

Unit IIIncome Tax Act 1961

Concepts:

The Income Tax Act 1961 is a set of rules and regulations upon which the Income Tax Department levies, administers, collects and recovers taxes.

It contains 298 Sections, 23 chapters and several important provisions which contain all the aspects of taxation in India now updated:

The new bill has expanded to 536 Sections, 23 chapters and 16 schedules. It covers all rules related to:

- (a) Income (b) Exemptions (c) Deductions
- d) Penalties e) Refunds.

Purpose:

It is the central law that explains how income tax is collected in India. It tells

* Who should pay income tax

* How much to pay?

* When to pay?

* How will the government collect it?

This Act is used by the Income tax Department to calculate and collect taxes from individuals, businesses and companies.

Who is liable to pay income tax?

Under the Income Tax Act, not just individuals but several different types of entities are considered "persons" who are required to pay income tax. As per Sec 2(31) the persons are

- * Individuals
- * Hindu Undivided Family (HUF)
- * Company
- * Firm
- * AOP - Association of Persons
- * BOI - Body of Individuals
- * Local Authority
- * Artificial Juridical Persons

How to Calculate Income Tax in India?

To Calculate income tax in India

- (1) Determine your total Income from all sources.
- (2) Subtract applicable deductions and exemptions to arrive at the taxable income.
- (3) Refer to the income tax Slab Rates to ascertain the tax liability based on your Income bracket.
- (4) Apply the relevant surcharge and cess as per your Income level.
- (5) Finally subtract any taxes already paid through TDS or advance tax to arrive at the final tax payable or refundable amount.

Definition:

Income

The sum of Money which a business or an individual receives in exchange of sale of goods and services, or through Capital Investment is known as Income.

Types of Income

- (1) Taxable Income
- (2) Non taxable Income

(1) Taxable Income:

Income earned during a year by an individual or a business. It is categorised into 5 heads of income and taxed accordingly.

- (1) Income from Salary / Pension
- (2) Income from business / Profession
- (3) Income from House Property
- (4) Income from Capital Gain
- (5) Income from Other Sources

(1) Income from Salary / Pension:

This include Basic Salary, Allowances, Perquisites and Profits in lieu of salary earned by individual.

Pension Income received by a retired individual.

(2) Income from Business / Profession:

Any Income earned or received by a business from the sale of goods and services is called business or professional income.

This income is subject to tax after adjusting the expenses and allowable deductions.

(3) Income from house Property:

Any Income received from renting a house is included under house property income.

(4) Income from Capital gains:

Profit or gains from the sale of any Capital assets such as land or building

(5) Income from other sources:

All those income not covered under the aforementioned heads of income will be included here.

Exempt or Non-taxable Income:

There are certain income that are exempt from being taxed.

Agricultural income is exempt from taxes under section 10 of the Income Tax Act.

Assessee

Section 2(7) of the Income Tax Act 1961 defines, An assessee is a person or a group of people who are required to pay taxes on their income.

The income tax Act applies to individuals, Companies, firms, and other types of entities so an assessee could be any one of them.

Responsibilities of Assessee:

- (1) Filling their Income Tax Return (ITR)
- (2) Paying taxes on Income or Profits earned
- (3) Complying with the rules under the IT Act.

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Person. (Section 2(31) of the IT Act 1961)

- Person includes, (a) an individual
(b) a Hindu Undivided Family
(c) a Company
(d) a firm
(e) an association of persons or a body of individuals whether incorporated or not,
(f) a Local Authority
(g) every artificial juridical person, not falling within any of the preceding sub-clauses.

Previous Year / Financial Year

As per India's Income tax laws, the income which taxpayers earn in the current year will be taxable in the next financial year. Thus the previous year in income tax is the current financial year.

The period starts from on 1st April and ends on 31st March next year.

Example:

Your earnings between 1st April 2024 and 31st March 2025 will come under the financial or previous year 2024-25. It will be assessed for taxation in the next year i.e., assessment year 2025-2026.

New Income tax bill 2025, Proposed the concept of 'Tax Year'. The tax year means the period of 12 months

So

of the financial year Connecting on 1st April
this is seen to replace the concept
of financial year and Assessment year
reducing confusion.

Assessment Year

It is the year in which, income of
an individual is calculated or
computed.

The Assessment Year is the year
that comes after the financial year.
Current Assessment year.

1st April 2025 to 31st March 2026
Assessment Year would be
AY 2025-26

Ex

Period.

Financial y.

Assessment y.

