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Hence assessee should opt Option-II.

Illustration 24: Mr. X Purchased one residential house on 01.04.2001 for ₹ 2,00,000 and it was sold by him on 01.07.2024 for ₹ 50,00,000 and he purchased a new house on 01.09.2024 for ₹ 55,00,000 and this house was sold by him on 01.07.2027 for ₹ 56,00,000. Compute his tax liability for A.Y. 2025-26 and also capital gains for all the years.

Solution:

Computation of Capital Gains

Full value of consideration	50,00,000.00
Less: Indexed cost of acquisition	
= 2,00,000 / 100 x 363	(7,26,000.00)
Long Term Capital Gain	42,74,000.00
Less: Exemption u/s 54	(42,74,000.00)
Long Term Capital Gain	Nil
Income under the head Capital Gain (LTCG)	Nil
Gross Total Income	Nil
Less: Deduction under Chapter VI-A	Nil
Total Income	Nil
Tax Liability	Nil

Previous year 2027-28

Full value of consideration		56,00,000.00
Less: Cost of acquisition	55,00,000	
Less: Exemption allowed	(42,74,000)	
Balance	12,26,000	(12,26,000.00)
Long Term Capital Gains		43,74,000.00

Illustration 25: Mr. X purchased a residential house on July, ***2022*** for ₹ 10,00,000 and made some additions to the house incurring ₹ 2,00,000 in August 2021. He sold the house property in April 2024 for ₹20,00,000. Out of the sale proceeds, he spent ₹ 5,00,000 to purchase another house property in September 2024.
What is the amount of capital gains taxable in the hands of Mr. X for the A.Y.2025-26?

Solution:

The house is sold before 24 months from the date of purchase. Hence, the house is a short term capital asset and no benefit of indexation would be available.

Particulars	**₹**
Sale consideration	20,00,000
Less: Cost of acquisition	(10,00,000)
Less: Cost of improvement	(2,00,000)
Short-term capital gains	**8,00,000**

Note: The exemption of capital gains under section 54 is available only in case of long-term capital asset. As the house is short-term capital asset, Mr. X cannot claim exemption under section 54. Thus, the amount of taxable short-term capital gains is ₹ 8,00,000.

Question 25 [V. Imp.]: Write a note on exemption under section 54B.

Answer: Capital gain on transfer of land used for agricultural purposes not to be charged in certain cases Section 54B

1. **Assessee:** The assessee should be **individual** or a **Hindu Undivided Family**. (i.e. exemption is not allowed to firm, company, association of person or body of individual etc.)
2. **Asset:** The asset transferred should be **land** which, in **the two years immediately** preceding the date on which the transfer took place, was being used by the **assessee or a parent** of his for **agricultural purposes**.
3. **Type of capital gain:** It may be **short term or long term.**
4. **Investment:** The assessee has, within a period of two years after that date, purchased any other land for

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Answer = Tax Liability: Nil

Problem 34: Mr. X submits his profit & loss account for year ending 31st March 2025.

	₹
Computed net profit after debiting the following amounts to	87,000
1. Provisions for doubtful debts	16,000
2. Depreciation reserve	21,000
3. Household expenses	20,000
4. Donations to poor persons and	10,000
5. Other charitable donations	20,000
6. Cash payment for purchases	80,000

7. Advertisement expenses ₹ 5,000 spent on a neon sign board purchased and put to use on 01.07.2024 and advertisement gifts to 50 customers at a cost of ₹ 100 each.
8. Audit fee charged ₹5,000, including expenses on income-tax proceedings ₹3,000.
9. Patents purchased for ₹70,000 (paid by account payee cheque) on ***01.10.2024*** and put to use on 07.10.2024.
10. Preliminary expenses covered under section 35D: Market survey expenses ₹5,000; feasibility report expenses ₹10,000. Project cost ₹10,00,000.

Incomes credited to profit and loss account were:

(i) Interest on company deposit ₹ 50,000.

(ii) Opening stock is valued at cost plus 15% basis, whereas closing stock was valued at cost minus 15% basis. Opening stock valued was ₹1,15,000; closing stock valued was ₹1,70,000.

Compute his Tax Liability for the Assessment Year 2025-26.

Answer = Tax Liability: Nil

Problem 35: The profit and loss account of Mr. X for the previous year ending 31st March, 2025 is as follows:

Particulars	Amount ₹	Particulars	Amount ₹
Cost of Goods Sold	105,45,000	Sales	109,70,000
Remuneration to Prop.	3,00,000	Dividend from Indian Company	30,000
Remuneration to Employees	1,70,000	Long term capital gain	1,90,000
Interest to proprietary	40,000		
Other Expenses	1,00,000		
Income Tax Paid	10,000		
Net Profit	25,000		
	111,90,000		**111,90,000**

Additional information is given below:

(1) Other expenses include the following:

(i) Entertainment expenses incurred for business purpose ₹20,000

(ii) V.I.P bags, Costing ₹1,500 each, given to ten dealers who exceeded the sales target under the sales promotion scheme.

