

As per New Syllabus 2022

Commercial's

Systematic Approach to

DIRECT & INDIRECT TAXATION

Containing Income Tax, GST & Customs

For CMA Inter & Other Specialised Studies

Applicable for June 2024 & Dec. 2024 Examination

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Introduction

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SECTIONWISE STUDY

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SYSTEMATIC STUDY

1.1 Income Tax Law

An understanding of the Income-tax law requires a study of the following:

- (A) The Income-tax Act, 1961 (amended up-to-date)
- (B) The Income-tax Rules, 1962 (amended up-to-date)
- (C) Notifications, Circulars and clarifications issued from time to time by the CBDT
- (D) Judicial decisions

- (A) **The Income-tax Act, 1961 (Amended upto date):** The provisions of income-tax are contained in the Income-tax Act, 1961 which extends to the whole of India and became effective from 1.4.1962 (Section 1).

Scope of Income-tax Act: The Income-tax Act contains provisions for determination of taxable income, determination of tax liability, procedure for assessment, appeals, penalties and prosecutions. It also lays down the powers and duties of various Income-tax authorities.

Since the Income-tax Act, 1961 is a revenue law, there are bound to be amendments from time to time in this law. Therefore, the Income-tax Act has undergone innumerable changes from the time it was originally enacted. These amendments are generally brought in annually along with the Union Budget. Besides these amendments, whenever it is found necessary, the Government introduces amendments in the form of various Amendment Acts and Ordinances.

Annual amendments: Every year a Budget is presented before the Parliament by the Finance Minister. One of the most important components of the Budget is the Finance Bill, which declares the financial proposals of the Central Government for the next financial year. The Bill contains various amendments which are sought to be made in the areas of direct and indirect taxes levied by the Central Government.

The Finance Bill also mentions the rates of income-tax and other taxes which are given in the First Schedule attached to such Finance Bill. The First Schedule gives the rates of income-tax in 3 parts:

Part-I: It gives the normal rates of income-tax for various assessees for the current assessment year, e.g., the Finance Act, 2022 had given the rates of income-tax for the assessment year 2022-23 and the Finance Act, 2023 has given the rates of income-tax for the assessment year 2023-24.

Part-II: It gives the rates for deduction of tax at source (TDS) from the income earned in the current financial year, e.g., the Finance Act, 2023 has given the rates at which tax is to be deducted at source in the financial year 2023-24. Similarly, the Finance Act, 2024 shall give the rates of TDS on the income earned during the financial year 2024-25.

Note.—Certain rates of TDS are given in the Income-tax Act itself.

Part-III: It gives the normal rates for calculating income-tax for deducting tax from income chargeable under the head 'Salaries'. The same rates are applicable for computation of advance tax to be paid in the current financial year for incomes taxable at normal rates, e.g., Finance Act, 2022 had given the rates for the computation of advance tax for the financial year 2022-23 (i.e., assessment year 2023-24) and the Finance Act, 2024 has given the rates of advance tax for financial year 2023-24 (i.e., assessment year 2024-25).

1. When the Finance Bill is approved by both the Houses of Parliament and receives the assent of the President, it becomes the Finance Act. The provisions of such Finance Act are thereafter incorporated in the Income-tax Act.
2. Part-III of Schedule I of a particular Finance Act, which gives the rates for computation of Advance Tax and TDS on salary, etc, generally becomes Part-I of the subsequent Finance Act, e.g., Finance Act, 2022, Part-III, had given the rates for computation of advance tax for the financial year 2022-23 (i.e., assessment year 2023-24). The same rates have become the rates of income-tax for the assessment year 2023-24 in the Finance Act, 2024. Similarly, rates given under Part III of Schedule I of the Finance Act, 2023 will become Part I of Schedule I of the Finance Act, 2024 and these will be the rates of income-tax for assessment year 2024-25.
3. The total income of the assessee is taxable at the following two rates:
 - (1) Normal rates which are given in section 2 of Chapter II read with First Schedule of the Finance Act, every year.
 - (2) Special rates, which are given in the Income-tax Act itself, e.g., long-term capital gain is taxable @ 10%/20%, short-term capital gain referred to in section 111A is taxable @ 15% and income from lotteries, crossword puzzles, and income from transfer of virtual digital assets, etc., is taxable @ 30% for assessment year 2024-25.

Notes: The rates of income tax other than of TDS given in the first schedule are for those assesseees who opt to be taxed or wish to remain under the old regime of taxation.

The concessional rates of income-tax other than of TDS for certain assesseees are also given under various sections, mentioned below provided certain conditions specified in the relevant sections are satisfied.

- (1) For a domestic company, the concessional rate of income tax is given under section 115BAA or 115BAB (known as new regime of taxation). Such concessional rate of tax is applicable, if the conditions mentioned under sections 115BAA(2) or 115BAB(2), as the case may be, are satisfied. In this case the company has to opt for the new regime of taxation, otherwise it will remain under the old regime.
- (2) For an individual or HUF or AOP/BOI or an artificial juridical person, the concessional rates of income tax are given under section 115BAC(1A). Such concessional rates of income-tax are applicable if certain conditions mentioned under section 115BAC(2) are satisfied. These rates are default rates under the new regime and applicable for such assesseees unless he/it opts to be taxed under the old regime. Section 115BAC, shall be discussed in details, separately under Chapter 13, (i.e. Assessment of Individuals).