Period.	Financial y.	Assessment y.
1 st April 2024 to 31 st March 25	2024-25	2025-26
1 st April 2023 to 31 st March 24	2023-24	2024-25

For Financial year 2024-25 the assessment
Year 2025-2026. The income earned
in Financial year 2024-25 will be
assessed and taxed in Assessment
Year 2025-2026.

Gross Total Income

Gross Total Income is the aggregate income earned by an individual or entity from all sources before applying any deductions under the Income Tax Act.

Components of Gross Total Income

(1) Income from Salary:

Earnings received from employment such as basic pay, allowances, bonuses and commissions.

(2) Income from house Property:

Rental income from owned properties minus applicable taxes and deductions.

(3) Income from gains of business or profession:

Net profit derived from business activities or professional services after deducting related expenses.

(4) Capital Gains:

Profits earned from sale of capital assets like property, stocks or bonds, classified as short term or long term based on holding period.

(5) Income from other Sources:

Residual income not covered under the above heads, including interest from savings account, fixed deposits, dividends, lottery winnings, and gifts.

Formula:

Gross Total Income		
Income from Salary	xxx	} Add.
Income from House Property	xxx	
Profit & Gain of Business or Profession	xxx	
Capital Gain	xxx	
Income from other sources	xxx	
	xxx	

Add Clubbed Income

(Ex spouse's or minor child's Income as per IT Act)	xxx
	xxx

less set off losses.

(Adjust for any possible

Permissible inter or intra

head losses to offer against

the Income)

Gross Total Income

Net Income

The total Sale of a Company minus expenses

Net Total Income

After subtracting all allowable deductions and exemptions from the gross Income, you arrive at the net total income

This is the Income on which the Income tax is calculated.

Example: Let's say an Individual has a gross total Income of Rs. 1,00,000. They are eligible for deductions of ₹ 20,000. Their Net total income for tax purposes would be 80,000. $(1,00,000 - 20,000)$

PAN

A Permanent Account Number (PAN) is a unique 10 digit alphanumeric code India's Income Tax Department issued to identify tax payers.

This Number is a central database for an individual or entity's financial and tax related transactions.

PAN ensures that all the tax activities such as (1) Tax payments

(2) TDS (Tax Deducted at Source)

(3) TCS (Tax collected at Source)

(4) Income Tax Return.

are linked to a specific taxpayer, helping the government monitor financial activities.

PAN Card

It is the physical representation of your Permanent Account Number.

It includes, (1) PAN NO (2) Your Name (3) Date of Birth (4) A Photograph.

PAN Format

Example: ABCDY1234D

- The first three characters (eg. ABC) are random alphabets.
- The fourth character (eg. T) identifies the PAN holder's status (T for Trust, P for individual, C for company etc)
- The fifth character (eg. Y) is the first letter of the PAN holder's last Name
- The following four characters are unique sequential number (0001 to 9999)
- The last character is an alphabetic check digit.

Is PAN Mandatory?

Yes PAN is Mandatory for all financial transactions.

- Uses:
- (1) It helps Simplify tax filling
 - (2) Tracks all transactions, including High value purchases.
 - (3) Acts as a recognised government-issued ID for various applications.
 - (4) Ensures Proper tax collection by linking all transactions.
 - (5) Required for Bank account opening, Mutual funds, Property purchases

Return of Income.

Income Tax Return Filing in India.

An Income Tax Return (ITR) is a form primarily used for filing details about your income, and the applicable tax to the Income Tax Department of India.

IT Return should be filed by every individual and Business earning an income.

It assists in declaring taxable income, Tax Liability, and tax deductions claims if any.

Income tax Return Filing:

It is the process through which a tax payer must record his total income earned during the fiscal year.

Individuals

How to file ITR?:

Income tax filing can be completed from both online and offline channels.

Online process:

- Step 1. Visit the official page of income tax e-filing
Step 2. Log in to your account using your PAN No and Password.

In case you do not have an account. You have to create new account using the correct information.

- Step 3. Go to File Income Tax Return from the "e-file" tab

- Step 4. Select the correct Income category from the list- (individual, HUF and so on)

- Step 5. Choose the correct ITR form and go ahead by entering your bank account details.
Step 6. Check the preview of your Income Tax return by checking the prefilled form.
You can make changes if required.

Step 7 : Confirm the form and take a Printout.
Send a hard copy to the Income tax Department for verification.
Alternatively, you can e-verify your Income Tax Returns via Aadhar OTP or prevalidated bank.

