

Answers

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SECTION III

SCENARIO

Aarav, a Marketing Manager of a Multi-national company, lives with his wife, Aarti, his daughter, Meera aged 16 years, his sister, Hema, and his parents in Mumbai. Aarti is a housewife and Meera is a student. Meera pursues Hindustani Music and participates in music competitions. Aarav's parents are senior citizens and are dependent on him. Aarav has a brother, Anand, who is carrying on trading business. Anand also lives in Mumbai with his wife Gayatri and daughter Nisha, whose 18th birthday is on 2nd April, 2025. For the P.Y. 2024-25, Anand and Gayatri pay tax under the default tax regime under section 115BAC while Aarav and Aarti exercise the option to shift out of the default tax regime and pay tax as per the regular provisions of the Act under the optional tax regime.

The scenario is continued below and divided into components depicting the different types of income earned/transactions undertaken in the P.Y. 2024-25 by the family members. The "Points to Ponder" are indicated in respect of each transaction in order to urge you to put on your thinking caps and give your response after reading the chapters and analysing the tax consequences thereof.

Read the Scenario and each component thereof described in Column (1) of the table below and the Points to Ponder in respect thereof indicated in the corresponding row of Column (2). Thereafter, read the relevant chapter, understand the provision, analyse the tax consequences and give your response thereto in Column (5) of the table. Reference to the section number is mentioned in Column (4) to enable you to give your response after reading and understanding the relevant provision of law.

(1)	(2)	(3)	(4)	(5)
Scenario Components	Point(s) to Ponder	Relevant Chapter	Relevant Provision of law	Write your response after reading the chapter
(1) Aarav, whose remuneration is ₹ 2 lakhs per month, gifts his flat to Aarti. Aarti lets out the flat for a rent of ₹ 25,000 p.m.	Aarav thinks that the rental income would now be chargeable to tax in Aarti's hands, since he has gifted the flat to her.	4		
	(i) Is he correct? In whose hands would the rental income be taxed?		Section 27	No, he is not correct. The rental income would be chargeable to tax in the hands of Aarav, being the deemed owner of the flat transferred to his wife, Aarti, without consideration.
	(ii) Would clubbing provisions apply in this case?		Section 64(1)(iv)	Clubbing provisions under section 64(1)(iv) would not apply in the case of transfer

						of house property to Aarti, since Aarav, being the transferor-spouse, would be the deemed owner as per section 27 and the rental income therefrom would be chargeable to tax in his hands.
(2)	Aarav also gifts some listed shares held by him in Indian companies to Aarti. Aarti earned dividend income of ₹ 62,000 this year from such shares.	Aarti is not sure about the taxability of dividend and interest income received by her.	4	Section 64(1)(iv)	Dividend from listed shares transferred by Aarav to Aarti without consideration would be includible in the income of Aarav, the transferor-spouse. However, income from the accretion of the transferred asset would not be clubbed with the income of the transferor. Therefore, interest on fixed deposits earned by investing the dividend income would not be clubbed with the income of Aarav but would be taxable in the hands of Aarti.	Section 27 would apply in case of transfer of flat and
(3)	Aarti invested the above dividend income of ₹ 62,000 in fixed deposits from time to time and earned interest of ₹ 6,000 on such deposits this year.	(i) Can you tell her in whose hands would the dividend and interest on fixed deposits be taxed? (ii) What is the difference in tax treatment of				

		dividend income <i>vis-à-vis</i> rental income referred to in (1) above?		consequently, Aarav would be the deemed owner of the flat transferred to Aarti without consideration. Accordingly, the rental income therefrom would be chargeable to tax in the hands of Aarav, being the deemed owner. However, in case of dividend income, clubbing provisions under section 64(1)(iv) would be applicable, since he has transferred an asset (being listed shares) other than house property to Aarti without consideration.
(4)	Aarti gifts ₹ 2 lakh to Meera on her 16 th birthday out of her own savings. Meera invests the same in bank deposits and earns interest of ₹ 20,000 this year.	Aarti wonders whether the interest on bank deposits in Meera's name would be included in her hands, since Meera is not yet 18 years old. In whose hands would interest of ₹ 20,000 on fixed deposits be included and how much?	4	Interest income of Meera would be includible in the total income of Aarav or Aarti, whosever's total income before including Meera's income is higher. In respect of Meera's income so included in the hands of the parent, exemption of ₹ 1,500 under section 10(32) would be available. Accordingly,