(3) For a cooperative society, the concessional rate of income tax is given under section 115BAD or 115BAE (known as new regime of taxation). Such concessional rate of tax is applicable if the conditions mentioned under sections 115BAD(2) or 115BAE(2), as the case may be, are satisfied. In this case the cooperative society has to opt for new regime of taxation, otherwise it will remain under the old regime.

(B) **Income-tax Rules, 1962 (amended upto date):** Every Act normally gives power to an authority, responsible for implementation of the Act, to make rules for carrying out purposes of the Act. Section 295 of the Income-tax Act has given power to the Central Board of Direct Taxes (CBDT) to make such rules, subject to the control of Central Government. These rules are made applicable by notification in the Gazette of India.

Examples: (1) The value of rent free accommodation provided by the employer to an employee is included in the gross salary of employee. How to value such rent free accommodation is given in rule 3 of the Income-tax Rules, 1962.

(2) Section 10(13A) provides that house rent allowance is exempt upto a certain limit. How to calculate such limit is given in rule 2A of the Income Tax Rules, 1962.

(C) **Notifications, Circulars and Clarifications by CBDT:** Notifications are issued either by the Central Government or CBDT in the Official Gazette, whereas Circulars and clarifications are issued by CBDT.

Notification is a subordinate legislation and is issued under powers delegated by the Parliament. Notifications generally lay down the law taking care of some procedural aspects of the enactment.

Further, to carry out purposes of the Income Tax Act, in certain sections, the power has been given to CBDT to make rules, by way of notifications in the Official Gazette of India. See para (B) above.

Notifications issued by the Central Government as well as CBDT are binding on everyone.

A circular or clarification is a communication issued by the CBDT which is primarily meant to serve as guidelines to implement the provisions of law. Such circulars or clarifications are binding upon the Income-tax Authorities, but the same are not binding on the assessee. However, the assessee can claim benefit under such circulars.

The CBDT has been issuing certain circulars and clarifications from time to time, which have to be followed and applied by the Income-tax Authorities.

Recently, the guidelines are being issued by the CBDT with the previous approval of the Central Government by way of circulars to remove difficulties in the implementation of the provisions of certain sections. These guidelines are to be laid before each House of Parliament. These circulars are binding both on the income-tax authorities as well as on the assessee.

(D) **Judicial decisions:** Decision given by judicial authorities on an appeal filed before them is known as judicial decision. Any decision given by the Supreme Court becomes a law which will be binding on all the Courts, Appellate Tribunals, the Income-tax Authorities as well as on all the assessees.

Decisions given by a High Court, Income-tax Appellate Tribunal, etc., are binding on all the assessees as well as the Income-tax Authorities which fall under their jurisdiction, unless it is over-ruled by a higher authority. The decision of a High Court is binding on the Tribunal and the Income-tax Authorities situated in the area over which the High Court has jurisdiction.

1.2 Scheme of Taxation

Every person, whose total income of the previous year exceeds the maximum amount which is not chargeable to income-tax, is an assessee and chargeable to income-tax in the assessment year at the rate or rates prescribed in the Finance Act/Income-tax Act for that relevant assessment year. However, his total income shall be determined on the basis of his residential status in India.

In other words, income-tax is levied in India in the following manner:

1. Income earned by every person is chargeable to income-tax provided it exceeds the maximum amount which is not chargeable to tax, i.e., it exceeds the maximum exemption limit.
2. It is charged on the total income of the previous year but is taxable in the following assessment year at the rates applicable to such assessment year. However, there are certain exceptions to this rule.
3. Income-tax is charged at two rates, viz. normal rates and special rates.
Normal tax rates which can be in the form of slab rate or flat rate are fixed by the annual Finance Act but special rates are given in the Income-tax Act itself.
4. Tax is charged on the total income computed in accordance with the provisions the Act.
5. Total income of a person is determined on the basis of his residential status in India.
6. Although the income of the previous year is chargeable to tax in the assessment year, but the assessee has to pay income-tax in the same previous year in which income is earned. It is paid in the form of advance tax and deduction

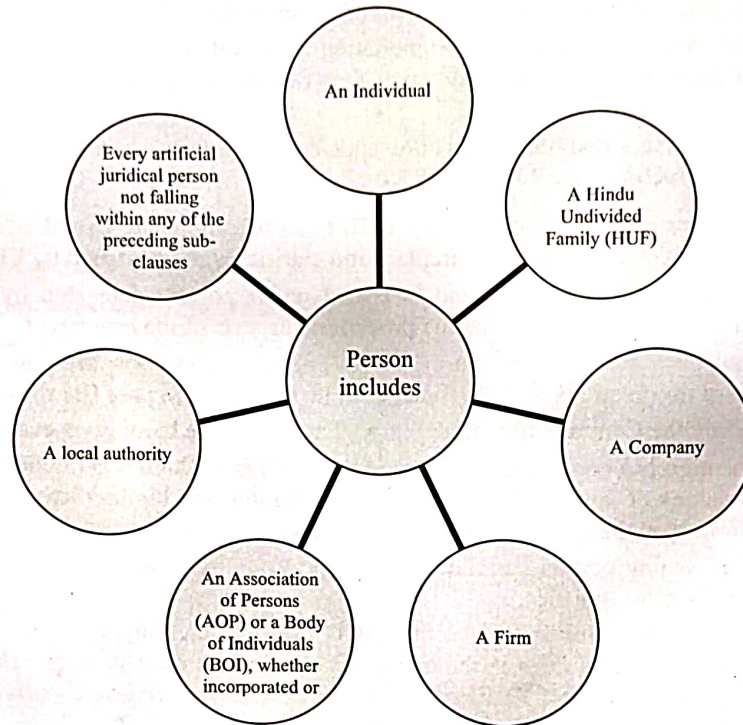
of tax at source (TDS). Such tax paid in the previous year (also known as prepaid taxes) shall be deducted from the income-tax due on total income in the assessment year.

