

# SECTION V

## SCENARIO

Mr. Raj is an MBA employed with a multinational company in Mumbai. He is living in a rented house in Mumbai for which he pays rent of ₹ 70,000 p.m. He owns a house in Kolkata in which his parents are living. He purchased the house two years back by taking loan from Bank of India. Interest of ₹ 3,00,000 is due for P.Y.2024-25, out of which he paid ₹ 2,75,000 during the year. He made principal repayment of ₹ 1,50,000 to Bank of India during the year. In respect of this house, he paid municipal taxes of ₹ 5,000 this year. He sold a vacant land in Pune for ₹ 25,00,000. He had purchased the land last year for ₹ 20,00,000. He sold listed equity shares of ABC Ltd. for ₹ 4 lakhs. He had purchased these shares in the year 2022 for ₹ 6.50 lakhs. Securities transaction tax has been paid both at the time of purchase and sale. During the year, he won ₹ 50,000 in a lottery. He has two daughters who are studying in class IX and XI in a reputed school in Mumbai. The tuition fee paid by him per month is ₹ 5,500 for each child. His elder daughter, aged 15 years, is a talented dancer. She earned ₹ 30,000 from dance shows performed by her during the year. She deposited the said amount in the bank and earned interest of ₹ 3,000. Mr. Raj's wife is a teacher in a private school whose monthly salary is ₹ 40,000. She has no other income.

Mr. Raj's brother Rahul is carrying on the business of manufacturing textiles. His turnover is around ₹ 4 crores this year and last year. 90% of his receipts are through permissible electronic modes and the remaining 10% is through cash. All payments are made through permissible electronic modes. He has installed new plant and machinery for ₹ 5 lakhs in May, 2024. His net profit as per the statement of profit and loss for the year 2024-25 is ₹ 40,50,000. Normal depreciation computed as per the Income-tax Rules, 1962 has been debited to the statement of profit and loss. However, additional depreciation, if any, available to him, is yet to be given effect

to. This year, he incurred in-house scientific research expenditure of ₹ 2 lakhs related to his business. He also contributed ₹ 50,000 to IIT, Delhi for scientific research. The scientific research expenditure and contribution to scientific research have not been debited to the statement of profit and loss. He had employed 20 new employees from 1<sup>st</sup> June, 2024 at a salary of ₹ 20,000 p.m. Their salary has been debited to the statement of profit and loss. Rahul has let out his apartment in Bangalore from which he gets a rent of ₹ 30,000 p.m. He pays municipal taxes of ₹ 4,000 in respect of this apartment. He pays interest of ₹ 3,00,000 this year in respect of housing loan taken from Axis Bank for purchase of this house. The principal repayment made this year is ₹ 1,60,000. He has been complying with all the statutory requirements under the Income-tax Act, 1961, timely.

From the details given above and in columns (1) and (2) of the income computation sheets given below, find out the figures, if any, to be filled up in the **shaded boxes** in the income computation sheet given below –

- **in column (3) (both the inner and outer columns of column 3) under the default tax regime as per section 115BAC and**
- **in column (4) (both the inner and outer columns of column 4) under the optional tax regime as per the normal provisions of the Act.**

Remember, it is possible that you may not have to fill up anything at all in some of the shaded boxes. Also, remember that you have to consider facts given in the description above as well as the facts in column (1) and (2) of the income computation sheets below in making your computations. Some of the facts given in the description above are also repeated in column (2) below.

After determining the total income for A.Y.2025-26, fill up the tax computation sheets to find out the tax liability of Mr. Raj and Mr. Rahul under both tax regimes. Based on your computation, advise Raj and Rahul whether they should pay tax under the default tax regime or not in order to optimise their tax liability. Ignore interest, if any, u/s 234B and 234C.