Offline Process:

- Step 1. Visit the e-filing Page of Income Tax India
 - Step 2. Download the Utility Software (ZIP File) from the Downloads page.
 - Step 3. After Downloading the ZIP Extract the file in a different folder.
 - Step 4. Select the Relevant form and enter all the details in it.
 - Step 5. Generate the form Preview as an XML file and save it.
 - Step 6. Do a ~~check~~ Quick re-check before Calculating Your Final tax Liability.
 - Step 7. Now open the Utility Software and Log in using Your PAN Number and Password.
 - Step 8. Go to Income Tax Return and choose the assessment year and the ITR Form Number.
 - Step 9. Select the "Filing Type" as Original/ Revised Return.
 - Step 10. Select the Upload XML option as the Submission Mode.
- After selecting the correct verification Option submit the ITR

TDS.

Tax Deducted at Source is a crucial revenue generating mechanism of the government, whereby tax is deducted at the stage of income generation itself.

Deductor :

The person who is making the payment is responsible for deducting the tax while making the payment called deductor.

Deductee :

The person receiving the payment is called deductee.

Key Features of TDS :

(1) **Deduction at Source :**

The payer deducts tax from the payment and deposits it with the government.

(2) **Applicability :**

TDS is applicable on a wide range of income such as salary, interest, commission, rent, professional fees etc.

(3) **Payment to the Government :**

After deduction, the amount is transferred to the government by the payer. The recipient receives the payment after TDS deduction.

(4) **TDS Certificate :**

The deductor issues a TDS Certificate (Form 16 for salary, Form 16A for non-salary payments) showing the amount of TDS deducted. This helps the recipient to claim credit of the TDS while filling their income tax returns.

Tax Rates (Updated next page)

(1) Salaries: TDS is deducted based on the individual's income tax slab.

(2) Interest on Bank Deposits:

10% if the amount exceeds ₹ 40000 in a financial year for individuals and ₹ 50000 for senior citizens)

(3) Rent: 10% if the rent paid exceeds ₹ 2.4 Lakhs per year

(4) Professional Fees:

10% if the payment exceeds ₹ 30000 in a financial year.

TDS Filing:

(1) TDS returns must be filed Quarterly by the Person deducting the tax

(2) The deducted amount is credited to the recipient's account and they can claim this while filing their income tax return.

TDS helps in ensuring the collection of taxes at the source itself, making it a more efficient way to collect tax and it also reduces the risk of tax evasion.

Advance Tax

Under section 208 of the Income Tax Act 1961, Advance tax refers to the system of paying a portion of the income tax liability in installments throughout the financial year, instead of paying it in a lump sum at the time of filling the return.

Who is required to pay Advance Tax:

According to Sec 208, advance tax is applicable to individuals, Hindu Undivided Families (HUFs) and corporations whose estimated tax liability for the year exceeds Rs. 10000.

This includes:

(1) Salaried individuals: Who have other income (like interest or income from business)

(2) Self employed individuals:

Business Owners, Freelancers, Professionals

(3) Companies, Firms, and HUF.

Who is not required to pay ^{Advance} Income Tax:

(a) Salaried employees:

Whose Tax is fully deducted at source (TDS) and the TDS is equal to their total tax liability.

(b) Senior Citizens:

Aged 60 years or above who don't have any income from business or profession.

Due Dates for payment of Advance tax

As per Section 211 of the Income Tax Act, the advance tax is required to be paid in the following installments:

(1) 15th June

15% of the estimated tax liability

(2) 15th September:

45% of the estimated tax liability

(Cumulative),

(3) 15th December:

75% of the estimated tax liability

(Cumulative).

(4) 15th March:

100% of the estimated tax liability

(Cumulative).

How income tax calculated?

The advance tax is based on the estimated income for the financial year. This includes,

(a) Salary (b) Business profits

(c) Capital Gains (d) Income from House Property

(e) Other income like interest, dividends etc.,

Example:

Suppose your estimated total income for the year is ~~Rs~~ 10,00,000 and your total tax liability is 1,00,000 (after deductions and Examples)

By June 15, you will need to pay
15% of Rs. 1,00,000 = 15,000

By September 15, you will need to pay
45% of 1,00,000 = 45,000

By December 15, you will need to pay
75% of 1,00,000 = 75,000

By March 15, you will need to pay
the full Rs. 1,00,000.

Assessment Procedure:

(1) Filing of Tax Returns:

The business files its tax returns, reporting income, deductions and liabilities.

(2) Initial Review:

Tax Authorities review the tax return to ensure accuracy and consistency.

(3) Issuance of Assessment Notice:

The Tax Authority issues a notice outlining the tax liability.

(4) Tax Audit (if required):

The tax Authority may conduct an audit to verify the information provided in the tax return.

(5) Tax Adjustments:

The tax authority adjusts the tax liability based on the audit findings or additional information.

(6) Issuance of Final Assessment:

A final tax assessment is issued, confirming the amount owed.