Further, an analysis of the above statement would reveal the following important concepts, which are necessary for understanding the framework of the Income-tax Act.

1. Person; 2. Assessee; 3. Assessment year; 4. Previous year; 5. Rate or rates of tax; 6. Charge of income-tax; 7. Maximum amount which is not chargeable to income-tax; 8. Total income; 9. Residential status in India.

1.3 Important Concepts

1.3-a Person [Section 2(31)]:



An association of persons or a body of individuals or a local authority or an artificial juridical person shall be deemed to be a person, whether or not, such person or body or authority or juridical person, was formed or established or incorporated with the object of deriving income, profits or gains. [Explanation to section 2(31)]

- An individual* means a natural person, i.e., a human being. It includes a male, female, minor child. However, the income of a minor is now generally included in the income of a parent. Sometimes the minor is himself liable to tax on income earned by him. Since minor is not competent to contract, his income shall be taxable through his legal guardian.
- A Hindu undivided family* has not been defined under the tax laws. However, as per the Hindu law, it means a family which consists of all persons lineally descended from a common ancestor including their wives and daughters.
- A firm shall have the meaning assigned to it in the Indian Partnership Act, 1932 and shall include a *limited liability partnership* as defined in the Limited Liability Partnership Act, 2008.
- Association of persons*: The Income-tax Act does not define an association of persons (AOP). In the absence of any definition, the words must be construed in their plain ordinary meaning.

Association of persons means two or more *persons* who join for a common purpose with a view to earn an income. It need not be on the basis of a contract. Therefore, if two or more persons join hands to carry on a business but do not constitute a partnership, they may be assessed as an Association of Persons (AOP).

An Association of Persons does not mean any and every combination of persons. It is only when they associate themselves in an income-producing activity that they become an association of persons. They must combine to engage in such an activity; the engagement must be pursuant to the combined will of the persons constituting the association; there must be a meeting of the minds, so to speak. In a nutshell, there must be a common design to produce income.

- Body of individuals (BOI)* means a conglomeration of *individuals* who carry on some activity with the objective of earning some income. It would consist only of individuals. Entities like companies or firms cannot be members of a *body of individuals*.

Normally, income-tax shall not be payable by an assessee in respect of the receipt of share of income by him from BOI/AOP if the tax has already been paid by such BOI/AOP.

Distinction between AOP and BOI

1. An AOP may consist of non-individuals but a BOI has to consist of individuals only. If two or more persons (like firm, company, HUF, individual, etc.) join together, it is called an AOP. But if only individuals join together then it is called a BOI. For example, where X, ABC Ltd. and PQ & Co. (A firm) join together for a particular venture then they may be referred to as an AOP. If X, Y and Z join together for a particular venture, but do not constitute a firm then they may be referred to as a body of individuals.
2. An AOP implies a voluntary getting together for a common design or combined will to engage in an income producing activities, whereas a BOI may or may not have such common design or will.

In case of AOP as well as BOI, the provisions relating to computation of total income and taxability of such income are same.

(f) *A local authority*: The expression local authority means:

- (i) Panchayat; or
- (ii) Municipality; or
- (iii) Municipal Committee and District Board, legally entitled to, or entrusted by the Government with, the control or management of a Municipal or local funds; or
- (iv) Cantonment Board.

(g) *Artificial juridical persons* are entities which are not natural persons but are separate entities in the eyes of law. Though they may not be sued directly in a court of law but they can be sued through persons managing them.

God, idols and deities are artificial persons. Though they may not be sued directly they can be legally sued through the priests or the managing committee of the place of worship, etc. They are persons and their income, like offerings and donations, are taxable. However, under the Income-tax Act, they have been provided exemption from payment of tax under separate provisions of the Act, if certain conditions mentioned therein are satisfied.

Similarly, all other artificial persons, with a juristic personality, will also fall under this category, if they do not fall within any of the preceding categories of persons, e.g., University of Delhi is an artificial person as it does not fall in any of the six categories mentioned above.

Illustration 1. Determine the status of the following:

(i) Calcutta University. (ii) Essen Paints Pvt. Ltd. (iii) Punjab Bank Ltd. (iv) A and B are legal heirs of C. C died in 2021 and A and B carry on his business without entering into a partnership. (v) Shri Krishna Enterprises, a firm consisting of three partners S, K and P. (vi) A joint family consisting of P, Mrs. P and their son S. (vii) Municipal Corporation of Delhi.