**Computation of total income of Mr. Raj for A.Y.2025-26**

(1) Particulars	(2) Amount in ₹ [Actual amount]	(3) Under default tax regime as per section 115BAC		(4) Under optional tax regime as per the normal provisions of the Act	
		₹	₹	₹	₹
<b>Salaries</b>					
Basic Salary = ₹ 2,00,000 p.m.	24,00,000	24,00,000		24,00,000	
Dearness Allowance 40% of basic salary [DA forms part of pay for retirement benefits]	9,60,000	9,60,000		9,60,000	
House Rent allowance 30% of basic salary	7,20,000	7,20,000		2,16,000	
Children Education Allowance ₹ 3,000 p.m. for each child	72,000	72,000		69,600	
Transport allowance ₹ 4,000 p.m.	48,000	48,000		48,000	
Entertainment allowance ₹ 2,000 p.m.	24,000	24,000		24,000	
Professional tax paid by employer (50% of professional tax of ₹ 4,800. Balance 50% is paid by the Mr. Raj)	2,400				
		2,400		2,400	
<b>Gross Salary</b>		<b>42,26,400</b>		<b>37,20,000</b>	

(1) Particulars	(2) Amount in ₹ [Actual amount]	(3) Under default tax regime as per section 115BAC		(4) Under optional tax regime as per the normal provisions of the Act	
		₹	₹	₹	₹
<b>Less: Deductions u/s 16</b>					
Standard deduction		75,000		50,000	
Entertainment allowance		Nil		Nil	
Professional tax paid		Nil		4,800	
<b>Net Salary</b>			<b>41,51,400</b>		<b>36,65,200</b>
<b>Income from house property (in Kolkata)</b>					
Gross Annual Value		Nil		Nil	
Less: Municipal taxes paid by Mr. Raj	5,000	Nil		Nil	
<b>Net Annual Value</b>		<b>Nil</b>		<b>Nil</b>	
<b>Less: Deductions u/s 24</b>					
30% of NAV		Nil		Nil	
Interest due on housing loan for purchase of flat		Nil		2,00,000	
<b>Income/Loss under this head</b>			<b>Nil</b>		<b>(2,00,000)</b>

(1) Particulars	(2) Amount in ₹ [Actual amount]	(3) Under default tax regime as per section 115BAC		(4) Under optional tax regime as per the normal provisions of the Act	
		₹	₹	₹	₹
<b>Capital Gains</b>					
Capital Gains on sale of land – STCG/LTCG (Strikethrough whichever is incorrect)	5,00,000	5,00,000		5,00,000	
Capital loss on sale of shares – STGL/LTCL (Strikethrough whichever is incorrect)	(2,50,000)	-		-	
Can the capital loss on sale of shares be set-off against the capital gains on sale of land?	Yes/No				
If Yes, write the net figure in the inner column of column 3 and 4. Otherwise, write gross amount in the inner column of column 3 and 4		5,00,000		5,00,000	
<b>Income under this head</b>			<b>5,00,000</b>		<b>5,00,000</b>
<b>Income from Other sources</b>					
Interest on savings bank account	11,000	11,000		11,000	

(1) Particulars	(2) Amount in ₹ [Actual amount]	(3) Under default tax regime as per section 115BAC		(4) Under optional tax regime as per the normal provisions of the Act	
		₹	₹	₹	₹
Interest on Fixed deposits	25,000	25,000		25,000	
Income from lotteries	50,000	50,000		50,000	
<b>Income of minor child – whether includible in his income? If yes, which income and how much?</b>					
Income from dance shows – includible/Not includible (Strike through whichever is incorrect)	30,000	Nil		Nil	
Income from bank deposits – Includible/Not includible (Strike through whichever is incorrect)	3,000				1,500
<b>Income under this head</b>			<b>89,000</b>		<b>87,500</b>
<b>Gross Total Income</b>			<b>47,40,400</b>		<b>40,52,700</b>
<b>Less: Deductions under Chapter VI-A</b>					
Under section 80C		Nil		1,50,000	