(7) Appeals Process: The business can appeal the assessment if it disagrees with the findings.

(8) Final Payment: The business makes the final payment of tax due

(9) Closure: The case is closed once payment is made and the business is in compliance.

Problems:

Gross Total Income:

- 1) If income from salary ₹ 5,00,000,
Income from House property ₹ 1,00,000
Income from Business/Profession ₹ 2,00,000
Income from Capital Gain ₹ 50,000.
Income from other source = ₹ 30,000.

$$GTD = IS + IP + IH + ICG + I_{Other}$$

$$= 5,00,000 + 1,00,000 + 2,00,000 + 50,000 + 30,000$$

$$GTD = ₹ 8,80,000/-$$

2) Calculate Taxable Income

The firm incurs the following expenses

Operating Expenses ₹ 1,00,000

Interest paid on Business loans = ₹ 5,000

Depreciation - of Assets = ₹ 10,000

Bad debts = ₹ 2,000.

$$\text{Taxable Income} = \text{Gross Total Income} -$$

Allowable Deductions

$$= 5,20,000 - (1,00,000 + 5,000 + 10,000 + 2000)$$

$$= 5,20,000 - 1,17,000$$

$$= 4,03,000$$

In this case the taxable income would be
₹ 4,03,000.

2) Calculate Gross Total Income from the following.

Revenue from Sales ₹ 5,00,000

Interest income ₹ 5,000.

Rent Revenue Rental Income ₹ 10,000.

Capital Gains from Sale of Equipment ₹ 3,000.

Gross Total Income

$$= 5,00,000 + 5,000 + 10,000 + 3,000$$

$$= 5,18,000$$

Calculate Net total Income from the below operating Expenses 1,20,000

Interest Paid on loans ₹ 7,000

Depreciation = 15,000. Bad debts = 2,000.

Employee Salaries = 50,000.

$$\text{Net Total Income} = 5,18,000 - (1,20,000 + 7,000$$

$$+ 15,000 + 2,000 + 50,000)$$

$$= 5,18,000 - 1,94,000$$

$$= 3,24,000$$

$$\text{NII} = 3,24,000$$

Taxable Income:

If the business is eligible for tax credit of ₹ 5,000 we subtract this from the Net Total Income

$$\text{Taxable Income} = 3,24,000 - 5,000$$

$$\text{Taxable Income} = 3,19,000$$

Income from Salary Calculation.

$$\text{Gross Salary} = \text{Basic} + \text{Allowances}$$

(1) Basic Salary:

The basic income before allowances or deductions.

Allowances:

Extra Payment like HRA (House Rent Allowances), DA (Dearness Allowance) etc.

Deductions:

P.F (Provident Fund) Professional tax etc.

$$\text{Net Salary} = \text{Gross Salary} - \text{Deductions}$$

(2) Yearly Vs Monthly Salary

$$\text{Annual Salary} = \text{Monthly Salary} \times 12$$

(3) Problems

(1) Ravi's Monthly basic salary is ₹ 40,000. He receives 30% HRA and 20% DA.

Calculate his monthly gross salary.

$$\text{HRA} = 30\% \text{ of } 40,000$$

$$40000 \times 30/100$$

$$= 12000$$

$$\text{DA} = 20\% \text{ of } 40,000$$

$$40000 \times 20/100$$

$$= 8000$$

$$\text{Gross Salary} = 40000 + 12000 + 8000$$

$$\text{B.P.} = 40000$$

$$\text{D.A.} = 8000$$

$$\text{HRA} = 12000$$

$$\text{Gross Salary} = \underline{\underline{60000}}$$

Calculation of Net Salary.

- (2) Anita has a basic Salary of ₹ 50,000. She gets 40% HRA and 10% DA. Her Deductions include ₹ 5000 towards PF and ₹ 2000 as professional Tax. Find her net Monthly Salary.

$$\text{HRA} = 20000 \quad \text{DA} = 5000$$

$$(\text{₹}50000 \times 40/100) \quad (\text{₹}50000 \times 10/100)$$

Gross Salary

Basic Pay 50000

HRA 20000

DA 5000

Gross Salary 75000

Less Deductions

(i) PF 5000

Professional Tax 2000 7000

Net Salary 68000

Net Salary ₹ 68000 //

Salary Increment

- (3) Priya was earning ₹ 60,000 per month. She got a 10% salary hike. What is her new monthly salary?