Solution:

(i) Artificial Juridical Person (ii) A Company (iii) A Company (iv) A Body of Individuals (v) A Firm (vi) A Hindu Undivided Family (vii) A Local Authority.

1.3-b Assessment year [Section 2(9)]

Assessment year means the period of 12 months commencing on the first day of April every year. It is, therefore, the period from 1st of April to 31st of March, for example, the assessment year 2024-25 will commence on 1.4.2024 and will end on 31.3.2025. The tax is levied, in each assessment year, with respect to or on the total income earned by the assessee in the previous year.

1.3-c Previous year [Sections 3]

According to section 3, previous year means the *financial year* immediately preceding the assessment year. Financial year means a year which starts on 1st April and ends on 31st March.

- Income-tax is payable on the income earned during the previous year and it is assessed in the immediately succeeding financial year which is called an assessment year. Therefore, the income earned during the previous year 1.4.2023 to 31.3.2024 will be assessed or charged to tax in the assessment year 2024-25.
- All assesseees are required to follow a uniform previous year, i.e., the financial year (1st April to 31st March) as their previous year. Previous year, for Income Tax purposes, will be financial year which ends on 31st of March although the assessee can close his books of account on any other date, e.g., an assessee may maintain books of account on calendar year basis but his previous year, for Income Tax purpose, will be financial year and not the calendar year.

Each financial year is both, previous year as well as assessment year. It is the previous year for the income earned during that financial year and assessment year for the income earned during the preceding previous year, e.g., financial year 2023-24 is the previous year for the income earned during that financial year 2023-24 and assessment year for the income earned during the previous year 2023-24.

First previous year for a business/profession newly set-up during the financial year or for a new source of income: In case—

- (i) a business or profession is newly set up, or
- (ii) a new source of income comes into existence during the financial year, the period beginning from the date of setting up of the business or from the date the new source came into existence, and ending on the last day of that financial year, i.e., 31st of March shall be the first previous year for that business or source of income.

For example, if a new business is set up on 21.10.2023 then the first previous year for that business will be the period starting from 21.10.2023 to 31.3.2024. Therefore, the first previous year of a newly set-up business/profession or a new source of income will be either 12 months or less than 12 months. It can never exceed a period of 12 months.

Illustration 2. Ascertain the previous year of the income in relation to assessment year 2024-25 in the following cases:

- (i) Dr. Gupta was appointed as Assistant Professor in Shri Ram College of Commerce for the first time on 1.8.2023.
- (ii) Dinesh started a cloth business on 27.2.2024.
- (iii) Jai Kumar purchased a let-out house property of two rooms on 5.7.2023.
- (iv) A received a remuneration of ₹50,000 for acting in a T.V. Serial on 10.3.2024 for the first time.

Solution

- | | |
|-----------------------------|-----------------------------|
| (i) 1.8.2023 to 31.3.2024 | (ii) 27.2.2024 to 31.3.2024 |
| (iii) 5.7.2023 to 31.3.2024 | (iv) 10.3.2024 to 31.3.2024 |

Where an assessee has an existing regular income from various sources and he earns an income from a new source during the financial year, his previous year, for the existing income, will be that relevant financial year and the previous year for the new source of income will start from the date from which the new source of income came into existence and would end on 31st March next following. Since he is assessable on the aggregate of the income from all the sources, therefore, all the income will be included in the previous year. For example, X has been regularly earning income from salary and house property. On 21.10.2023 he commences a business of trading in paper. The previous year for income from salary and house property will be the financial year 2023-24 and previous year for the new business will be 21.10.2023 to 31.3.2024. However, for computation of income of the previous year 2023-24, we shall take the aggregate of income from salary and house property of financial year 2023-24 (i.e., 1.4.2023 to 31.3.2024) and income earned from 21.10.2023 to 31.3.2024 for the business.

Cases where income of previous year is assessed in the same year: As a normal rule, the income earned during any previous year is assessed or charged to tax in the immediately succeeding assessment year. However, in the following circumstances the income is taxed in the same year in which it is earned. Therefore, the assessment year and the previous year in these exceptional circumstances will be the same. These exceptions have been provided to safeguard the collection of taxes so that assessee, who may not be traceable later on, are not allowed to escape the payment of the taxes. The exceptions are as follows:

1. **Shipping business of non-residents [Section 172]:** A non-resident who is carrying on a shipping business and earns income from carrying passengers/livestock/goods from a port in India, will be charged income-tax before the ship is allowed to leave the Indian port. Therefore, before the ship leaves the Indian port, the master of the ship is under an obligation to furnish a return of the full amount earned on account of fare and freight (including the amount paid or payable by way of demurrage charge or handling charge or any other amount of similar nature) and pay the tax accordingly. In this case 7.5% of the amount of fare/freight/charge, etc., shall be deemed to be income of such assessee on which the income-tax will be charged. Therefore, in this case the tax is chargeable on the income in the same year in which it is earned.

Where the Assessing Officer is satisfied that it is not possible for the master of ship to furnish the return before the departure of the ship from the port and the master of the ship has made satisfactory arrangement for the filing of the return and payment of the tax by any other person on his behalf, he (the Assessing Officer) may, if the return is filed within 30 days of the departure of the ship, deem the filing of the return by the person so authorised by the master as sufficient compliance for the purpose of this section.

