

CHAPTER

1

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, Guidelines 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 Therefore, the Income-tax Act has undergone innumerable changes from the time it was originally enacted.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 alongwith 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 (which ultimate becomes the Finance Act) also mentions the rates of income-tax and other taxes which are given in the various Schedules attached to such Finance Bill. The First Schedule read with section 2 of the Finance Act gives the rates of income-tax in three parts:

Part-I: It gives the normal rates of income-tax for various assessees for the current assessment year *e.g.* the Finance (No. 2) Act, 2024 had given the rates of income tax for the assessment year 2024-25 and the Finance Act, 2025 has given the rates of income-tax for the assessment year 2025-26.

Part-II: It gives the rates for deduction of tax at source from the income earned in the current financial year *e.g.* the Finance (No. 2) Act, 2024 had given the rates at which tax is to be deducted at source in the financial year 2024-25. Similarly, the Finance Act, 2025 has given the rates of TDS on the income earned during the financial year 2025-26.

Rates under Part II are given for tax to be deducted under sections 193, 194A, 194B, 194BA, 194BB, 194D, 194LBA, 194LBB, 194LBC and 195 of the Income Tax Act.

Rates of TDS for other sections are given in Chapter XVIIIB of the Income Tax Act itself. Further rates for collection at source (TCS) are given in section 206C of Chapter XVIIIB of 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' under section 192 or for deducting tax under section 194P relating to deduction of tax in case of specified citizen. 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 (No. 2) Act, 2024 had given the rates for the computation of advance tax for the financial year 2024-25 (*i.e.* assessment year 2025-26) and the Finance Act, 2025 has given the rates of advance tax for financial year 2025-26 (*i.e.* assessment year 2026-27).

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. 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 @ 12.5% both under section 112 and section 112A, short-term capital gain referred to in section 111A is taxable @ 20% and income from lotteries, crossword puzzles or income from transfer of virtual digital assets and winnings from online games etc. is taxable @ 30% for assessment year 2026-27. Special rates of tax are also given for an assessee, who is under the new regime or opted for the new regime. These sections are 115BA, 115BAA, 115BAB, 115BAC, 115BAD and 115BAE.

Note: The rates of income tax other than of TDS given in the first schedule are for those assessees 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 assessees 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 assessees 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 previous year is subject to income-tax in the assessment year but income-tax shall be:
 - (a) deducted or collected at source, or
 - (b) paid in advance

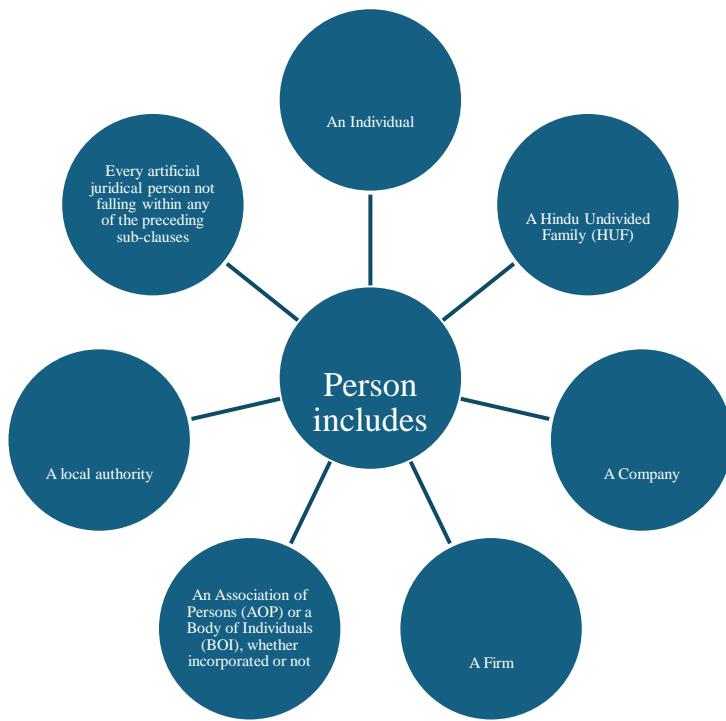
where it is so deductible or collectible or payable under any provisions of the Act.

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)]

- (a) *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.
- (b) *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.
- (c) 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.
- (d) *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.