(1) Particulars	(2) Amount in ₹ [Actual amount]	(3) Under default tax regime as per section 115BAC		(4) Under optional tax regime as per the normal provisions of the Act	
		₹	₹	₹	₹
Under section 80TTA		Nil		10,000	
Total deductions under Chapter VI-A			Nil		<u>1,60,000</u>
<b>Total Income</b>			<u>47,40,400</u>		<u>38,92,700</u>
<b>Loss, if any, to be carried forward to A.Y.2026-27 (Mention the nature of loss here and the amount in the outer columns of column 3 and 4)</b>			LTCL (2,50,000)		LTCL (2,50,000)

**Computation of tax liability of Mr. Raj for A.Y.2025-26**

<b>Under default tax regime as per section 115BAC</b>		<b>Under optional tax regime as per the normal provisions of the Act</b>	
<b>Particulars</b>	<b>₹</b>	<b>Particulars</b>	<b>₹</b>
<b><u>Tax on total income</u></b>		<b><u>Tax on total income</u></b>	
Tax on capital gains [u/s 112/112A/111A, if applicable]	Nil	Tax on capital gains [u/s 112/112A/111A, if applicable]	Nil
Tax on lottery income of ₹ 50,000	15,000	Tax on lottery income of ₹ 50,000	15,000
<b>Tax on balance total income</b>		<b>Tax on balance total income</b>	
Upto ₹ 3,00,000	Nil	Upto ₹ 2,50,000	Nil
> ₹ 3,00,000 ≤ ₹ 7,00,000@5%	20,000	> ₹ 2,50,000 ≤ ₹ 5,00,000@5%	12,500
> ₹ 7,00,000 ≤ ₹ 10,00,000@10%	30,000	> ₹ 5,00,000 ≤ ₹ 10,00,000@20%	1,00,000
> ₹ 10,00,000 ≤ ₹ 12,00,000@15%	30,000	> ₹ 10,00,000[ <b>28,42,700</b> @30%]	<u>8,52,810</u>
> ₹ 12,00,000 ≤ ₹ 15,00,000@20%	60,000	<b>Total tax liability (before cess)</b>	9,80,310
> ₹ 15,00,000 [ <b>31,90,400</b> @30%]	<u>9,57,120</u>	Add: Health and education cess@4%	<u>39,212</u>
<b>Total tax liability (before cess)</b>	<b>11,12,120</b>	<b>Total tax liability</b>	<b><u>10,19,522</u></b>
Add: Health and education cess@4%	<u>44,485</u>	<b>Total tax liability (Rounded off)</b>	<b><u>10,19,520</u></b>
<b>Total tax liability</b>	<b><u>11,56,605</u></b>		
<b>Total tax liability (Rounded off)</b>	<b>11,56,610</b>		



**Under which tax regime should Raj pay income-tax? Write your response here**

Raj should shift out of the default tax regime and pay tax under optional tax regime as per normal provisions of the Act, since his tax liability for A.Y.2025-26 would be lower by ₹ 1,37,090 (₹ 11,56,610 – ₹ 10,19,520).

**Computation of total income of Mr. Rahul for A.Y.2025-26**

(1) Particulars	(2) Amount in ₹	(3) Under default tax regime as per section 115BAC		(4) Under optional tax regime as per the normal provisions of the Act	
		₹	₹	₹	₹
<b>Income from house property (in Bangalore)</b>					
Gross Annual Value [Rent received is taken as GAV in the absence of other information]	3,60,000	3,60,000		3,60,000	
Less: Municipal taxes paid by Mr. Rahul	4,000	4,000		4,000	
<b>Net Annual Value</b>		<b>3,56,000</b>		<b>3,56,000</b>	
Less: <b>Deductions u/s 24</b>					
30% of NAV		1,06,800		1,06,800	

(1)	(2)	(3)		(4)	
		Under default tax regime as per section 115BAC	Under optional tax regime as per the normal provisions of the Act	Amount in ₹	Under default tax regime as per section 115BAC
Interest due on housing loan for purchase of apartment	3,00,000	₹ 3,00,000	₹ 3,00,000		
<b>Loss under this head</b>		(50,800)	(50,800)		
- to be set-off against PGBP; or			-		(50,800)
- to be carried forward			-		-
<b>Profits and gains of business and profession (PGBP)</b>					
Net profit as per statement of profit and loss	40,50,000	40,50,000		40,50,000	
<b>Less: Deductions allowable but not debited to statement of profit and loss</b>					
Additional depreciation		Nil		1,00,000	
In-house scientific research expenditure	2,00,000	2,00,000		2,00,000	

