ 3,02,000
 (i.e., 5% of ₹ 2,00,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 6,40,000)

Step 2 : ₹ 3,10,000 + ₹ 3,00,000 = ₹ 6,10,000
 Tax on ₹ 6,10,000 = ₹ 32,000
 (i.e. 5% of ₹ 2,00,000 plus 20% of ₹ 1,10,000)

Step 3 : ₹ 3,02,000 – ₹ 32,000 = ₹ 2,70,000

Step 4 & 5 : Total tax payable = ₹ 2,70,000
 = ₹ 2,70,000 + 4% of ₹ 2,70,000 = ₹ 2,80,800.

13. Who is an "Assessee"? Explain

[SM]

Ans. As per section 2(7), assessee means a person by whom any tax or any other sum of money is payable under the Income-tax Act, 1961.

In addition, the term includes –

- Every person in respect of whom any proceeding under the Act has been taken for the assessment of –

	- his income; or - the income of any other person in respect of which he is assessable; or - the loss sustained by him or by such other person; or - the amount of refund due to him or to such other person. - Every person who is deemed to be an assessee under any provision of the Act; - Every person who is deemed to be an assessee in default under any provision of the Act.
14.	State any four instances where the income of the previous year is assessable in the previous year itself instead of the assessment year. [SM]
Ans.	The income of an assessee for a previous year is charged to income-tax in the assessment year following the previous year. However, in a few cases, the income is taxed in the previous year in which it is earned. These exceptions have been made to protect the interests of revenue. The exceptions are as follows: (i) Where a ship, belonging to or chartered by a non-resident, carries passengers, livestock, mail or goods shipped at a port in India, the ship is allowed to leave the port only when the tax has been paid or satisfactory arrangement has been made for payment thereof. 7.5% of the freight paid or payable to the owner or the charterer or to any person on his behalf, whether in India or outside India on account of such carriage is deemed to be his income which is charged to tax in the same year in which it is earned. (ii) Where it appears to the Assessing Officer that any individual may leave India during the current assessment year or shortly after its expiry and he has no present intention of returning to India, the total income of such individual for the period from the expiry of the respective previous year up to the probable date of his departure from India is chargeable to tax in that assessment year. (iii) If an AOP/BOI etc. is formed or established for a particular event or purpose and the Assessing Officer apprehends that the AOP/BOI is likely to be dissolved in the same year or in the next year, he can make assessment of the income up to the date of dissolution as income of the relevant assessment year. (iv) During the current assessment year, if it appears to the Assessing Officer that a person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets to avoid payment of any liability under this Act, the total income of such person for the period from the expiry of the previous year to the date, when the Assessing Officer commences proceedings under this section is chargeable to tax in that assessment year. (v) Where any business or profession is discontinued in any assessment year, the income of the period from the expiry of the previous year up to the date of such discontinuance may, at the discretion of the Assessing Officer, be charged to tax in that assessment year.
15.	Whether the income derived from saplings or seedlings grown in a nursery is taxable under the Income-tax Act, 1961? Examine. [SM]
Ans.	As per Explanation 3 to section 2(1A), income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income and exempt from tax, whether or not the basic operations were carried out on land.
16.	What is the difference between an Association of Persons and Body of Individuals? [SM]
Ans.	In order to constitute an Association of Persons (AOP), persons must join for a common purpose or action and their object must be to produce income; it is not enough that the persons receive the income jointly. Body of Individuals denotes the status of persons like executors or trustees who merely receive the income jointly and who may be assessable in like manner and to the same extent as the beneficiaries individually. Thus, co-executors or co-trustees are assessable as a BOI as their title and interest are indivisible.