- (e) *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 1.1 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 2026-27 will commence on 1.4.2026 and will end on 31.3.2027. 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 1.4.2025 to 31.3.2026 will be assessed or charged to tax in the assessment year 2026-27.
- All assessees 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 2025-26 is the previous year for the income earned during that financial year 2025-26 and assessment year for the income earned during the previous year 2025-26.

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 21.10.2025 then the first previous year for that business will be the period starting from 21.10.2025 to 31.3.2026. 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 1.2 Ascertain the previous year of the income in relation to assessment year 2026-27 in the following cases:

- (i) Dr. Gupta was appointed as Assistant Professor in Shri Ram College of Commerce for the first time on 1.8.2025.
- (ii) Dinesh started a cloth business on 27.2.2026.
- (iii) Jai Kumar purchased a let-out house property of two rooms on 5.7.2025.
- (iv) A received a remuneration of ₹50,000 for acting in a T.V. Serial on 10.3.2026 for the first time.

Solution

(i) 1.8.2025 to 31.3.2026	(ii) 27.2.2026 to 31.3.2026
(iii) 5.7.2025 to 31.3.2026	(iv) 10.3.2026 to 31.3.2026

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 21.10.2025 he commences a business of trading in paper. The previous year for income from salary and house property will be the financial year 2025-26 and previous year for the new business will be 21.10.2025 to 31.3.2026. However, for computation of income of the previous year 2025-26, we shall take the aggregate of income from salary and house property of financial year 2025-26 (*i.e.*, 1.4.2025 to 31.3.2026) and income earned from 21.10.2025 to 31.3.2026 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 assessees, 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 15.11.2025. He submitted his return for assessment year 2025-26 on 31.7.2025 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 2024-25 at the rates applicable for assessment year 2025-26.

(b) assessment of income of the period 1.4.2025 to 15.11.2025 (either actual or estimated basis) and tax should be levied on such income in the assessment year 2025-26 itself but at the rates of advance tax for financial year 2025-26 (A.Y. 2026-27) given in part III of First Schedule of Finance Act, 2025.

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 2025-26 is going to be dissolved on 16.6.2026 then the income of the period 1.4.2026 to 16.6.2026 shall be charged to income-tax in the assessment year 2026-27 itself.*

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 16.7.2025 then the income for the period 1.4.2025 to 16.7.2025 may be assessed in the assessment year 2025-26 itself. The tax will be charged at the rates in force for advance tax payable during financial year 2025-26. [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 assessees, 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 2026-27 for different assessees 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		₹4,00,000
(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		₹4,00,000
(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		₹4,00,000

(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).	₹4,00,000
(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).	₹4,00,000
(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).	₹4,00,000

(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 ₹4,00,000 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 2026-27:

(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 ₹4,00,000	Nil
From ₹4,00,001 to ₹8,00,000	5%
From ₹8,00,001 to ₹12,00,000	10%

From ₹12,00,001 to ₹16,00,000	15%
From ₹16,00,001 to ₹20,00,000	20%
From ₹20,00,001 to ₹24,00,000	25%
Above ₹24,00,000	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 ₹4,00,000.
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 2026-27

Total income does not exceeds ₹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 2026-27: 'Health and Education Cess (H&EC) on Income Tax' @4% on income-tax (inclusive of surcharge, wherever applicable) shall be levied.

Marginal relief

Illustration 1.3 The total income of R for the assessment year 2026-27 is ₹50,90,000. Compute the tax payable by R for the assessment year 2026-27. 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 ₹4,00,000	Nil
Next ₹2,50,000 — 5%	12,500	Next ₹4,00,000 — 5%	20,000
Next ₹5,00,000 — 20%	1,00,000	Next ₹4,00,000 — 10%	40,000
Balance ₹40,90,000 — 30%	12,27,000	Next ₹4,00,000 — 15%	60,000
	—	Next ₹4,00,000 — 20%	80,000
	—	Next ₹4,00,000 — 25%	1,00,000
	—	Balance ₹26,90,000 — 30%	8,07,000
	13,39,500		11,07,000
<i>Add: Surcharge 10%</i>	1,33,950	<i>Add: Surcharge 10%</i>	1,10,700
	14,73,450		12,17,700
Marginal relief		Marginal relief	
Income-tax on ₹50,00,000	13,12,500	Income-tax on ₹50,00,000	10,80,000
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,	11,70,000
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., ₹12,17,700 or ₹11,70,000 whichever is less)	11,70,000
<i>Add: H&EC @ 4%</i>	56,100	<i>Add: H&EC @ 4%</i>	46,800
Total tax payable	14,58,600	Total tax payable	12,16,800

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.