(iii) Employer's contribution to recognized provident fund amounting to ₹10,000 was paid on 20.04.2024.

(iv) ₹30,000 paid in cash to a supplier who refused to accept payment by a cheque.

(2) Other income of Mr. X is under the head house property of ₹90,000.

Mr. X has not opted for presumptive taxation of Income u/s 44AD. You are required to compute Tax Liability for the Assessment Year 2025-26.

Answer = Tax Liability: Nil

Problem 36: ABC Ltd. has net profits of ₹7,00,000 after debiting municipal taxes of ₹12,000 relating to the previous year 2024-25, which were paid on 20.09.2025. Municipal taxes are related to a building which is owned by the company, the ground floor and first floor (which is 2/3rd of the complete building) was being used by company. The company has debited market rent of ₹ 20,000 p.m. to the profit & loss account for using

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3. 15/26 x 33,000 x 21 = ₹3,99,807.69
Received = ₹9,10,000.00
Exempt = (₹3,99,807.69)
Taxable = ₹5,10,192.31

Gross Salary	7,91,192.31
Less: Standard Deduction u/s 16 (ia)	(75,000.00)
Income under the head Salary	7,16,192.31
Gross Total Income	7,16,192.31
Less: Deduction under Chapter VI-A	Nil
Total Income	7,16,192.31
Rounded off u/s 288A	7,16,190.00
Computation of Tax Liability	
Tax on ₹7,16,190 at slab rate	21,619.00
Less: Marginal relief	***5,429.00***

Working Note:	
Tax on ₹7,16,190	***21,619***
Tax on ₹7,00,000	***Nil***
Increase in tax	***21,619***
Increase in income	***16,190***
Marginal Relief (21,619 – 16,190)	***5,429***

Tax after marginal relief	***16,190.00***
Add: HEC @ 4%	***647.60***
Tax Liability	***16,837.60***
Rounded off u/s 288B	***16,840.00***

(b) Presume Mr. X is not covered in Payment of Gratuity Act 1972.

Solution:	**₹**
Basic Pay [(18,000 x 3) + (24,000 x 6)+ (24,000 x 10/30)]	2,06,000.00
Dearness Allowance [(6,000 x 3) + (9,000 x 6) + (9,000 x 10/30)]	75,000.00
Gratuity {Sec 10(10)}	6,55,000.00

Working Note:
Least of the following is exempt:
1. ₹9,10,000
2. ₹20,00,000
3. 1/2 x (21,000 x 4 + 28,500 x 6)/10 x 20 = ₹2,55,000

Received = ₹9,10,000
Exempt = (₹2,55,000)
Taxable = ₹6,55,000

Gross Salary	9,36,000.00
Less: Standard Deduction u/s 16 (ia)	(75,000.00)
Income under the head Salary	8,61,000.00
Gross Total Income	8,61,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	8,61,000.00
Computation of Tax Liability	
Tax on ₹8,61,000 at slab rate	36,100.00
Add: HEC @ 4%	1,444.00
Tax Liability	37,544.00
Rounded off u/s 288B	37,540.00

Illustration 8: Mr. X is retired from ABC Ltd. w.e.f. 11.11.2024 after serving the employer for 20 years and 11 months. The employer has paid him gratuity of ₹5,75,000. At the time of retirement, employee's basic pay was ₹18,000 p.m. However upto 31.07.2024 it was ₹11,000 p.m. and the employee was getting dearness allowance ₹5,000 p.m. but it was ₹3000 p.m. upto 31.07.2024. 30% of dearness allowance forms part of salary.

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Illustration 9: Mr. X retired on 15.06.2024 after completion of 26 years 8 months of service and received gratuity of ₹6,00,000. At the time of retirement his salary was:

Basic Salary	: ₹ 5,000 p.m.
Dearness Allowance	: ₹ 3,000 p.m. (60% of which is for retirement benefits)
Commission	: 1% of turnover (turnover in the last 12 months was ₹ 12,00,000)
Bonus	: ₹ 12,000 p.a.

Compute his taxable gratuity assuming:
(a) He is non-government employee and covered by the Payment of Gratuity Act 1972.
(b) He is non-government employee and not covered by Payment of Gratuity Act 1972.
(c) He is a Government employee.

Solution:

(a) He is covered by the Payment of Gratuity Act 1972.

Least of the following shall be exempt:

i. Gratuity received: ₹ 6,00,000
ii. Statutory limit : ₹ 20,00,000
iii. 15 days salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months
15/26 x last drawn salary x years of service
15/26 x (₹5,000 + ₹3,000) × 27 = ₹ 1,24,615

Taxable Gratuity (6,00,000 – 1,24,615) ₹ 4,75,385

(b) He is not covered by the Payment of Gratuity Act 1972.