Increment 10% 60000

$$(\text{₹}60000 \times 10/100) = 6000$$

New Salary = 60000 + increment

$$= 60000 + 6000$$

New Salary ₹ 66000 //

(H) Rahul has a basic salary of ₹ 30,000 Per month. He receives:
HRA = 40% of basic salary; DA = 10% of Basic
Medical Allowances = ₹ 1000
He contribute ₹ 2000 Per month to PF
and pays ₹ 500 Professional tax calculate
Gross salary & Net Monthly Salary.

(1) Calculate Allowances.

- $HRA = 30000 \times 40/100 = 12000$
- $DA = 30000 \times 10/100 = 3000$
- Medical Allowance = ₹ 1000.

(2) Gross Salary.

Basic salary + HRA + DA + MA

B. S = 30000

HRA = 12000

DA = 3000

MA = 1000
46000

(3) Net Salary.

Gross Salary = 46000

loss Deductions:

PF 2000

Professional Tax 500 2500 ()
43500

Ans Gross salary = ₹ 46,000

Net Salary = ₹ 43,500.

Annual Income Calculation.

- (5) An employee earns a gross salary of ₹ 60000 per month. He receives a bonus ₹ 50,000 annually. Calculate his total Annual Income.

Gross salary = 60000 Per month.

$$\text{Annual salary} = 60000 \times 12 \\ = ₹ 7,20,000$$

$$\text{Total Income} = \text{A. Salary} + \text{Bonus} \\ = ₹ 7,20,000 + 50,000$$

$$\text{Total Annual Income} = ₹ 7,70,000$$

Salary Increment Problem:

Priya's current salary is ₹ 55,000 Per month. She receives a 15% increment. What will be her new monthly and annual salary.

increment 15%.

$$\rightarrow 55000 \times 15/100 = ₹ 8250.$$

$$\text{New monthly salary} = ₹ 55000 \text{ PM}$$

$$\text{increment add: } ₹ 8250$$

$$\underline{\underline{₹ 63,250 \text{ Per month.}}}$$

$$\text{Net Annual Salary} = 63250 \times 12$$

$$₹ 7,59,000/-$$

Reverse Calculation:

An employee gross Monthly Salary is B. 50,000 Which includes 25% HRA, and 15% DA. Find the basic Salary.

Let the basic salary be ₹ x.

$$\text{HRA} = 25\% \text{ of } x = 0.25x$$

$$\text{DA} = 15\% \text{ of } x = 0.15x$$

$$\text{Gross Salary} = x + 0.25x + 0.15x$$

$$\text{Gr. Salary} = 1.4x$$

$$50000 = 1.4x$$

$$1.4x = 50000$$

$$x = \frac{50000}{1.4}$$

$$x = 35,714.29$$

Income from House Property

Taxable when

- * You own a Property
- * It is let out self occupied or deemed to be let out
- * Income is computed under Section 22 to 27 of the Income Tax Act

Key Terms : • GAV = Gross Annual Value.

(Expected Rent or Actual Rent Received)

• NAV = Net Annual Value.

NAV = Gross Annual Value - Municipal Taxes

• Deductions under Section (24)

Standard deduction = 30% of NAV

Interest on home loan = upto ₹ 2,00,000 (for self occupied)

Problems

P Let out property!

Mr. Amit owns a flat in Pune let out for ₹ 20,000 per month. Municipal taxes

Paid ₹ 12,000. He paid ₹ 1,50,000 as interest on housing loan. Compute Income from House property.

$$\begin{aligned}\text{Gross Annual Value} &= 20000 \text{ Per month} \\ &= 20000 \times 12 \\ &= 2,40,000\end{aligned}$$

Net Annual value.

$$\begin{aligned}\text{GAV } (20000 \times 12) &= 2,40,000 \\ \text{less Municipal taxes} &= \underline{12,000} \\ &= 2,28,000\end{aligned}$$

less Deductions u/s 24

$$(1) \text{ Standard deduction (30\%)} = \underline{68,400}$$

$$1,59,600$$

$$(2) \text{ Interest on Home loan. } \underline{1,50,000}$$

$$\text{Income from House property } \underline{9,600}$$

$$\underline{\text{Ans}} \quad \text{Income from House property } 9600$$

②. Self Occupied Property:

Mrs. Seetha lives in her own house in Mumbai. She pays ₹ 2,50,000 as interest on home loan for the year. Compute the income from House property.

Self Occupied Property GAV = 0.

Deduction under section 24(b) is allowed upto 200000 only.

$$\text{Ans. loss from House property} = -20,000$$

III Deemed to be let out

Mr. Rakesh owns two houses.

House A : Self occupied.

House B = Vacant, not let out.

He chooses House A as self occupied.

House B is deemed to be let out.