	The difference between an AOP and BOI is that in case of a BOI, only individuals can be the members, whereas in case of AOP, any person can be its member i.e. entities like company, firm etc. can be the member of AOP but not of BOI. In case of an AOP, members voluntarily come together with a common will for a common intention or purpose, whereas in case of BOI, such common will may or may not be present.																								
17.	Mr. Sumit, a resident Indian, earns income of ₹ 15 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in India and ₹ 20 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia during the P.Y.2025-26. What would be his business income, assuming he has no other business? [SM]																								
Ans.	Since Mr. Sumit is a resident, his global income would be taxable in India. Income of ₹ 20 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia would be his business income since it is from rubber plants grown outside India. 35% income from sale of rubber manufactured from latex obtained from rubber plants grown by him in India would be taxable as business income and balance 65% would be exempt as agricultural income. Business income = 35% of ₹ 15 lakhs + ₹ 20 lakhs = ₹ 25.25 lakhs																								
18.	Mr. Raja, a resident Indian, earns income of ₹ 10 lakhs from sale of coffee grown and cured in India during the A.Y.2026-27. His friend, Mr. Shyam, a resident Indian, earns income of ₹ 20 lakhs from sale of coffee grown, cured, roasted and grounded by him in India during the A.Y.2026-27. What would be the business income chargeable to tax in India of Mr. Raja and Mr. Shyam? [SM]																								
Ans.	In case of income derived from the sale of coffee grown and cured by the seller in India, 25% income on such sale is taxable as business income. In case of income derived from the sale of coffee grown, cured, roasted and grounded by the seller in India, 40% income on such sale is taxable as business income. Business income of Mr. Raja = 25% of ₹ 10 lakhs = ₹ 2.5 lakhs Business income of Mr. Shyam = 40% of ₹ 20 lakhs = ₹ 8 lakhs																								
19.	Compute the tax liability under default tax regime of Mr. Kashyap (aged 35), having total income of ₹ 51,75,000 for the Assessment Year 2026-27. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit. [SM]																								
Ans.	Computation of tax liability of Mr. Kashyap for the A.Y.2026-27 under default tax regime (A) Tax payable including surcharge on total income of ₹ 51,75,000 <table><tr><td>₹ 3,00,000 – ₹ 8,00,000 @5%</td><td>₹ 20,000</td><td></td></tr><tr><td>₹ 8,00,001 – ₹ 12,00,000 @10%</td><td>₹ 40,000</td><td></td></tr><tr><td>₹ 12,00,001 – ₹ 16,00,000 @15%</td><td>₹ 60,000</td><td></td></tr><tr><td>₹ 16,00,001 – ₹ 20,00,000 @20%</td><td>₹ 80,000</td><td></td></tr><tr><td>₹ 20,00,001 – ₹ 24,75,000 @25%</td><td>1,00,000</td><td></td></tr><tr><td>₹ 24,00,000 – ₹ 51,75,000 @30%</td><td><u>₹ 8,32,500</u></td><td></td></tr><tr><td>Total</td><td></td><td>₹ 11,32,500</td></tr><tr><td>Add: Surcharge @ 10%</td><td><u>₹ 1,13,250</u></td><td>₹ 12,45,750</td></tr></table> (B) Tax Payable on total income of ₹ 50 lakhs (₹ 1,40,000 plus ₹ 10,50,000) ₹ 11,90,000 (C) Total Income Less ₹ 50 lakhs ₹ 1,75,000 (D) Tax payable on total income of ₹ 50 lakhs plus the excess of total income over ₹ 50 lakhs (B +C) ₹ 13,65,000 (E) Tax payable: lower of (A) and (D) ₹ 12,45,750 Add: Health and education cess @4% <u>₹ 49,830</u> Tax liability <u>₹ 12,95,580</u>	₹ 3,00,000 – ₹ 8,00,000 @5%	₹ 20,000		₹ 8,00,001 – ₹ 12,00,000 @10%	₹ 40,000		₹ 12,00,001 – ₹ 16,00,000 @15%	₹ 60,000		₹ 16,00,001 – ₹ 20,00,000 @20%	₹ 80,000		₹ 20,00,001 – ₹ 24,75,000 @25%	1,00,000		₹ 24,00,000 – ₹ 51,75,000 @30%	<u>₹ 8,32,500</u>		Total		₹ 11,32,500	Add: Surcharge @ 10%	<u>₹ 1,13,250</u>	₹ 12,45,750
₹ 3,00,000 – ₹ 8,00,000 @5%	₹ 20,000																								
₹ 8,00,001 – ₹ 12,00,000 @10%	₹ 40,000																								
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₹ 24,00,000 – ₹ 51,75,000 @30%	<u>₹ 8,32,500</u>																								
Total		₹ 11,32,500																							
Add: Surcharge @ 10%	<u>₹ 1,13,250</u>	₹ 12,45,750																							

20.

Mr. Agarwal, aged 40 years and a resident in India, has a total income of ₹ 6,50,00,000, comprising long term capital gain taxable @12.5% under section 112 of ₹ 55,00,000, short term capital gain taxable @20% under section 111A of ₹ 65,00,000 and other income of ₹ 5,30,00,000. Compute his tax liability for A.Y.2026-27 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes. [SM]

Ans.

Computation of tax liability of Mr. Agarwal for the A.Y.2026-27**under default tax regime**

Particulars	₹
<u>Tax on total income of ₹ 6,50,00,000</u>	
Tax@12.5% of ₹ 55,00,000	6,87,500
Tax@20% of ₹ 65,00,000	13,00,000
Tax on other income of ₹ 5,30,00,000	
₹ 4,00,000 – ₹ 8,00,000 @5%	20,000
₹ 8,00,000 – ₹ 12,00,000 @10%	40,000
₹ 12,00,000 – ₹ 16,00,000 @15%	60,000
₹ 16,00,000 – ₹ 20,00,000 @20%	80,000
₹ 20,00,000 – ₹ 24,00,000 @30%	1,00,000
₹ 24,00,000 – ₹ 5,30,00,000	1,51,80,000
	1,74,67,500
Add: Surcharge @15% on ₹ 19,87,500	2,98,125
@25% on ₹ 1,54,80,000	3,87,000
	41,68,125
	2,16,35,625
Add: Health and education cess @4%	8,65,425
Tax Liability	2,25,01,050

Computation of tax liability of Mr. Agarwal for the A.Y.2026-27**under normal provisions of the Act**

Particulars	₹
<u>Tax on total income of ₹ 6,50,00,000</u>	
Tax@12.5% of ₹ 55,00,000	6,87,500
Tax@20% of ₹ 65,00,000	13,00,000
Tax on other income of ₹ 5,30,00,000	
₹ 2,50,000 – ₹ 5,00,000 @5%	12,500
₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000
₹ 10,00,000 – ₹ 5,30,00,000 @30%	1,56,00,000
	1,57,12,500
	1,77,00,000
Add: Surcharge @15% on ₹ 19,87,500	2,98,125
@37% on ₹ 1,57,12,500	58,13,625
	61,11,750
	2,38,11,750
Add: Health and education cess @4%	9,52,470
Tax Liability	2,47,64,220

21.

Mr. Sharma aged 62 years and a resident in India, has a total income of ₹ 2,30,00,000, comprising long term capital gain taxable @12.5% under section 112 of ₹ 52,00,000, short term capital gain taxable @20% under section 111A of ₹ 64,00,000 and other income of ₹ 1,14,00,000. Compute his tax liability for A.Y.2026-27 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes. [SM]

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