Marginal relief

Illustration 1.4 The total income of R for the assessment year 2026-27 is ₹1,01,00,000. Compute the tax payable by R for the assessment year 2026-27. 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 ₹4,00,000	Nil
Next ₹2,50,000 — 5%	12,500	Next ₹4,00,000 — 5%	20,000
Next ₹5,00,000 — 20%	1,00,000	Next ₹4,00,000 — 10%	40,000
Balance ₹91,00,000 — 30%	27,30,000	Next ₹4,00,000 — 15%	60,000
	—	Next ₹4,00,000 — 20%	80,000

	—	Next ₹4,00,000 — 25%	1,00,000
	—	Balance ₹77,00,000 — 30%	23,10,000
	28,42,500		26,10,000
Add: Surcharge 15%	4,26,375	Add: Surcharge 15%	3,91,500
	32,68,875		30,01,500
Marginal relief		Marginal relief	
Income-tax on ₹1,00,00,000	28,12,500	Income-tax on ₹1,00,00,000	25,80,000
Add: Surcharge @ 10% assuming income is ₹1,00,00,000	2,81,250	Add: Surcharge @ 10% assuming income is ₹1,00,00,000	2,58,000
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,	29,38,000
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., 30,01,500 or ₹29,38,000 whichever is less)	29,38,000
Add: H&EC @ 4%	1,27,750	Add: H&EC @ 4%	1,17,520
Total tax payable	33,21,500	Total tax payable	30,55,520

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 1.5 What shall be your answer if the total income is ₹1,01,50,000 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	₹
<i>Tax on ₹1,01,50,000</i>		<i>Tax on ₹1,01,50,000</i>	
On first ₹2,50,000	Nil	On first ₹4,00,000	Nil
Next ₹2,50,000 — 5%	12,500	Next ₹4,00,000 — 5%	20,000
Next ₹5,00,000 — 20%	1,00,000	Next ₹4,00,000 — 10%	40,000
	—	Next ₹4,00,000 — 15%	60,000
	—	Next ₹4,00,000 — 20%	80,000
	—	Next ₹4,00,000 — 25%	1,00,000
Balance ₹91,50,000 — 30%	27,45,000	Balance ₹77,50,000 — 30%	23,25,000
	28,57,500		26,25,000
Add: Surcharge 15%	4,28,625	Add: Surcharge 15%	3,93,750
	32,86,125		30,18,750
Marginal relief		Marginal relief	
Income-tax on ₹1,00,00,000	28,12,500	Income-tax on ₹1,00,00,000	25,80,000
Add: Surcharge @ 10% assuming income is ₹1,00,00,000	2,81,250	Add: Surcharge @ 10% assuming income is ₹1,00,00,000	2,58,000
Tax and surcharge as per marginal relief, 100% of income exceeding ₹1,00,00,000 (₹1,01,50,000 — ₹1,00,00,000) =	1,50,000	Tax and surcharge as per marginal relief, 100% of income exceeding ₹1,00,00,000 (₹1,02,00,000 — ₹1,00,00,000) =	1,50,000

Total tax including surcharge payable under marginal relief,	32,43,750	Total tax including surcharge payable under marginal relief,	29,88,000
Tax payable as per normal provisions or as per provisions of marginal relief whichever is less (i.e., 32,86,125 or ₹32,43,750 whichever is less)	32,43,750	Tax payable as per normal provisions or as per provisions of marginal relief whichever is less (i.e., 30,18,750 or ₹29,88,000 whichever is less)	29,88,000
Add: H&EC @ 4%	1,29,750	Add: H&EC @ 4%	1,19,520
Total tax payable	33,73,500	Total tax payable	31,07,520

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 1.6 What will be your answer if the total income is ₹1,02,00,000?