Fair Rent = 15000 Per month. Municipal

Tax = 10000. Interest on home loan = 1,80,000

House A - Self occupied

House B

G.R. = (15000×12) 1,80,000

Less Municipal Tax 10,000

Net Annual value 1,70,000

Less Deductions:

30% Standard Deduction

$(1,70,000 \times 30/100)$ 51,000

Interest on loan (Given) 1,80,000 2,13,000

Income from House Property (-) 6,000

Net loss from house property = ₹ 6,000

Rule Summary

Standard Deduction = 30% on NAV

Interest on home loan

Self occupied Maximum ₹ 2,00,000

Let out Full Amount Allowed

upto. 2 houses can be treated as Self-occupied.

III

Income from Business / Profession.

I. Disallowed Expenses Adjustment

Mr. Ramesh a sole Proprietor, reported ₹ 6,00,000 net profit in his profit & loss account. The following items were included.

Donation. to political party ₹ 20,000.

Depreciation as per books (₹ 40,000) but allowable as per income tax = ₹ 35,000.

Interest on capital paid to himself ₹ 1,20,000 (Allowed upto ₹ 1,00,000)

Compute Taxable Income from business.

Taxable Income

Net profit	6,00,000.
Add Disallowed Expenses.	
Political Donation. ^{Disallowed.} 20000	20000 Exempted.
(not allowed u sec 37)	
Excess Depreciation. 5000	5000 35.
(40000 - 35000)	
Excess interest on Capital.	
(1,20,000 - 1,00,000)	= 20000 15,000
Total Business Income.	6,25,000

II Professional : income of a Doctor.

Dr. Neha a Private Practitioner, earned ₹ 12,00,000 during FY 2024-25. H&E

Expenses include:

Client Rent 2,40,000 Assistant Salary 1,20,000

Medicines = 60,000 Personal travel = 50,000

Calculate taxable professional income.

Gross Receipts.	12,00,000
Allowable Expenses.	
Rent	240,000
Salary	1,20,000
Medicines	60,000
Personal Exp (Travel)	Disallowed 4,20,000
Taxable Income.	7,80,000

Rule:

Section 44AD (Business) 8% (Cash)
(6% digital receipts) for turnover $\leq$ ₹ 2 crore.

Section 44ADA (Profession) 50% of gross profit for eligible Professionals $\leq$ ₹ 75 lakhs.

Income from Business or Profession.

Ex Presumptive Income under Sec 44AD
Mr. Vijay runs a small Retail shop

Turnover for FY 2024-25 is 80,00,000

(all digital). He opts for presumptive taxation under Sec 44AD. Compute his taxable income.

Under Section 44AD:

Presumed income = 6% of digital turnover
 $80,00,000 \times 6\%$

Taxable $80,00,000 \times 6/100$

Business income = 4,80,000

Capital Gains:

Rules in India.

I Short term Capital Gain: (STCG)

Assets held for less than 36 months for real estate and less than 12 months for stocks are taxed at applicable rates.

STCG on Stocks:

Taxed at 15% if Securities Transaction Tax (STT) is paid.

STCG on Real Estate:

Taxed at individual's income tax slab rates.

II Long term Capital Gain: (LTCG)

Assets held for more than 36 months for real estate and more than 12 months for stocks are subject to lower tax rates.

LTCG on Stocks:

Taxed at 10% on gains exceeding ₹ 1 lakh if STT is paid.

LTCG on Real Estate:

Taxed at 20% with indexation benefits but without indexation benefits it's taxed at 12.5%.

- 1) An investor purchases 100 shares of stock at \$50 per share and sells them at \$70 per share. Calculate the capital gain and the tax liability, assuming a capital gains tax rate of 20%.

$$\text{Capital Gain} = \text{Selling Price} - \text{Purchase Price}$$

$$₹ 70 - ₹ 50$$

$$= ₹ 20 \text{ per share}$$

$$\text{Total Capital Gain} = ₹ 20 \times 100 \text{ Shares}$$

$$= ₹ 2,000$$

2) Calculate the tax liability.

$$\text{Tax Liability} = \text{Capital Gain} \times \text{Tax Rate}$$

$$= 2000 \times 0.20 \quad \text{--- (20\%)} \\ = ₹ 400$$

$$\text{Capital Gain} = ₹ 2000$$

$$\text{Tax Liability} = ₹ 400$$

8) An investor purchases a property for ₹ 5,00,000 on January 1, 2020 and sells it for ₹ 7,00,000 on June 30, 2025. Calculate the Capital Gain and the tax liability, assuming a long term capital gains tax rate of 20%.