2. **Assessment of persons leaving India [Section 174]:** When it appears to the Assessing Officer that any individual may leave India during the current assessment year or shortly after its expiry, and such individual has no present intention of returning to India, the total income of such individual, from the expiry of previous year for that assessment year (i.e., from 1st April of the assessment year) up to the probable date of his departure from India shall be chargeable to tax in the same assessment year.

Example—R wishes to migrate to USA permanently and plans to leave India on 15.11.2023. He submitted his return for assessment year 2023-24 on 31.7.2023 the assessment of which is still pending.

In this case the Assessing Officer will make two assessments:

- (a) regular assessment for previous year income of 2022-23 at the rates applicable for assessment year 2023-24.

(b) assessment of income of the period 1.4.2023 to 15.11.2023 (either actual or estimated basis) and tax should be levied on such income in the assessment year 2023-24 itself but at the rates of advance tax for financial year 2023-24 (A.Y. 2024-25) given in part III of First Schedule of Finance Act, 2023.

3. **Assessment of association of persons or body of individuals or artificial juridical person formed for a particular event or purpose [Section 174A]:** Where it appears to the Assessing Officer that any association of persons or a body of individuals or an artificial juridical person formed or established or incorporated for a particular event or purpose is likely to be dissolved in the assessment year in which such association of persons or body of individuals or artificial juridical person was formed or established or incorporated or immediately after such assessment year, the total income of such person or body or juridical person, for the period from the expiry of the previous year for that assessment year up to the date of its dissolution, shall be chargeable to tax in that assessment year.

E.g. if AOP which is formed in the previous year 2023-24 is going to be dissolved on 16.6.2024 then the income of the period 1.4.2024 to 16.6.2024 shall be charged to income-tax in the assessment year 2024-25 itself although its assessment year should have been assessment year 2025-26.

4. **Assessment of persons likely to transfer property to avoid tax [Section 175]:** If it appears to the Assessing Officer during any current assessment year, that any person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets with a view to avoiding any payment of his tax liability, then the total income of such person for the period from the expiry of the previous year for that assessment year (i.e., from 1st April of that assessment year) till the date when the assessing officer commences proceedings, shall be chargeable to tax in the same assessment year. However, in this case also the rate of tax applicable shall be the rate given in Part III of Schedule I which are applicable for advance tax also.

5. **Discontinued business [Section 176]:** Where any business or profession is discontinued in any assessment year, the income of the period from expiry of the previous year for that assessment year up to the date of such discontinuance may, at the discretion of the assessing officer, be charged to tax in that assessment year. For example, if a business is discontinued on 16.7.2023 then the income for the period 1.4.2023 to 16.7.2023 may be assessed in the assessment year 2023-24 itself. The tax will be charged at the rates in force for advance tax payable during financial year 2023-24. [i.e. rates given in Part III of the First Schedule].

Any person discontinuing any business or profession shall give to Assessing Officer notice of such discontinuance within 15 days thereof.

It may be noted that in the first four exceptions given above, the Assessing Officer *shall* charge the tax on such persons in the same previous year, i.e., it is mandatory for the Assessing Officer to charge the tax in the same previous year. On the other hand, in the fifth exception given above the Assessing Officer has the discretionary power and as such he *may* charge in the same previous year or may wait till the assessment year.

1.3-d Maximum amount which is not chargeable to income-tax

In case of certain assesseees, there is no income-tax on income earned during the previous year upto a certain limit, known as maximum amount which is not chargeable to income-tax. The limit for assessment year 2024-25 for different assesseees is as under:

(1) Individual			
An individual who has opted to be taxed under the old regime.		An individual, irrespective of any age, who does not exercise any option and hence by default he is under the new regime, i.e., section 115BAC(1A).	
(a) In case of every individual (male or female), being resident in India, who is of the age of 80 years or more at any time during the previous year	₹5,00,000		₹3,00,000
(b) In case of individual (male or female) being resident in India who is of the age of 60 years and above but less than 80 years at any time during the previous year	₹3,00,000		₹3,00,000
(c) Any other individual, i.e., resident in India who is less than 60 years of age or an individual who is a non-resident irrespective of whether his age is less than or more than 60 years	₹2,50,000		₹3,00,000

(2) Hindu Undivided Family (HUF)			
Hindu Undivided Family who has opted to be taxed under the old regime.	₹2,50,000	Hindu Undivided Family who does not exercise any option and hence by default he is under the new regime, i.e., section 115BAC(1A).	₹3,00,000
(3) AOP/BOI			
AOP/BOI other than co-operative society (Where no member has income exceeding maximum exemption limit) who has opted to be taxed under the old regime	₹2,50,000	AOP/BOI other than co-operative society (Where no member has income exceeding maximum exemption limit) who does not exercise any option and hence by default it is under the new regime, i.e., section 115BAC(1A).	₹3,00,000
(4) Artificial Juridical Person			
Artificial juridical person who has opted to be taxed under the old regime	₹2,50,000	Artificial juridical person who does not exercise any option and hence by default it is under the new regime, i.e., section 115BAC(1A).	₹3,00,000

(1) The exemption limit under the old regime in case of an individual (whether male or female) who is of the age of 60 years and above but who is non-resident in India is ₹2,50,000 instead of ₹3,00,000 or ₹5,00,000 as the case may be. It is ₹3,00,000 under the new regime.

