May 2026 onwards as per Finance Act 2025

# CA FINAL
# DIRECT TAX


- Simple & Lucid Language
- Smart Use of Charts & Tables for Quick Grasp
- Complex Concepts Made Simple (Exam Focused Approach)

## Concept Book

CA Jasmeet Singh

# CONTENT

# CHAPTER 1: BASIC CONCEPTS

## Introduction

- In a Welfare State, the Government takes primary responsibility for the welfare of its citizens, as in matters of health care, education, employment, infrastructure, social security and other development needs. To facilitate these, Government needs revenue.
- The taxation is the primary source of revenue to the Government for incurring such public welfare expenditure.
- However, no one enjoys handing over his hard-earned money to the government to pay taxes. Thus, taxes are compulsory or enforced contribution to the Government revenue by public.
- Government may levy taxes on income, business profits or wealth or add it to the cost of some goods, services, and transactions.

## Direct Tax and Indirect Tax

There are two types of taxes: Direct Tax and Indirect Tax

- Tax, of which incidence and impact fall on the same person, is known as Direct Tax, such as Income Tax.
- On the other hand, tax, of which incidence and impact fall on two different persons, is known as Indirect Tax, such as GST.

| Direct Tax | Indirect Tax |
|---|---|
| • Incidence and impact fall on the same person | • Incidence and impact fall on two different persons |
| • Assessee, himself bears such taxes. Thus, it pinches the taxpayer. | • Tax is recovered from the assessee, who passes such burden to another person. |
| • Levied on income | • Levied on goods and services. |
| • E.g. Income Tax | • E.g. GST, Customs Duty, etc. |
| • Progressive in nature i.e., higher tax are levied on person earning higher income and vice versa. | • Regressive in nature i.e., all persons will bear equal wrath of tax on goods or service consumed by them irrespective of their ability. |

## Constitutional validity of taxes

The Constitution of India is the supreme law of India. It consists of a Preamble, 22 parts containing 444 articles and 12 schedules. Any tax law, which is not in conformity with the Constitution, is called ultra vires the Constitution and held as illegal and void. Some of the provisions of the Constitution are given below:

**Article 265** of the Constitution lays down that no tax shall be levied or collected except by the authority of law. It means tax proposed to be levied must be within the legislative competence of the legislature imposing the tax .

**Article 246** read with Schedule VII divides subject matter of law made by legislature into three categories:

- Union list (only Central Government has power of legislation on subject matters covered in the list)
- State list (only State Government has power of legislation on subject matters covered in the list)
- Concurrent list (both Central &State Government can pass legislation on subject matters).

**Entry 82 of Union List** – Taxes on income other than agricultural income i.e. Income-tax.
**Entry 46 of State List** – Gives power to state Govt to make laws on tax on Agriculture Income.

## Administration of tax laws


- Both of the Boards have been constituted under the Central Board of Revenue Act, 1963.
- CBDT deals with levy and collection of all direct tax
- CBIC Deals with levy and collection of Central indirect tax .

## SOURCES OF INCOME TAX LAW IN INDIA

1. **Income tax Act, 1961 (Amended up to date)**

   The provisions of income tax extends to the whole of India and became effective from 1/4/1962 (Sec. 1). It contains sections 1 to 298 and schedules I to XIV. The Act contains provisions for determination of taxable income; determination of tax liability; procedure for assessment, appeals, penalties and prosecutions; and powers and duties of Income tax authorities.

b. every person in respect of whom any proceeding under this Act has been taken (whether or not he is liable for any tax, interest or penalty) for the assessment of his income or loss or the Amount of refund due to him;
c. a person who is assessable in respect of income or loss of another person;
d. a person who is deemed to be an 'assessee in default' under any provision of this Act. *E.g. A person, who was liable to deduct tax but has failed to do so, shall be treated as an 'assessee in default'.*

## HEADS OF INCOME [SECTION 14]

According to Sec.14 of the Act, all income of a person shall be classified under the following five heads:

1. Salaries;
2. Income from house property;
3. Profits and gains of business or profession;
4. Capital gains;
5. Income from other sources.

For computation of income, all taxable income should fall under any of the five heads of income as mentioned above. If any type of income does not become part of any one of the above mentioned first four heads, it should be part of the 5th head, i.e. Income from other sources, which may be termed as the residual head.