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 ₹4,00,000	Nil
Next ₹2,50,000 — 5%	12,500	Next ₹4,00,000 — 5%	20,000
Next ₹5,00,000 — 20%	1,00,000	Next ₹4,00,000 — 10%	40,000
	—	Next ₹4,00,000 — 15%	60,000
	—	Next ₹4,00,000 — 20%	80,000
	—	Next ₹4,00,000 — 25%	1,00,000
Balance ₹92,00,000 — 30%	27,60,000	Balance ₹87,00,000 — 30%	23,40,000
	28,72,500		26,40,000
Add: Surcharge 15%	4,30,875	Add: Surcharge 15%	3,96,000
	33,03,375		30,36,000
Marginal relief		Marginal relief	
Income-tax on ₹1,00,00,000	28,12,500	Income-tax on ₹1,00,00,000	25,80,000
Add: Surcharge @ 10% assuming income is ₹1,00,00,000	2,81,250	Add: Surcharge @ 10% assuming income is ₹1,00,00,000	2,58,000
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,	30,38,000
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., ₹30,36,000 or ₹30,38,000 whichever is less)	30,36,000
Add: H&EC @ 4%	1,31,750	Add: H&EC @ 4%	1,21,440
Total tax payable	34,25,500	Total tax payable	31,57,440

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.

Marginal relief

Illustration 1.7 The total income of R for the assessment year 2026-27 is ₹2,03,00,000. Compute the tax payable by R for the assessment year 2026-27. 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 ₹4,00,000	Nil
Next ₹2,50,000 — 5%	12,500	Next ₹4,00,000 — 5%	20,000
Next ₹5,00,000 — 20%	1,00,000	Next ₹4,00,000 — 10%	40,000
Balance ₹1,93,00,000 — 30%	57,90,000	Next ₹4,00,000 — 15%	60,000
	—	Next ₹4,00,000 — 20%	80,000
	—	Next ₹4,00,000 — 25%	1,00,000
	—	Balance ₹1,79,00,000 — 30%	53,70,000
	59,02,500		56,70,000
Add: Surcharge 25%	14,75,625	Add: Surcharge 25%	14,17,500
	73,78,125		70,87,500
Marginal relief		Marginal relief	
Income-tax on ₹2,00,00,000	58,12,500	Income-tax on ₹2,00,00,000	55,80,000
Add: Surcharge @ 15% assuming income is ₹2,00,00,000	8,71,875	Add: Surcharge @ 15% assuming income is ₹2,00,00,000	8,37,000
Tax and surcharge as per marginal relief, 100% of income exceeding ₹2,00,00,000 (2,03,00,000 — 2,00,00,000) =	3,00,000	Tax and surcharge as per marginal relief, 100% of income exceeding ₹2,00,00,000 (2,03,00,000 — 2,00,00,000) =	3,00,000
Total tax including surcharge payable under marginal relief,	69,84,375	Total tax including surcharge payable under marginal relief,	67,17,000
Tax payable as per normal provisions or as per provisions of marginal relief whichever is less (i.e., 73,78,125 or ₹69,84,375 whichever is less)	69,84,375	Tax payable as per normal provisions or as per provisions of marginal relief whichever is less (i.e., 70,87,500 or ₹67,17,000 whichever is less)	67,17,000
Add: H&EC @ 4%	2,79,375	Add: H&EC @ 4%	2,68,680
Total tax payable	72,63,750	Total tax payable	69,85,680

(2) Rebate of maximum ₹12,500/₹60,000 for resident individuals having total income up to ₹5,00,000/₹12,00,000, as the case may be [Section 87A]

With a view to provide tax relief to the individual tax payers who are in lower income bracket, the Act has provided rebate from the tax payable by an assessee, if the following condition and satisfied:

- (1) The assessee is an **individual**
- (2) He is **resident** in India,
- (3) His total income **does not exceed** ₹5,00,000

Quantum of rebate: The rebate shall be equal to:

- (1) the amount of income-tax payable on the total income for any assessment year or
- (2) ₹12,500.

whichever is less.

However, the following proviso has been inserted to give benefit to an individual, who does not exercise any option and hence by default, he is under the new regime, i.e., section 115BAC(1A):

Provided that where the total income of the assessee is chargeable to tax under section 115BAC(1A), and the total income—

- (a) does not exceed ₹12,00,000, the assessee shall be entitled to a deduction from the amount of income-tax (**as computed before allowing for he deductions under this Chapter, i.e., no deduction shall be allowed from tax computed at special rates**) on his total income with which he is chargeable for any assessment year, of an amount equal to 100% of such income-tax or an amount of ₹60,000, **whichever is less**;

(b) exceeds ₹12,00,000 and the income-tax payable on such total income exceeds the amount by which the total income is in excess of ₹12,00,000, the assessee shall be entitled to a deduction from the amount of income-tax (as computed before allowing for the deductions under this Chapter, i.e., no deduction shall be allowed from tax computed at special rates) on his total income, of an amount equal to the amount by which the income-tax payable on such total income is in excess of the amount by which the total income exceeds ₹12,00,000.