(2) For a Firm, Company, Local Authority or a Co-operative Society, the exemption limit is Nil.

1.3-e Rates of income-tax for assessment year 2024-25:

(1) In case of an individual who he has opted to be taxed under old regime

(A) For an individual (man or woman), resident in India who is of the age of 80 years or more at any time during the previous year:

Upto ₹5,00,000	Nil
₹5,00,010 to ₹10,00,000	20%
Above ₹10,00,000	30%

(B) For an individual (man or woman), resident in India who is of the age of 60 years or more but less than 80 years at any time during the previous year.

Upto ₹3,00,000	Nil
₹3,00,010 to ₹5,00,000	5%
₹5,00,010 to ₹10,00,000	20%
Above ₹10,00,000	30%

(C) For an individual, [other than mentioned in (A) & (B) above] HUF, AOP/BOI (other than a co-operative society) and artificial juridical person.

Upto ₹2,50,000	Nil
₹2,50,010 to ₹5,00,000	5%
₹5,00,010 to ₹10,00,000	20%
Above ₹10,00,000	30%

Where the individual or HUF or AOP/BOI (other than a co-operative society) or artificial juridical person has not exercised any option and hence by default he/it is under the new regime, i.e., section 115BAC(1A), the rates of income-tax which is also known as default rates, shall be as under provided the conditions mentioned in section 115BAC(2) are satisfied:

Total income	Rate of tax
Upto ₹3,00,000	Nil
From ₹3,00,001 to ₹6,00,000	5%

From ₹6,00,001 to ₹9,00,000	10%
From ₹9,00,001 to ₹12,00,000	15%
From ₹12,00,001 to ₹15,00,000	20%
Above ₹15,00,000	30%

Notes:

1. If the individual does not exercise any option and hence by default, he is under the new regime, i.e., section 115BAC(1A), the exemption limit in case of all individuals (whether of the age of less than 60 years, or 60 years or more or 80 years or more) shall be ₹3,00,000.
2. As per section 115BAC(2), an individual or HUF or AOP/BOI or artificial juridical person who are taxable under section 115BAC(1A),
 - certain allowances and deductions are not allowed to a salaried employee
 - deduction of interest is not allowed under the head "income from house property"
 - certain deductions are not allowed while computing the business income
 - deductions under section 80C to 80U (i.e., Chapter VI-A) are not allowed

For details see Chapter 13.

Surcharge

Surcharge is levied on the amount of income-tax at following rates if total income of an assessee exceeds specified limit:

Rate of Surcharge for assessment year 2024-25

Total income does not exceed ₹50,00,000	Total income exceeds ₹50,00,000 but does not exceed ₹1 crore	Total income exceeds ₹1 crores but does not exceed ₹2 crore	Total income exceeds ₹2 crores but does not exceed ₹5 crore	Total income exceeds ₹5 crores
Nil	10% of income-tax	15% of income-tax	25% of income-tax (see Notes below)	37% of income-tax (see Notes below)

Notes:

1. The enhanced surcharge of 25% or 37%, as the case may be, is not levied, on dividend income or income chargeable to tax under sections 111A, 112, 112A and 115AD(1)(b). Hence, the maximum rate of surcharge on tax payable on such incomes shall be 15%.
2. The surcharge rate for AOP with all members as a company, shall be capped at 15%.
3. Where the individual or HUF or AOP/BOI (other than a co-operative society) or artificial juridical person has not exercised any option and hence by default he/it is under the new regime, i.e., section 115BAC(1A), the rate of surcharge shall be 25% instead of 37% even if his/its total income exceed ₹5 crore.

Marginal relief: Marginal relief has also been provided in all cases where surcharge is to be levied.

In the case of persons mentioned above, where such income exceeds,—

- (a) ₹50,00,000 but does not exceed ₹1 crore, the total amount payable on such income and surcharge thereon shall not exceed the total amount payable on a total income of ₹50,00,000 by more than the amount of income that exceeds ₹50,00,000;
- (b) ₹1 crore but does not exceed ₹2 crore, the total amount payable on such income and surcharge thereon shall not exceed the total amount payable on a total income of ₹1 crore by more than the amount of income that exceeds ₹1 crore;
- (c) ₹2 crore but does not exceed ₹5 crore, the total amount payable on such income and surcharge thereon shall not exceed the total amount payable on a total income of ₹2 crore by more than the amount of income that exceeds ₹2 crore;
- (d) ₹5 crore, the total amount payable on such income and surcharge thereon shall not exceed the total amount payable on a total income of ₹5 crore by more than the amount of income that exceeds ₹5 crore. [Not applicable, in case the assessee has not exercised any option and hence by default he/it is under the new regime, i.e., section 115BAC(1A)]

Health and education cess: For assessment year 2024-25: 'Health and Education Cess (H&EC) on Income Tax' @ 4% on income-tax (inclusive of surcharge, wherever applicable) shall be levied.