## Computation of Income

Step 1: Determine Residential Status
Step 2: Compute Income Under Each Head Of Income
Step 3: Apply Clubbing of Income Provisions
Step 4: Set-off/carry forward and set-off of losses as per the provisions of the Act
Step 5: After Applying Step 2, 3 & 4 You will arrive at Gross total Income
Step 6: Claim Deductions Under Section 80C to 80U (if any from GTI)
Step 7: Total Income (Taxable Income) is arrived after claiming deductions from GTI

## Rounding off

Total Income and Tax payable shall be rounded off to the nearest multiple of 10.

**Example:**

*a) If total income is ₹12,002 then it will become ₹12,000.*
*b) If total income is ₹12,007 then it will become ₹12,010.*

## Computation Of Tax Liability (Old Regime / Alternate Scheme / Normal Provisions)

**In case of Individual / Hindu Undivided Family / AOP / BOI / Artificial Judicial Person**

**A. Any other Individual & HUF or AOP/BOI or Artificial Judicial Person**

| Income | Tax Rate |
|---|---|
| On First ₹ 2,50,000 | Nil |
| Next ₹ 2,50,000 | 5% |
| Next ₹ 5,00,000 | 20% |
| Balance Income | 30% |

**B. Resident individual of the age of 60 years or more at any time up to the end of relevant previous year but less than eighty years (senior citizen)**

| Income | Tax Rate |
|---|---|
| On First ₹ 3,00,000 | Nil |
| Next ₹ 2,00,000 | 5% |
| Next ₹ 5,00,000 | 20% |
| Balance Income | 30% |

**C. Resident individual of the age of 80 years or more at any time up to the end of relevant previous year (Very senior citizen)**

| Income | Tax Rate |
|---|---|
| On First ₹ 5,00,000 | Nil |
| Next ₹ 5,00,000 | 20% |
| Balance Income | 30% |

**Note:** Any resident individual whose $60^{th}$/$80^{th}$ birthday falls on $1^{st}$ April 2025 shall be treated as having completed the age of 60/80 years on $31^{st}$ March 2025. Therefore, such individual shall be entitled for higher basic exemption limit of ₹ 3,00,000 & ₹ 5,00,000.

## DEFAULT TAX REGIME

**Tax On Income of Individuals / Hindu Undivided family / AOPs / BOIs / Artificial Judicial Person [Section 115BAC]**

| Income | Tax Rate |
|---|---|
| On First ₹ 4,00,000 | Nil |
| More than ₹ 4,00,000 but up to ₹ 8,00,000 | 5% |
| More than ₹ 8,00,000 but up to ₹ 12,00,000 | 10% |
| More than ₹ 12,00,000 but up to ₹ 16,00,000 | 15% |
| More than ₹ 16,00,000 but up to ₹ 20,00,000 | 20% |
| More than ₹ 20,00,000 but up to ₹ 24,00,000 | 25% |
| Exceeding ₹ 24,00,000 | 30% |

## Health and Education Cess

If any tax is charged for any specific purpose, it is called Cess. Health and Education Cess shall be charged @ 4% on the Amount of income tax.

## Surcharge

Surcharge is an additional tax payable over and above the income tax. Surcharge is levied as a percentage of income-tax, where total income exceeds ₹ 50 lakhs.

**A.** In case the Individual/HUF/AOP /BOI and Artificial Judicial Person pays tax under default tax regime under section 115BAC

| Income | Rate |
|---|---|
| Total income does not exceed ₹ 50 lacs | Nil |
| Total income exceeds ₹ 50 lacs but does not exceed ₹ 1 crore | 10% of tax |
| Total income exceeds ₹ 1 crore but does not exceed ₹ 2 crores | 15% of tax |
| Total income exceeds ₹2 crores including Income u/s 112, 112A, 111A or dividend income then: | |
| • Income u/s 112, 112A, 111A or dividend income | 15% of tax |
| • Other Income is up to ₹ 2 crores | 15% of tax |
| • Other Income is more than ₹ 2 crores | 25% of tax |

**Analysis**

| S. No | Total Income (₹) | Income u/s 112,112A,111A & dividend Income (₹) | Other Income (₹) | Surcharge On Tax on Special Income u/h CG & Dividend Income (%) | Surcharge On Tax On Other Income (%) |
|---|---|---|---|---|---|
| 1 | 48 Lakhs | 10 Lakhs | 38 Lakhs | NA | NA |
| 2 | 60 Lakhs | 15 Lakhs | 45 Lakhs | 10% | 10% |
| 3 | 1.20 Cr. | 20 Lakhs | 1 Cr. | 15% | 15% |
| 4 | 2.50 Cr. | 60 Lakhs | 1.90 Cr. | 15% | 15% |
| 5 | 2.90 Cr. | 70 Lakhs | 2.20 Cr. | 15% | 25% |
| 6 | 3.90 Cr. | 1.20 Cr. | 2.70 Cr. | 15% | 25% |
| 7 | 5.80 Cr. | 60 Lakhs | 5.20 Cr. | 15% | 25% |