Least of the following is exempt:

i. Gratuity received: ₹ 6,00,000
ii. Statutory limit : ₹ 20,00,000
iii.

$$= \frac{1}{2}\ \frac{\left[(5{,}000\times 10)+(3{,}000\times 60\%\times 10)+\left(1\%\times 12{,}00{,}000\times\frac{10}{12}\right)\right]}{10}\ \text{x } 26$$

= ₹ 1,01,400

Taxable Gratuity (6,00,000 – 1,01,400) ₹ 4,98,600

(c) He is a government employee

Entire amount of gratuity is exempt

Question 6 [V. Imp.]: Write a note on taxability of pension.

Answer: Taxability of Pension

Uncommuted pension

Pension is a periodical payment received by an employee after his retirement and is taxable as salary in case of all categories of employees.

Family pension Section 56

If any employee is expired and pension is being received by his family members, such pension shall be called family pension and **as per section 56, it is taxable under the head other sources** and the assessee **shall be allowed deduction under section 57 equal to 1/3 of gross pension or *₹25,000*, whichever is less.**

Example

Mrs. X is getting family pension of ₹4,000 p.m. after the death of Mr. X. In this case, her taxable income shall be ***₹32,000***.

Commuted pension Section 10(10A)

1. Commuted Pension received by employees of Central Government, State Government, Local Authority or Statutory Corporation.

It is wholly exempt from tax under section 10(10A).

2. Commuted pension received by any other employee

(a) In case where any other employee receives gratuity, the commuted value of **1/3rd of the pension is exempt from tax.**

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Tax Liability 4,03,000

Question 7 [V. Imp.]: Write a note on taxability of Leave Salary/Encashment of Leave.

Answer: Taxability of Leave Salary/ Encashment of Leave

Sometimes an employee may surrender his leave and may get equivalent payment in cash, it is called leave salary.

Exemption in respect of encashment of leave salary Section 10(10AA)

(1) Any leave salary received by an employee while he is in service is fully taxable under section 17(1).

(2) If he gets encashment at the time of leaving the service (including resignation) he can avail the exemption under section 10(10AA).

The provisions of the exemption are as follows: -

(i) **In the case of Government employees:** Any amount received as leave salary at the time of retirement whether on superannuation or otherwise, is exempt from tax, in case of employees of State Government/Central Government. E.g. Mr. X is retired from Central Govt. and has received leave salary of ₹2,00,000, in this case it will be exempt from income tax.

(ii) **In case of other employees** including the employees of local authority and public sector undertakings:
Leave salary is exempt from tax to the extent of the least of the following:

(a) Leave salary received
(b) ₹ 25,00,000
(c) 10 months x average salary
(d) average salary x Leave at the credit

Leave at the credit = Leave entitlement
Less: (i) Leave availed during entire service
Less: (ii) Leave encashed during entire service

While computing leave entitlement, **maximum leave allowed shall be 30 days for each completed year of service (part of the year shall not be taken into consideration)**

'Salary' includes basic salary plus dearness allowance to the extent the terms of employment so provide plus fixed percentage of commission on the turnover achieved by the assessee.

Average salary is to be calculated on the basis of the average salary drawn by the employee during the period of 10 months immediately preceding his retirement.

If any employee has received leave salary from two or more employers, exemption for each of the employers shall be computed separately, however, total exemption allowed can not exceed ***₹25,00,000***.

Salary paid to legal heirs of the deceased employee in respect of privilege leave standing to the credit of such employee at the time of his/her death is not taxable.

Illustration 13: Mr. X is retired from ABC Ltd. on 10.11.2024 after serving the employer for 20 years and 10 months. The employer has paid him leave salary of ₹5,00,000. The employee was entitled for 2 month leave per year of service. During entire service, he has availed 6 month leave and has encashed 7 month leave. The employee was getting basic pay ₹27,000 p.m. but it was increased to ₹ 33,000 p.m. w.e.f. 01-07-2024. He was getting DA ₹ 9,000 per month but it was increased to 12,000 per month w.e.f. 01-07-2024. 50% of DA forms part of salary.

Compute his Tax Liability for the Assessment Year 2025-26.

Solution:

	₹
Basic Pay [(27,000 x 3)+(33,000 x 4)+(33,000 /30 x 10)]	2,24,000.00
DA [(9,000 x 3)+(12,000 x 4)+(12,000 /30 x 10)]	79,000.00
Leave Salary {Sec 10(10AA)}	2,56,750.00

Working Note:
Least of the following is exempt:
1. ₹5,00,000
2. 10 x 34,750 = ₹3,47,500
3. ₹25,00,000
4. 7 x 34,750 = ₹2,43,250

Received = ₹5,00,000