						interest income to be included in the hands of the parent would be ₹ 18,500.
(5)	Meera won prize money of ₹ 60,000 from Music competitions during the year.	Meera is not sure whether the prize money received by her from exercise of her talent is taxable. Is the prize money taxable and if so, in whose hands and how much?	4	Section 64(1A)	Yes, the prize money of ₹ 60,000 would be taxable in the hands of Meera since it is derived from exercise of her talent.	
(6)	Mr. Aarav has fixed deposits of ₹ 10 lakhs with SBI. He earns interest of ₹ 80,000 therefrom which he transferred to his friend's son, to help him pursue higher education.	Aarav is of the opinion that since he has transferred the income to an unrelated person, and does not enjoy any part of the income himself, the same would not be taxable in his hands. Is he correct? In whose hands would the amount of ₹ 80,000 be taxed?	4	Section 60	No, the interest of ₹ 80,000 would be taxable in the hands of Aarav since he has transferred only the interest income without transfer of the asset (i.e., fixed deposits) from which the income arises.	
(7)	Aarav gifts an amount of ₹ 5 lakh to Nisha. Anand gifts ₹ 3 lakhs to Meera. Both Nisha and Meera invested the amount in fixed	(i) Is the interest on fixed deposits taxable in the hands of Nisha and Meera? If so, how much?	4	Cross Transfer	This is a case of cross transfer by the two brothers, Aarav and Anand, to each other's minor child. However, as per section 64(1A), all income of a minor child is, in any case, to be	

		deposits. Nisha earned interest of ₹ 35,000 and Meera earned interest of ₹ 21,000 this year from such fixed deposits.	(ii)	If not, in whose hands would such sums be taxable and how much?		<p>included in the income of the parent, whose total income before including the minor's income, is higher. Therefore, interest on fixed deposits would not be taxable in the hands of Nisha and Meera. The interest income of each minor child would be included in the hands of the parent whose total income before including the minor child's income is higher.</p> <p>Note – It may be noted that if Aarav had gifted the amount of ₹ 5 lakh to Gayatri instead of Nisha, then the interest income includible in the hands of Anand would be restricted to the extent of cross transfer. Only interest income of ₹ 21,000 [being ₹ 35,000 x 3/5] would be included in the hands of Anand, and not ₹ 35,000, since the cross transfer is only to the extent of ₹ 3 lakh.</p>
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(8)	Anand is carrying on business of trading in furniture, in which he incurred loss of ₹ 7.20 lakhs this year. He also carries on business of trading in electronic products in which he earned profits of ₹ 43 lakhs this year.	Since this is the first year in which he is incurring losses, Anand wants to know whether he can set-off his loss from the business of trading in furniture against profits from the business of trading in electronic products. Can he do so?	5	Section 70	Yes, Anand can set off the loss from the business of trading in furniture against profits from the business of trading in electronic products.
(9)	Gayatri is employed as a junior accountant in a company for ₹ 45,000 p.m. She also has set up a boutique this year and incurred loss of ₹ 2.20 lakhs therefrom. She earns rental income of ₹ 10,000 p.m. from house property in addition to her salary income.	<p>(i) Can she set-off her business loss against her other income?</p> <p>(ii) If so, against which income can she set-off such loss?</p> <p>(iii) If the loss cannot be fully set-off, can she carry forward such loss?</p>	5	Section 71	<p>Yes, Gayatri can set off her current year business loss against income under any head, other than Salaries.</p> <p>Loss under the head "Profits and gains of business or profession" cannot be set off against salary income. However, it can be set off against income under the head "Income from house property".</p> <p>Her income from house property is ₹ 84,000 [₹ 1,20,000 (₹ 10,000 x 12 months) less 36,000, being deduction u/s 24(a)]. Against</p>

(10)		(iv)	If so, for how many years, and against which income can such loss be set-off?	5	Section 70	<p>this income, she can set off her business loss to the extent of ₹ 84,000. Balance business loss of ₹ 1,36,000 has to be carried forward to the next year.</p> <p>Unabsorbed business loss of ₹ 1,36,000 for the P.Y.2024-25 can be carried forward for maximum of 8 Assessment Years for set-off against income under the head "Profits and gains from business or profession".</p>
	In April, 2024, Aarav sold some listed shares purchased by him in the F.Y.2022-23 and incurred loss. In the same month, he sold land which he had purchased in June, 2023 and earned profits.	(i)	Can he set-off the loss from sale of shares against the gains from sale of land?			<p>Loss on sale of listed shares is long term capital loss, while profits on sale of land is short term capital gain. Long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss from sale of listed shares cannot be set off against the short-term capital gains from sale of land.</p>

		(ii) If not, can he carry forward the loss? If so, for how many years?		Section 74	Long term capital loss from sale of listed shares can be carried forward to the next year for set-off against long-term capital gains, if any, arising in that year. Such loss can be carried forward for a maximum of 8 assessment years.
(11)	This year Aarti sold ancestral jewellery held by her and earned profits. Out of this money, she started business of trading in cosmetics and incurred loss during the year.	Aarti wonders whether she can set off her loss from trading in cosmetics against such profit on sale of jewellery. Can she do so?	5	Section 71	Yes, Aarti can set off the business loss from trading in cosmetics against capital gains on sale of jewellery.
(12)	Aarav paid life insurance premium of ₹ 60,000 to insure his life. He also paid life insurance premium of ₹ 80,000 to insure the life of his parents. Anand paid life insurance premium of ₹ 40,000 to insure his life.	Are Aarav and Anand eligible for deduction in respect of life insurance premium paid? If so, how much?	6	Section 80C	Aarav is eligible for deduction of ₹ 60,000 under section 80C for insurance premium paid for his life. Premium paid to insure the life of parents would not be allowable as deduction. Since Anand pays tax under the default tax regime under section 115BAC, he would not be eligible for deduction under section 80C.