**B.** In case the Individual/HUF/AOP /BOI and Artificial Judicial Person pays tax under optional regime (Old regime)

| Income | Rate |
|---|---|
| Total income does not exceed ₹ 50 lacs | Nil |
| Total income exceeds ₹ 50 lacs but does not exceed ₹ 1 crore | 10% of tax |
| Total income exceeds ₹ 1 crore but does not exceed ₹ 2 crores | 15% of tax |
| Total income exceeds ₹ 2 crores including Income u/s 112, 112A, 111A or dividend income then: | |
| • Income u/s 112, 112A, 111A or dividend income | 15% of tax |

May 2026 onwards as per Finance Act 2025

# CA FINAL
# DIRECT TAX


- Simple & Lucid Language
- Smart Use of Charts & Tables for Quick Grasp
- Complex Concepts Made Simple (Exam Focused Approach)

## Question Bank

CA Jasmeet Singh

# CONTENT

# CHAPTER 1: BASIC CONCEPTS & EXEMPT INCOME

**Question 01 [Study Material]**

**XYZ Ltd. took over the running business of a sole-proprietor by a sale deed. As per the sale deed, XYZ Ltd. undertook to pay overriding charges of ₹ 15,000 p.a. to the wife of the sole-proprietor in addition to the sale consideration. The sale deed also specifically mentioned that the amount was charged on the net profits of XYZ Ltd., who had accepted that obligation as a condition of purchase of the going concern. Is the payment of overriding charges by XYZ Ltd. to the wife of the sole - proprietor in the nature of diversion of income or application of income ₹ Discuss.**

**Solution**

This issue came up for consideration before the Allahabad High Court in Jit & Pal X-Rays (P.) Ltd. v CIT (2004) (All). The Allahabad High Court observed that the overriding charge which had been created in favour of the wife of the sole-proprietor was an integral part of the sale deed by which the going concern was transferred to the assessee. The obligation, therefore, was attached to the very source of income i.e., the going concern transferred to the assessee by the sale deed. The sale deed also specifically mentioned that the amount in question was charged on the net profits of the assessee-company and the assessee-company had accepted that obligation as a condition of purchase of the going concern. Hence, it is clearly a case of diversion of income by an overriding charge and not a mere application of income.

**Question 02 [Study Material]**

**MKG Agency is a partnership firm consisting of Mr. Mohan and his three major sons. The partnership deed provided that after the death of Mr. Mohan, the business shall be continued by the sons, subject to the condition that the firm shall pay 20% of the profits to their mother, Lakshmi. Mr. Mohan died in March, 2025. In the previous year 2025-26, the reconstituted firm paid ₹ 1 lakh (equivalent to 20% of the profits) to Lakshmi and claimed the amount as deduction from its income. Examine the correctness of the claim of the firm.**

**Solution**

The issue raised in the problem is based on the concept of diversion of income by overriding title, which is well recognised in the income-tax law. In the instant case, the amount of ₹ 1 lakh, being 20% of profits of the firm, paid to Lakshmi gets diverted at source by the charge created in her favour as per the terms of the partnership deed. Such income does not reach the assessee-firm. Rather, such income stands diverted to the other person as such other person has a better title on such income than the title of the assessee. The firm might have received the said amount but it so received for and on behalf of Lakshmi, who possesses the overriding title. Therefore, the amount paid to Lakshmi should be excluded from the income of the firm. This view has been confirmed in CIT v Nariman B. Bharucha & Sons (1981) (Bom).

Compute his tax liability assuming that MR. X has exercised the option to shift out of the default tax regime and his age is :

(a) 40 years

(b) 75 years

## Solution

### Computation of total income of Mr. X

| Particulars | ₹ | ₹ |
|---|---|---|
| Income from salary | | 4,00,000 |
| Income from house property | | 3,80,000 |
| Net agricultural income [₹ 4,50,000 (–) ₹ 1,60,000] | 2,90,000 | |
| Less : Exempt under section 10(1) | (2,90,000) | |
| Gross Total Income | | 7,80,000 |
| Less : Deductions under Chapter VI-A | | |
| Total Income | | 7,80,000 |

(a) Computation of tax liability (age 40 years)