$$\text{Capital gain} = \text{Selling Price} - \text{Purchase price}$$

$$= 7,00,000 - 5,00,000$$

$$\text{CG} = ₹ 2,00,000$$

4) Calculate the tax liability

$$\text{Tax Liability} = \text{Capital gain} \times \text{Tax Rate}$$

$$= 2,00,000 \times 0.20$$

$$\text{Tax Liability} = ₹ 40,000$$

$$₹ 70 - ₹ 50$$

$$= ₹ 20 \text{ per share}$$

$$\text{Total Capital Gain} = ₹ 20 \times 100 \text{ Shares}$$

$$= ₹ 2,000$$

2) Calculate the tax liability:

$$\text{Tax Liability} = \text{Capital Gain} \times \text{Tax Rate}$$

$$= 2000 \times 0.20 \quad \text{--- (20\%)}$$

$$= ₹ 400$$

$$\text{Capital Gain} = ₹ 2000$$

$$\text{Tax Liability} = ₹ 400$$

3) An investor purchases a property for ₹ 5,00,000 on January 1, 2020 and sells it for ₹ 7,00,000 on June 28, 2025. Calculate the Capital Gain and the tax liability, assuming a long term capital gains tax rate of 20%.

$$\text{Capital gain} = \text{Selling Price} - \text{Purchase price}$$

$$= 7,00,000 - 5,00,000$$

$$\text{CG} = ₹ 2,00,000$$

4) Calculate the tax liability

$$\text{Tax Liability} = \text{Capital gain} \times \text{Tax Rate}$$

$$= 2,00,000 \times 0.20$$

$$\text{Tax Liability} = ₹ 40,000$$

- 5) An Investor Purchases a Property for ₹ 5,00,000 and Sells it for ₹ 7,00,000 after 5 years. If the indexed cost of acquisition is ₹ 6,00,000. What's the long term Capital Gain?

$$\begin{aligned}\text{Long term Capital Gain} &= \text{Selling Price} - \text{Indexed cost of acquisition} \\ &= ₹ 7,00,000 - ₹ 6,00,000 \\ &= ₹ 1,00,000.\end{aligned}$$

- 3) Short-term Capital Gain = Selling Price - Purchase Price

An investor buys shares for ₹ 10,000 and sells them for ₹ 12,500 after 6 months. What is the Short term Capital Gain?

$$\begin{aligned}\text{STCG} &= \text{SP} - \text{PP} \\ &= ₹ 12,500 - ₹ 10,000 \\ &= ₹ 2,500.\end{aligned}$$

- 4) Jenny Purchased 1000 Shares of BNM inc. Stock for ₹ 50 Per share and received ₹ 4 Per share in dividends. She sold the shares for ₹ 56 each. What's her Capital Gain?

$$\begin{aligned}\text{Capital Gain} &= \text{Selling Price} - \text{Purchase Price} \\ &= (56 - 50) \times 1000 \text{ Shares} \\ &= 6000 \text{ Shares}\end{aligned}$$

ignore: Dividend

Income from ~~Capital~~ Other Sources

Interest Income from Fixed Deposits

An individual earns ₹ 40000 interest from fixed deposits in a financial year. The tax slab rate applicable is 20%. What's the tax liability?

$$\text{Tax Liability} = \text{Interest Income} \times \text{Tax Slab Rate}$$

$$= 40,000 \times 20\%$$

$$= 40000 \times 20/100$$

$$\text{Tax Liability} = 8,000$$

TDS is Deducted 10% if PAN is provided the individual might have already Paid ₹ $(40000 \times 10/100) = 4000$ as TDS.

$$\text{Tax Liability} = 8000$$

$$\text{Less TDS } 10\% \quad 4000$$

$$(40000 \times 10/100)$$

$$\text{Remaining as Tax Liability } \underline{4000}$$

Lottery Winnings:

An individual wins ₹ 2 lakhs in a game show. The tax rate applicable to lottery winnings is 30%. What's the TDS Amount?

$$\text{TDS} = \text{Lottery Winnings} \times \text{Tax Rate}$$

$$= \cancel{200000} \quad 200000 \times 30/100$$

$$\text{TDS} = 60000$$

Winning Amount = 200000
 TDS = 60000
 individual would 1,40,000
 receive this amount
 after TDS deduction.

Family Pension

An individual receives a family Pension of ₹ 1,20,000 Per annum. What's the deduction allowed?

Rules,

Deduction 15000 } whichever is
 $\frac{1}{3}$ rd of the Pension Income } lower.

- 1) Deduction 15000 } wt L
- 2) $\frac{1}{3}$ of 1,20,000 40000 } 15000

Taxable Pension income
 Family Pension 1,20,000
 Less Deduction 15000
 Taxable Pension Income 1,05,000

* Dividend Income:

An individual receives dividend income of ₹ 50,000 from domestic Shares. The tax slab rate applicable is 25%. What's the tax slab Rate?