However, the above deduction shall not exceed the amount of income tax payable as per the rates provided in Section 115BAC(1A).

Additionally, it has been also clarified that the rebate of income tax as provided above shall not be available on tax on incomes chargeable at special rates (for e.g., capital gains u/s 111A, 112, etc.)

Note.—Students should read para 1.3-e(2) and illustrations No. 1.8, 1.9 & 1.10 (given below) only after reading all the provisions of income-tax given in this book.

Illustration 1.8 The gross total income of R for the assessment year 2026-27 is ₹4,70,000 which includes long-term capital gain ₹50,000 short-term capital gain referred to in section 111A ₹30,000 and interest on saving bank deposit ₹12,000. Compute the tax payable by R assuming he deposited ₹1,00,000 in PPF and paid premium for health insurance by cheque amounting to ₹15,000.

Assume R:

(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

Particulars	Opts to be taxed under the old regime		Does not exercise any option and hence by default, he is under the new regime	
	₹	₹	₹	₹
Gross total income		4,70,000		4,70,000
<i>Less: Deductions</i>				
U/s 80C	1,00,000		Nil	
U/s 80D	15,000		Nil	
U/s 80TTA	10,000	1,25,000	Nil	Nil
Total income		3,45,000		4,70,000
Tax on ₹3,45,000/₹4,70,000				
Long-term capital gain ₹50,000 @ 12.5%		6,250		6,250
Short-term capital gain ₹30,000 @ 20%		6,000		6,000
Balance total income ₹2,65,000/₹3,90,000		750		—
		13,000		12,250
<i>Less: Rebate u/s 87A</i>		12,500		—*
		500		12,250
<i>Add: Health & education cess (H&EC) @4%</i>		20		490
Total tax payable		520		12,740

* Since, R does not exercise any option and hence by default, he is under the new regime, i.e., section 115BAC(1A), the rebate shall be allowed only from the income which is taxable at normal rate/rates. It shall not be allowed from income taxable at special rates.

Illustration 1.9 Take the above illustration but assume that R gross total income is ₹6,70,000 instead of ₹4,70,000 although the other information in his case, remains the same.

Particulars	Opts to be taxed under the old regime		Does not exercise any option and hence by default, he is under the new regime	
	₹	₹	₹	₹
Gross total income		6,70,000		6,70,000
<i>Less: Deductions</i>				

	Opts to be taxed under the old regime		Does not exercise any option and hence by default, he is under the new regime	
U/s 80C	1,00,000		Nil	
U/s 80D	15,000		Nil	
U/s 80TTA	10,000	1,25,000	Nil	Nil
Total income		5,45,000		6,70,000
Tax on ₹5,45,000/₹6,70,000				
Long-term capital gain ₹50,000 @ 12.5%		6,250		6,250
Short-term capital gain ₹30,000 @ 20%		6,000		6,000
Balance total income ₹4,65,000/₹5,90,000		10,750		9,500
		23,000		21,750
Less: Rebate u/s 87A		Nil*		9,500**
		23,000		12,250
Add: Health & Education Cess (H&EC) @ 4%		920		490
Total tax payable		23,920		12,740

* No rebate shall be allowed as R has opted to be taxed under the old regime and his total income exceeds ₹5,00,000.

** Since, R does not exercise any option and hence by default, he is under the new regime, i.e., section 115BAC(1A), the rebate shall be allowed only from the income which is taxable at normal rate/rates. It shall not be allowed from income taxable at special rates.

Illustration 1.10 Take the above illustration No. 1.9 but assume that R gross total income is ₹7,20,000 instead of ₹6,70,000 although the other information in his case, remains the same.