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

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

His tax liability is computed in the following manner :

| | | |
|---|---|---|
| Step 1 : | ₹ 7,80,000 + ₹ 2,90,000 | = ₹ 10,70,000 |
| | Tax on ₹ 10,70,000 | = ₹ 1,33,500 |
| | (i.e., 5% of ₹ 2,50,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 70,000) | |
| Step 2 : | ₹ 2,90,000 + ₹ 2,50,000 | = ₹ 5,40,000 |
| | Tax on ₹ 5,40,000 | = ₹ 20,500 |
| | (i.e. 5% of ₹ 2,50,000 plus 20% of ₹ 40,000) | |
| Step 3 : | ₹ 1,33,500 – ₹ 20,500 | = ₹ 1,13,000 |
| Step 4 & 5 : | Total tax payable | = ₹ 1,13,000 + 4% cess |
| | | = ₹ 1,17,520 |

(b) Computation of tax liability (age 75 years)

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

1. Net agricultural income exceeds ₹ 5,000 p.a. and
2. Non-agricultural income exceeds the basic exemption limit of ₹ 3,00,000

His tax liability is computed in the following manner :

| | | |
|---|---|---|
| Step 1 : | ₹ 7,80,000 + ₹ 2,90,000 | = ₹ 10,70,000 |
| | Tax on ₹ 10,70,000 | = ₹ 1,31,000 |
| | (i.e., 5% of ₹ 2,00,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 70,000) | |
| Step 2 : | ₹ 2,90,000 + ₹ 3,00,000 | = ₹ 5,90,000 |
| | Tax on ₹ 5,90,000 | = ₹ 28,000 |
| | (i.e. 5% of ₹ 2,00,000 plus 20% of ₹ 90,000) | |

| | | |
|---|---|---|
| Step 3 : | ₹ 1,31,000 – ₹ 28,000 | = ₹ 1,03,000 |
| Step 4 & 5 : | Total tax payable cess | = ₹ 1,03,000 + 4% |
| | | = ₹ 1,07,120 |

**Question 06 [Study Material]**

**Zenith Ltd is incorporated on October 20, 2024 to commence manufacture of Bikes in Rajasthan. Manufacturing activity is started on December 10, 2024. For the year ending March 31, 2026, income of Zenith Ltd. is as follows :**

| Particulars | ₹ |
|---|---|
| Income from manufacturing of Bikes (computed as per provisions of 115BAB) | 60,45,000 |
| Bank FD interest | 3,00,000 |
| Short-term capital gain on transfer of land (Computed) | 18,00,000 |
| Short-term capital gain on transfer of a Depreciable Assets (Computed) | 2,00,000 |
| Rental Income from Commercial Property | 7,00,000 |

**Zenith ltd has donated ₹ 50,000 to a political party. Zenith Ltd. has opted for lower tax regime of section 115BAB. Necessary option uploaded at the time of submission of first income-tax return. Find out the tax liability of Zenith ltd.**

**Solution**

**Computation of Total Income** **PY 25-26 AY 26-27**

| Particular | ₹ | ₹ |
|---|---|---|
| Income from House Property | | |
| Rental Income from Commercial Property | 7,00,000 | |
| Deduction u/s 24 | N/A | 7,00,000 |
| Profit & Gain from Business or Profession | | |
| Income from Manufacturing Activities | | 60,45,000 |
| Capital Gain | | |
| STCG on Land | | 18,00,000 |
| STCG on Depreciable Assets | | 2,00,000 |
| Income from other sources | | |
| Interest on Bank FD | | 3,00,000 |
| Gross Total Income | | 90,45,000 |
| Deduction u/s 80GGB: Donation to Political Party | | N/A |
| Total Income(NTI) | | 90,45,000 |

**Computation of Tax Liability**

| Particular | | Income | Tax Rate | ₹ |
|---|---|---|---|---|
| (i) | Tax on House Property Income | 7,00,000 | 22% | 1,54,000 |
| (ii) | Tax on Interest on FD | 3,00,000 | 22% | 66,000 |
| (iii) | STCG on Land | 18,00,000 | 22% | 3,96,000 |
| (iv) | Tax on Balance Income | 62,45,000 | 15% | 9,36,750 |
| Total | | 90,45,000 | | 15,52,750 |
| Add: Surcharge @ 10% | | | | 1,55,275 |
| | | | | 17,08,025 |
| Add: HEC @ 4% | | | | 68,321 |
| Net Taxable Payable | | | | 17,76,346 |

**Question 07 [Study Material]**

**Anand was the Karta of HUF. He died leaving behind his major son Prem, his widow, his grandmother and brother's wife. Can the HUF retain its status as such or the surviving persons would become co-owners?**

**Solution**

In the case of Gowli Buddanna v. CIT (1966) 60 ITR 293, the Supreme Court has made it clear that there need not be more than one male member to form a HUF as a taxable entity under the Income-tax Act, 1961. The expression "Hindu Undivided Family" in the Act is used in the sense in which it is understood under the personal law of the Hindus.