Illustration 3.**Marginal relief**

The total income of R for the assessment year 2024-25 is ₹50,90,000. Compute the tax payable by R for the assessment year 2024-25. Assume:

- (i) opts to be taxed under the old regime,
(ii) does not exercise any option and hence is taxable by default, under section 115BAC(1A) (i.e., new regime).

Solution

Tax under old regime		Tax under new regime i.e., default rates as per new regime	
Particulars	₹	Particulars	₹
<i>Tax on ₹50,90,000</i>		<i>Tax on ₹50,90,000</i>	
On first ₹2,50,000	Nil	On first ₹3,00,000	Nil
Next ₹2,50,000 — 5%	12,500	Next ₹3,00,000 — 5%	15,000
Next ₹5,00,000 — 20%	1,00,000	Next ₹3,00,000 — 10%	30,000
Balance ₹40,90,000 — 30%	12,27,000	Next ₹3,00,000 — 15%	45,000
	—	Next ₹3,00,000 — 20%	60,000
	—	Balance ₹35,90,000 — 30%	10,77,000
	13,39,500		12,27,000
<i>Add: Surcharge 10%</i>	1,33,950	<i>Add: Surcharge 10%</i>	1,22,700
	14,73,450		13,49,700
Marginal relief		Marginal relief	
Income-tax on ₹50,00,000	13,12,500	Income-tax on ₹50,00,000	12,00,000
Tax and surcharge as per marginal relief, 100% of income exceeding ₹50,00,000 (50,90,000 – 50,00,000) =	90,000	Tax and surcharge as per marginal relief, 100% of income exceeding ₹50,00,000 (50,90,000 – 50,00,000) =	90,000
Total tax including surcharge payable under marginal relief,	14,02,500	Total tax including surcharge payable under marginal relief,	12,90,000
Tax payable as per normal provisions or as per provisions of marginal relief whichever is less (i.e., ₹14,73,450 or ₹14,02,500 whichever is less)	14,02,500	Tax payable as per normal provisions or as per provisions of marginal relief whichever is less (i.e., ₹13,49,700 or ₹12,90,000 whichever is less)	12,90,000
<i>Add: H&EC @ 4%</i>	56,100	<i>Add: H&EC @ 4%</i>	51,600
Total tax payable	14,58,600	Total tax payable	13,41,600

Note.—The total income and the tax payable is rounded off to the nearest multiple of ten rupees. For details see paras 1.3-j and 1.3-l, later in this Chapter.

Illustration 4.**Marginal relief**

The total income of R for the assessment year 2024-25 is ₹1,01,00,000. Compute the tax payable by R for the assessment year 2024-25. Assume he:

- (i) opts to be taxed under the old regime,
(ii) does not exercise any option and hence by default, he is under the new regime, i.e., section 115BAC(1A).

Solution

Tax under old regime		Tax under new regime i.e., default rates as per new regime	
Particulars	₹	Particulars	₹
<i>Tax on ₹1,01,00,000</i>		<i>Tax on ₹1,01,00,000</i>	
On first ₹2,50,000	Nil	On first ₹3,00,000	Nil
Next ₹2,50,000 — 5%	12,500	Next ₹3,00,000 — 5%	15,000

Next ₹5,00,000 — 20%	1,00,000	Next ₹3,00,000 — 10%	30,000
Balance ₹91,00,000 — 30%	27,30,000	Next ₹3,00,000 — 15%	45,000
	—	Next ₹3,00,000 — 20%	60,000
	—	Balance ₹86,00,000 — 30%	25,80,000
	28,42,500		27,30,000
Add: Surcharge 15%	4,26,375	Add: Surcharge 15%	4,09,500
	32,68,875		31,39,500
Marginal relief		Marginal relief	
Income-tax on ₹1,00,00,000	28,12,500	Income-tax on ₹1,00,00,000	27,00,000
Add: Surcharge @ 10% assuming income is ₹1,00,00,000	2,81,250	Add: Surcharge @ 10% assuming income is ₹1,00,00,000	2,70,000
Tax and surcharge as per marginal relief, 100% of income exceeding ₹1,00,00,000 (1,01,00,000 – 1,00,00,000) =	1,00,000	Tax and surcharge as per marginal relief, 100% of income exceeding ₹1,00,00,000 (1,01,00,000 – 1,00,00,000) =	1,00,000
Total tax including surcharge payable under marginal relief,	31,93,750	Total tax including surcharge payable under marginal relief,	30,70,000
Tax payable as per normal provisions or as per provisions of marginal relief whichever is less (i.e., 32,68,875 or ₹31,93,750 whichever is less)	31,93,750	Tax payable as per normal provisions or as per provisions of marginal relief whichever is less (i.e., 31,39,500 or ₹30,70,000 whichever is less)	30,70,000
Add: H&EC @ 4%	1,27,750	Add: H&EC @ 4%	1,22,800
Total tax payable	33,21,500	Total tax payable	31,92,800

Note.—The total income and the tax payable is rounded off to the nearest multiple of ten rupees. For details see paras 1.3-j and 1.3-l, later in this Chapter.

Illustration 5. What shall be your answer if the total income is ₹1,02,00,000 instead of ₹1,01,00,000.