(13)	Aarav paid medical insurance premium of ₹ 30,000 by cheque to insure his health and the health of Aarti. He also paid medical insurance premium of ₹ 60,000 by cheque to insure the health of his parents. Anand paid medical insurance premium of ₹ 20,000 to insure his health and the health of Gayatri.	Are Aarav and Anand eligible for deduction in respect of medical insurance premium paid? If so, how much?	6	Section 80D	Aarav is eligible for deduction of ₹ 25,000 under section 80D in respect of medical insurance premium paid for self and his wife. He would be eligible for deduction of ₹ 50,000 for medical insurance premium paid for his parents since they are senior citizens. Therefore, he would be eligible for total deduction of ₹ 75,000 u/s 80D. Since Anand pays tax under the default tax regime under section 115BAC, he would not be eligible for deduction under section 80D.
(14)	Aarav incurred expenditure of ₹ 50,000 for medical treatment of Hema, who is disabled and is dependent on him.	Aarav wants to claim deduction of the expenditure actually incurred by him on medical treatment of Hema. Is he eligible for deduction in respect of such expenditure? If so, how much?	6	Section 80DD	Yes, since the expenditure was incurred for medical treatment of a dependant disabled, Aarav would be entitled to claim a flat deduction of ₹ 75,000 under section 80DD, irrespective of the amount expended, provided Hema does not claim deduction u/s 80U.

(15)	Aarav and Anand donated ₹ 10,000 each to a registered charitable trust in cash and ₹ 1 lakh to Prime Minister's National Relief Fund by account payee cheque.	Are Aarav and Anand eligible for deduction in respect of such donations? If so, how much?	6	Section 80G	Aarav would be eligible for deduction of ₹ 1 lakh u/s 80G for donation to Prime Minister's National Relief Fund. He would, however, not be eligible for deduction for donation to registered charitable trust since the payment of ₹ 10,000, being a sum exceeding ₹ 2,000, was made in cash. Since Anand pays tax under the default tax regime under section 115BAC, he would not be eligible for any deduction under section 80G.
(16)	Aarav's interest from savings bank account is ₹ 35,000 and Anand's interest from savings bank account is ₹ 22,000.	Are Aarav and Anand eligible for deduction in respect of interest from savings bank A/c? If so, how much?		Section 80TTA	Aarav is eligible for deduction of ₹ 10,000 in respect of interest from savings bank A/c u/s 80TTA. Since Anand pays tax under the default tax regime u/s 115BAC, he would not be eligible for deduction u/s 80TTA.
(17)	Anand has taken a loan from SBI for higher	Anand wants to know whether he is entitled to	6	Section 80E	Since Anand pays tax under the default tax regime under

(18)	<p>education of Nisha and he pays EMI (equated monthly installment) ₹ 10,000. In this year, the principal repayment was ₹ 80,000 and interest payment was ₹ 40,000.</p>	<p>deduction in respect of EMI paid by him. Is he entitled to any deduction and if so, how much?</p>	6	Section 80EEB	<p>section 115BAC, he would not be eligible for deduction under section 80E in respect of interest on loan taken for higher education of his daughter.</p>
	<p>Aarav has purchased an electric car in 2022-23 by taking loan from NBFC, which accepts deposits from public. He pays EMIs of ₹ 20,000. In this year, the principal repayment was ₹ 80,000 and interest payment was ₹ 1,60,000.</p>	<p>Aarav is of the opinion that the EMIs of ₹ 20,000 paid by him qualifies for deduction. Is he correct? If so, what is the amount of deduction which he can claim?</p>			<p>Aarav is eligible for deduction of ₹ 1,50,000 under section 80EEB in respect of interest paid by him on loan taken for purchase of an electric vehicle from a deposit taking NBFC, which falls within the meaning of "Financial Institution" defined in that section.</p>



CROSSWORD PUZZLE

Crossword puzzle grid with the following words filled in:

- 1. R
E
V
O
C
A
- 2. M
E
D
I
C
A
- 3. C
- 4. S
A
L
A
R
Y
- 5. D
I
S
A
B
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L
I
T
Y
- 6. P
E
C
I
F
I
C
- 7. R
- 8. P
E
N
S
I
O
N
- 9. D
O
N
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T
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O
N
- 10. C
A
P
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T
A
L
- 11. G
I
D
E
- 12. T
A
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N
T
- 13. T
C
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- 14. I
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T