	Opts to be taxed under the old regime		Does not exercise any option and hence by default, he is under the new regime	
Particulars	₹	₹	₹	₹
Gross total income		7,20,000		7,20,000
Less: Deductions				
U/s 80C	1,00,000		Nil	
U/s 80D	15,000		Nil	
U/s 80TTA	10,000	1,25,000	Nil	Nil
Total income		5,95,000		7,20,000
Tax on ₹5,95,000/₹7,20,000				
Long-term capital gain ₹50,000 @ 12.5%		6,250		6,250
Short-term capital gain ₹30,000 @ 205%		6,000		6,000
Balance total income ₹5,15,000/₹6,40,000		15,500		12,000
		26,250		22,750
Less: Rebate u/s 87A		Nil*		12,000**
		26,250		10,750
Add: Health & Education Cess (H&EC) @ 4%		1,050		430
Total tax payable		27,300		11,180

* No rebate shall be allowed as R has opted to be taxed under the old regime and his total income exceeds ₹5,00,000.

** Since, R does not exercise any option and hence by default, he is under the new regime, i.e., section 115BAC(1A), the rebate shall be allowed only from the income which is taxable at normal rate/rates. It shall not be allowed from income taxable at special rates.

(3) In case of a firm (including limited liability partnership)

Rate of tax 30%

Surcharge: The amount of income-tax shall be increased by a surcharge at the rate of 12% of such income-tax.

Marginal relief: The total amount payable as income-tax and surcharge on total income exceeding ₹1 crore shall not exceed the total amount payable as income-tax on a total income of ₹1 crore by more than the amount of income that exceeds ₹1 crore.

Health and education cess: For assessment year 2026-27: 'Health and Education Cess (H&EC) on Income Tax' @ 4% on income-tax (inclusive of surcharge, wherever applicable) shall be levied.

(4) (i) In the case of a domestic company

Rate of tax

- (a) Where the domestic company opts to be taxed under Section 115BAA – 22%.
- (b) Where the domestic company opts to be taxed under Section 115BAB – 15%.
- (c) Where the company does not opt to be taxed under section 115BAA or 115BAB and its total turnover or the gross receipt in the previous year 2022-23 does not exceed ₹400 crore – 25%
- (d) Any other company – 30%

Surcharge: Where the domestic company opts to be taxed either under Section 115BAA or 115BAB, the surcharge shall be 10% of the tax.

In any other case, if the total income of a domestic company exceeds ₹1 crore but does not ₹10 crore, a surcharge of 7% of tax shall be levied.

Where the total income of the domestic company exceeds ₹10 crore, a surcharge at the rate of 12% of tax shall be levied.

Health and Education Cess: For assessment year 2026-27: 'Health and Education Cess (H&EC) on Income Tax' @ 4% on income-tax (inclusive of surcharge, wherever applicable) shall be levied.

(ii) For foreign company: 35%.

Surcharge: Where the total income of a company other than a domestic company exceeds ₹1 crore but does not ₹10 crore, a surcharge of 2% of tax shall be levied.

Where the total income of such company exceeds ₹10 crore, a surcharge at the rate of 5% of tax shall be levied.

Marginal relief: However, the total amount payable as income-tax and surcharge on total income exceeding ₹1 crore but not exceeding ₹10 crore, shall not exceed the total amount payable as income-tax on a total income of ₹1 crore, by more than the amount of income that exceeds ₹1 crore.

Further, the total amount payable as income-tax and surcharge on total income exceeding ₹10 crore, shall not exceed the total amount payable as income-tax and surcharge on a total income of ₹10 crore, by more than the amount of income that exceeds ₹10 crore.

Health and Education Cess: For assessment year 2026-27: 'Health and Education Cess (H&EC) on Income Tax' @4% on income-tax (inclusive of surcharge, wherever applicable) shall be levied.

1.3-f Rate or Rates of Tax

Income-tax is chargeable at the rate or rates prescribed in the Finance Act if the individual/HUF/AOP/BOI/Artificial juridical person opts to be taxed under the old regime, e.g., if the total income of X for the previous year 2025-26 is more than ₹2,50,000 but does not exceed ₹5,00,000, only one rate of tax, i.e., 5% shall be charged on the income exceeding ₹2,50,000. If the total income is ₹5,40,000, two rates of tax mentioned below shall be chargeable.

On Income of ₹2,50,010 to ₹5,00,000	5%
On Income of ₹5,00,010 to ₹5,40,000	20%

On the other hand if the total income is ₹11,00,000, three rates of tax mentioned below shall be chargeable:

On Income of ₹2,50,010 to ₹5,00,000	5%
On Income of ₹5,00,010 to ₹10,00,000	20%
Above ₹10,00,000	30%

Where, such person does not exercise any option and hence by default, he is under the new regime, i.e., section 115BAC(1A) and if the total income is ₹8,50,000, two rates of tax mentioned below shall be chargeable.