Tax liability = Dividend Income $\times$ Tax slab Rate

$$= 50,000 \times 25\%$$

$$= 50,000 \times \frac{25}{100} = 12,500$$

Dividend Income = 12,500.

P. No. June, current tax year

A.Y. = 2025-2026

Financial year (FY) April 1, 2024 to
March 31, 2025

Assessment Year (AY) April 1, 2025

March 31, 2026

TDS Rates for Assessment Year 2025-2026

The Tax Deducted at Source (TDS) rates for the assessment year 2025-2026 has been updated. Here are the key rates.

(1) Salary Income (Section 192)

Taxed based on Income Slab rates, ranging from 0% to 30%.

Slab rates:

- Upto 2,50,000 : 0%.

- 250001 to 5,00,000 5%.

- 5,00,001 to 7,50,000 10%.

- 7,50,001 to 10,00,000 15%.

- 10,00,001 to 12,00,000 20%.

- 12,00,001 to 15,00,000 25%.

- Above 15,00,000 30%.

(2) Interest on securities (Section 193)

10% TDS Rate

Threshold Limit 10,000

(3) Rent Payment (Section 194-I)

2% TDS Rate for Plant & Machinery

10% TDS rate for land / building / Furniture

Threshold Limit ₹ 50,000 per month.

(H) Commission or Brokerage (Section 194H)

* 2% TDS Rate

* Threshold Limit - ₹ 20,000 (Previously 30,000)

(B) Partner's Remuneration: (Section 194T)

* 10% TDS Rate

* Threshold Limit : ₹ 20,000

(b) Other Income:

(a) Dividend Income (Section 194)

10% TDS Rate +

Threshold Limit : ₹ 10,000

(b) EPF Premature Withdrawal (Section 192A)

10% TDS rate

Threshold Limit : ₹ 50,000

These rates are applicable for the financial year 2025-2026 and assessment year 2026-2027. It's essential to note that these rates may be subject to change based on updates in the Income Tax Laws & regulations.

TDS Problems

1) TDS on Salary Income:

An employee earns a monthly salary of ₹ 80,000. Calculate the TDS amount based on the income slab rates.

Annual Salary (80000×12) = 960000

~~Less:~~ Standard Deduction

Slab Rate (10,00,000 to = 15%

1000000)

$960000 \times 15/100 = 144000/12$

TDS = 12000

(2) TDS on Interest Income:

An individual earns 15,000 interest on fixed deposits. Calculate the TDS amount threshold limit ₹ 10,000.

TDS Rate 10 %

$$\text{TDS amount} = (15000 - 10000) \times 10\% \\ = \frac{5000 \times 10}{100}$$

$$\text{TDS} = 500$$

(3) TDS on Rent Payment

A tenant pays ₹ 60,000 monthly Rent. Calculate the TDS amount

Threshold Limit ₹ 50,000 Per month

TDS rate 10% (For Land & Building)

$$\therefore \text{TDS Amount} = 60000 \times 10/100$$

$$\text{TDS} = ₹ 6000$$

(4) TDS on Commission Income:

A Commission agent earns ₹ 2,50,000 Commission income. Calculate the TDS Amount

Threshold Limit = ₹ 20,000

TDS Rate 2 %

$$250000 \times 2/100 = 5000$$

(5) TDS on Professional Fee

A company pays 15000 Professional fees to a Resident calculate the TDS Amount

Threshold Limit 30000

TDS rate 10 %

$$\text{TDS Amount} = 15000 \times 10/100 = 1500. \text{ ₹}$$

Total Income Calculation.

An Individual has Salary Income : 12,00,000,
House property income 2,00,000; Business
Income 5,00,000; Capital Gain ₹ 1,00,000
Other Source income 50,000, Clubbed
Income ₹ 20,000; losses to set off: ₹ 1,00,000

Gross Total Income

Salary income	12,00,000
House property Income	2,00,000
Business Income.	5,00,000
Capital Gain	1,00,000.
Other sources income.	<u>50,000</u>
<u>Add</u> Income 50,000	2,050,000
<u>Clubbed income</u> 20,000	<u>20,000</u>
(-) Losses to set off <u>1,00,000</u>	<u>20,70,000</u>
	<u>1,00,000</u>
Gross Income	<u>19,70,000</u>

Less Deductions.

u/s 80C	1,50,000
u/s 80D	<u>50,000</u>
	2,00,000
Net Total Income	<u>17,70,000</u>