(1) Particulars	(2) Amount in ₹	(3) Under default tax regime as per section 115BAC		(4) Under optional tax regime as per the normal provisions of the Act	
		₹	₹	₹	₹
Contribution to IIT for scientific research	50,000	Nil		50,000	
<b>Income under this head</b>			<u>38,50,000</u>		<u>37,00,000</u>
<b>Gross Total Income</b>			<b>38,50,000</b>		<b>36,49,200</b>
<i>Less: Deductions under Chapter VI-A</i>					
Under section 80C			Nil		1,50,000
Under Section 80JJAA			<u>12,00,000</u>		<u>12,00,000</u>
<b>Total Income</b>			<b><u>26,50,000</u></b>		<b><u>22,99,200</u></b>
<b>Loss, if any, to be carried forward to A.Y.2026-27</b>			<b>Nil</b>		<b>Nil</b>

**Computation of tax liability of Mr. Rahul for A.Y.2025-26**

Under default tax regime as per section 115BAC		Under optional tax regime as per the normal provisions of the Act	
Particulars	₹	Particulars	₹
<b><u>Tax on total income</u></b>		<b><u>Tax on total income</u></b>	
Upto ₹ 3,00,000	Nil	Upto ₹ 2,50,000	Nil
> ₹ 3,00,000 ≤ ₹ 7,00,000@5%	20,000	> ₹ 2,50,000 ≤ ₹ 5,00,000@5%	12,500
> ₹ 7,00,000 ≤ ₹ 10,00,000@10%	30,000	> ₹ 5,00,000 ≤ ₹ 10,00,000@20%	1,00,000
> ₹ 10,00,000 ≤ ₹ 12,00,000@15%	30,000	> ₹ 10,00,000[ <b>12,99,200</b> @30%]	<b>3,89,760</b>
> ₹ 12,00,000 ≤ ₹ 15,00,000@20%	60,000	Tax liability (before cess)	<b>5,02,260</b>
> ₹ 15,00,000 [ <b>11,50,000</b> @30%]	<u>3,45,000</u>	Add: Health and education cess@4%	<u>20,090</u>
<b>Total tax liability (before cess)</b>	<b>4,85,000</b>	<b>Tax liability</b>	<b>5,22,350</b>
Add: Health and education cess@4%	<u>19,400</u>	<b>Tax liability (Rounded off)</b>	<b>5,22,350</b>
<b>Total tax liability</b>	<b>5,04,400</b>	<b>Compute Adjusted total income and Alternate Minimum Tax</b>	
		Total income as per the regular provisions of the Act	22,99,200
		Add: Deduction u/s 80JJAA	<u>12,00,000</u>
		Adjusted Total Income	<b>34,99,200</b>
		<b>Alternate Minimum Tax (AMT) – 18.5% of Adjusted total income</b>	6,47,352

				25,894
		Add: Health and education cess@4%		
		<b>AMT liability</b>		<b>6,73,246</b>
		<b>AMT liability (Rounded off)</b>		<b>6,73,250</b>
(3)		<b>Tax liability of Rahul [Higher of (1) and (2) above]</b>		<b>6,73,250</b>

**Under which tax regime should Rahul pay income-tax? Write your response here**

Rahul should pay tax under default tax regime as per section 115BAC, since his tax liability of ₹ 5,04,400 under the said regime is lower than the tax liability of ₹ 6,73,250 as per the normal provisions of the Act by ₹ 1,68,850. The tax savings under the default tax regime is ₹ 1,68,850 and even if we consider the AMT credit of ₹ 1,50,900 (₹ 6,73,250 – ₹ 5,22,350) which would be available under the optional tax regime, still the default tax regime would be more beneficial.