Under the Hindu system of law, a joint family may consist of a single male member and the widows of the deceased male members and the Income-tax Act, 1961 does not mandate that it should consist of at least two male members. Therefore, the property of a joint Hindu family does not cease to belong to the family merely because the family is represented by a single co-parcener who possesses the right which an owner of property may possess. Therefore, the HUF would retain its status as such.

**Question 08 [Study Material]**

**Mr. C borrowed on Hundi, a sum of ₹ 25,000 by way of bearer cheque on 11-09-2025 and repaid the same with interest amounting to ₹ 30,000 by account payee cheque on 12-10-2025.**
**The Assessing Officer (AO) wants to treat the amount borrowed as income during the previous year. Is the action of the Assessing Officer valid?**

**Solution**

Section 69D provides that where any amount is borrowed on a hundi or any amount due thereon is repaid otherwise than by way of an account-payee cheque drawn on a bank, the amount so borrowed or repaid shall be deemed to be the income of the person borrowing or repaying the amount for the previous year in which the amount was so borrowed or repaid, as the case may be.

**Solution**

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

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

**Question 12 [Study Material]**

**Mr. Nitin aged 42 years and a resident in India, has a total income of ₹ 12,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2026-27 under default tax regime under section 115BAC.**

**Solution**

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

| Particulars | ₹ |
|---|---|
| Step 1: Total Income of ₹ 12,15,000 - ₹ 12,00,000 (A) | 15,000 |
| Step 2: Tax on total income of ₹ 12,15,000 | |
| Tax @15%of ₹ 15,000 + ₹ 60,000 (B) | 62,250 |
| Step 3: Since B > A, rebate u/s 87A would be B-A [₹ 62,250 - ₹ 15,000] | 47,250 |
| Tax Liability | Nil |

**Question 13 [Study Material]**

**Mr. Mahesh aged 32 years and a resident in India, has a total income of ₹ 6,50,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2026-27 under default tax regime under section 115BAC.**

**Solution**

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

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

**Question 14 [Study Material]**

**Mr. Arjun has a total income of ₹ 16,00,000 for P.Y.2025-26, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2026-27 assuming his age is –**

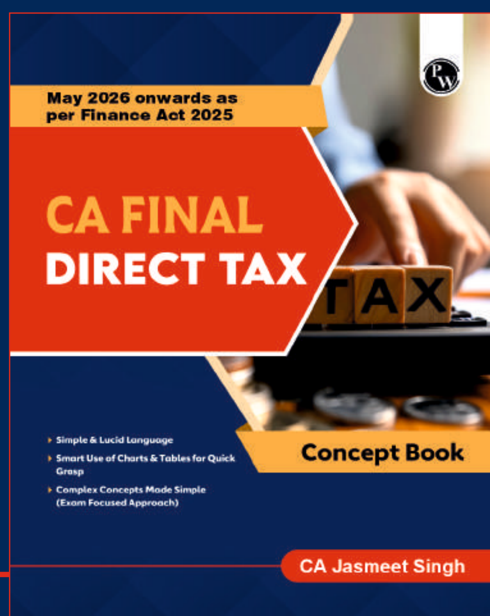
a) 52 Years
b) 64 Years
c) 83 Years

**Assume that Mr. Arjun has exercised the option to shift out/ opt out of the default tax regime**

## About The Author

**CA Jasmeet Singh Arora** is a renowned faculty for Taxation at PW with teaching experience of more than 10 years; he has mentored more than 100000 students through online & offline medium. Jasmeet Sir qualified his CA Exam in the First attempt & has 5 Exemptions in CA final Exam. Jasmeet Sir believes in blended learning & has a learner- centric approach. With real life examples he tries to transform to the pedagogical processes in his field of instruction. Jasmeet Sir is known for imparting quality education for subjects like Taxation.

## Other Books in this Series





PHYSICS WALLAH PUBLICATION

BKP2510017393

To Buy PW Books
SCAN ME!

To share Feedback
SCAN ME!

₹ 1399/-

ISBN 978-93-7153-059-0

9 789371 530590