On Income of ₹4,00,010 to ₹8,00,000	5%
On Income of ₹8,00,010 to ₹8,50,000	10%

On the other hand, if the total income is ₹26,00,000, five rates of tax mentioned below shall be chargeable:

On Income of ₹4,00,010 to ₹8,00,000	5%
On Income of ₹8,00,010 to ₹12,00,000	10%
On income of ₹12,00,010 to ₹16,00,000	15%
On income of ₹16,00,010 to ₹20,00,000	20%
On income of ₹20,00,010 to ₹24,00,000	25%
Above ₹24,00,000	30%

The above rate system is known as slab rate of income-tax. However, in case of companies, firms, local authorities, etc., we have a system of flat rate of tax, *i.e.*, tax rate shall be same irrespective of the total income of the assessee, *e.g.*, in case of firm it is 30% irrespective of the total income of the firm.

Certain incomes like long-term capital gains, winning of lotteries, etc., although form part of total income, are taxable at special rates prescribed in the Income-tax Act. Questions relating to computation of tax in such case will be done later.

Illustration 1.11 Total income of R who is aged 46 years, for the previous year ending 31.3.2026 is ₹4,94,900. Compute the tax payable by him for the assessment year 2026-27. Assume R:

- (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 on income of previous year is calculated at the rate prescribed for the relevant assessment year. For previous year 2025-26, the income-tax shall be payable at the rates prescribed for assessment year 2026-27. It will be calculated as under:

Particulars	opts to be taxed under the old regime		does not exercise any option and hence by default, he is under the new regime	
	Rate of tax	Tax of payable	Rate of tax	Tax of payable
First ₹2,50,000/₹4,00,000	Nil	—	Nil	—
Next ₹2,44,900/₹94,900 (Rate for income-tax between the slab of ₹2,50,000 & ₹5,00,000 is 5%)	5%	12,245	5%	4,745
<i>Less:</i> Rebate u/s 87A (100% of tax or ₹12,500/₹60,000 whichever is less)		12,245	Nil	4,745
Tax payable		Nil		Nil

Illustration 1.12 Total income of Mrs. R aged 60 years, a resident of India, for the previous year 2025-26 is ₹10,46,300.

(A) Compute her tax liability for the assessment year 2026-27. Assume Mrs. R:

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

(B) What will be tax payable if Mrs. R is non-resident in India.

Solution

(A) Since, Mrs. R is 60 years old, and **resident** in India, her tax liability will be computed as under:

Particulars	opts to be taxed under the old regime.		does not exercise any option and hence by default, she is under the new regime	
	Rate of tax	Total tax	Rate of tax	Total tax
First ₹3,00,000/₹4,00,000 (irrespective of age)	Nil	—	Nil	—
Next ₹2,00,000/₹4,00,000	5%	10,000.00	5%	20,000.00
Next ₹5,00,000/₹2,46,300	20%	1,00,000.00	10%	24,630.00
Next ₹46,300/₹ NIL	30%	13,890.00	15%	—
		1,23,890.00		44,630.00

Less: Rebate u/s 87A (Nil as the total income exceeds ₹ 5,00,000/Full as total income does not exceed ₹12,00,000)		Nil		Nil
		1,23,890.00		44,630.00
Add: Health and education cess @ 4%		4,955.60		1,785.20
		1,28,845.60		46,415.20
Total tax (rounded off)		1,28,850		46,420

Note. Tax payable is rounded off to nearest rupees ten. Since the last digit of tax payable is ₹5 or more, it is rounded off to upper ten.

(B) If Mrs. R is a non-resident, the basic exemption limit in her case shall be ₹2,50,000 instead of ₹3,00,000, but in the new regime, it will be ₹4,00,000 irrespective of individual being resident or non-resident.