Solution

Tax under old regime		Tax under new regime i.e., default rates as per new regime	
Particulars	₹	Particulars	₹
Tax on ₹1,02,00,000		Tax on ₹1,02,00,000	
On first ₹2,50,000	Nil	On first ₹3,00,000	Nil
Next ₹2,50,000 — 5%	12,500	Next ₹3,00,000 — 5%	15,000
Next ₹5,00,000 — 20%	1,00,000	Next ₹3,00,000 — 10%	30,000
	—	Next ₹3,00,000 — 15%	45,000
	—	Next ₹3,00,000 — 20%	60,000
Balance ₹92,00,000 — 30%	27,60,000	Balance ₹87,00,000 — 30%	26,10,000
	28,72,500		27,60,000
Add: Surcharge 15%	4,30,875	Add: Surcharge 15%	4,14,000
	33,03,375		31,74,000
Marginal relief		Marginal relief	
Income-tax on ₹1,00,00,000	28,12,500	Income-tax on ₹1,00,00,000	27,00,000
Add: Surcharge @ 10% assuming income is ₹1,00,00,000	2,81,250	Add: Surcharge @ 10% assuming income is ₹1,00,00,000	2,70,000
Tax and surcharge as per marginal relief, 100% of income exceeding ₹1,00,00,000 (₹1,02,00,000 – 1,00,00,000) =	2,00,000	Tax and surcharge as per marginal relief, 100% of income exceeding ₹1,00,00,000 (₹1,02,00,000 – 1,00,00,000) =	2,00,000
Total tax including surcharge payable under marginal relief,	32,93,750	Total tax including surcharge payable under marginal relief,	31,70,000

Tax payable as per normal provisions or as per provisions of marginal relief whichever is less (i.e., 33,03,375 or ₹32,93,750 whichever is less)	32,93,750	Tax payable as per normal provisions or as per provisions of marginal relief whichever is less (i.e., 31,74,000 or ₹31,70,000 whichever is less)	31,70,000
Add: H&EC @ 4%	1,31,750	Add: H&EC @ 4%	1,26,800
Total tax payable	34,25,500	Total tax payable	32,96,800

Note.—The total income and the tax payable is rounded off to the nearest multiple of ten rupees. For details see paras 1.3-j and 1.3-l, later in this Chapter.

Illustration 6. What will be your answer if the total income is ₹1,02,50,000?

Solution

Tax under old regime		Tax under new regime i.e., default rates as per new regime	
Particulars	₹	Particulars	₹
Tax on ₹1,02,50,000		Tax on ₹1,02,50,000	
On first ₹2,50,000	Nil	On first ₹3,00,000	Nil
Next ₹2,50,000 — 5%	12,500	Next ₹3,00,000 — 5%	15,000
Next ₹5,00,000 — 20%	1,00,000	Next ₹3,00,000 — 10%	30,000
	—	Next ₹3,00,000 — 15%	45,000
	—	Next ₹3,00,000 — 20%	60,000
Balance ₹92,50,000 — 30%	27,75,000	Balance ₹87,50,000 — 30%	26,25,000
	28,87,500		27,75,000
Add: Surcharge 15%	4,33,125	Add: Surcharge 15%	4,16,250
	33,20,625		31,91,250
Marginal relief		Marginal relief	
Income-tax on ₹1,00,00,000	28,12,500	Income-tax on ₹1,00,00,000	27,00,000
Add: Surcharge @ 10% assuming income is ₹1,00,00,000	2,81,250	Add: Surcharge @ 10% assuming income is ₹1,00,00,000	2,70,000
Tax and surcharge as per marginal relief, 100% of income exceeding ₹1,00,00,000 (₹1,02,50,000 – 1,00,00,000)	2,50,000	Tax and surcharge as per marginal relief, 100% of income exceeding ₹1,00,00,000 (₹1,02,50,000 – 1,00,00,000)	2,50,000
Total tax including surcharge payable under marginal relief,	33,43,750	Total tax including surcharge payable under marginal relief,	32,20,000
Tax payable as per normal provisions or as per provisions of marginal relief whichever is less (i.e., 33,20,625 or ₹33,43,750 whichever is less)	33,20,625	Tax payable as per normal provisions or as per provisions of marginal relief whichever is less (i.e., 31,91,250 or ₹32,20,000 whichever is less)	31,91,250
Add: H&EC @ 4%	1,32,825	Add: H&EC @ 4%	1,27,650
Total tax payable	34,53,450	Total tax payable	33,18,900

Note.—The total income and the tax payable is rounded off to the nearest multiple of ten rupees. For details see paras 1.3-j and 1.3-l, later in this Chapter.

Illustration 7.

Marginal relief

The total income of R for the assessment year 2024-25 is ₹2,03,00,000. Compute the tax payable by R for the assessment year 2024-25. Assume he:

(a) opts to be taxed under the old regime,

(b) does not exercise any option and hence by default, he is under the new regime, i.e., section 115BAC(1A).

Solution

Tax under old regime		Tax under new regime i.e., default rates as per new regime	
Particulars	₹	Particulars	₹
Tax on ₹2,03,00,000		Tax on ₹2,03,00,000	
On first ₹2,50,000	Nil	On first ₹3,00,000	Nil