Particulars	Opts to be taxed under the old regime.		Does not exercise any option and hence by default, she is under the new regime	
	Rate of tax	Total tax	Rate of tax	Total tax
First ₹2,50,000/₹4,00,000 (irrespective of age)	Nil	—	Nil	—
Next ₹2,50,000/₹4,00,000	5%	12,500.00	5%	20,000.00
Next ₹5,00,000/₹2,46,300	20%	1,00,000.00	10%	24,630.00
Next ₹46,300/₹ NIL	30%	13,890.00	15%	-
		1,26,390.00		44,630.00
Less: Rebate u/s 87A (Nil as the total income exceeds ₹ 5,00,000/Full as total income does not exceed ₹12,00,000)		Nil		Nil
		1,26,390.00		44,630.00
Add: Health and education cess @ 4%		5,055.60		1,785.20
		1,31,445.60		46,415.20
Total tax (rounded off)		1,31,450		46,420

Illustration 1.13

(A) Total income of R, an individual who is less than 60 years of age and resident in India, for the previous year 2025-26 (Assessment year 2026-27) is ₹15,94,000. Compute the tax payable by R for the assessment year 2026-27. Assume R:

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

Solution

Particulars	opts to be taxed under the old regime	does not exercise any option and hence by default, he is under the new regime
	Tax Liability	Tax Liability
First ₹2,50,000/₹4,00,000	Nil	Nil
Next ₹2,50,000 @ 5% / ₹4,00,000 @ 5%	12,500	20,000
Next ₹5,00,000 @ 20% / ₹4,00,000 @ 10%	1,00,000	40,000
On balance ₹5,94,000 @ 30% / Next ₹3,94,000 @ 15%	1,78,200	59,100
	2,90,700	1,19,100
Add: Health and education cess @ 4%	11,628	4,764
	3,02,328	1,23,864
Total-tax (rounded off)	3,02,330	1,23,860

Note.—Tax payable is rounded off to nearest rupees ten. If the last digit of tax payable is ₹5 or more, it is rounded off to higher ten, whereas if the last digit of tax payable is less than ₹5, it is rounded off to lower ten.

(B) What shall be the tax payable if the total income of ₹15,94,000 is of R who is less than 60 years of age but non-resident in India.

Solution

The tax liability will remain the same as the rates are same, whether R is resident or non-resident in India.

1.3-g Assessee [Section 2(7)]

Assessee means a person by whom *any tax or any other sum of money* is payable under this Act and includes the following:

<p>(i) Every person in respect of whom any proceeding under the Income-tax Act has been taken:</p> <ul style="list-style-type: none"> (a) for the assessment of his income or the income of any other person in respect of which he is assessable; or (b) to determine the loss sustained by him or by such other person; or (c) to determine the amount of refund due to him or to such other person. 	<p>(ii) A person who is deemed to be an assessee under any provisions of this Act, <i>i.e.</i>, a person who is treated as an assessee. This would include the legal representative of a deceased person or the legal guardian of minor if minor is taxable separately.</p>	<p>(iii) Every person who is deemed to be an assessee in default under any provisions of this Act. A person is said to be an assessee in default if he fails to comply with the duties imposed upon him under the Income-tax Act. For example: a person, paying interest to another person, is responsible for deducting tax at source on this amount and to deposit the tax with the Government. If he fails in either of these duties, <i>i.e.</i>, if he does not deduct the tax, or deducts the tax but does not deposit it with the Government, he shall be deemed to be an assessee in default.</p>
<p>1. Every assessee is a 'person', but every person need not be an 'assessee'. For example, X, an individual has earned total income of ₹2,40,000 in the previous year. He is a person but not an assessee because his total income is less than the maximum exemption limit of ₹2,50,000/₹3,00,000, as the case may be, and no tax or any other sum is due from him.</p> <p>2. A person may not have his own assessable income but may still be an assessee. For example, an assessee, who has earned an income of ₹1,45,000 in a previous year, fails to deduct the tax at source on salary paid by him, which he was required to do under the Act, shall be deemed to be an assessee in default. Although, he is not assessable in respect of his own income, as it is below the maximum exemption limit, but shall still be an assessee for not deducting the tax at source, which he was obliged to do.</p>		

1.3-h Charge of income-tax [Section 4]

No tax can be levied or collected in India except under the authority of law. Section 4 of the Income-tax Act, gives such authority for charging of income-tax.

The base for levy of tax in any assessment year is normally the income of the previous year. However, in some cases, income-tax may be charged in respect of the income of a period other than the previous year.

Although income-tax is charged on the income of the previous year in the relevant assessment year, but Income-tax shall be deducted at the source, or paid in advance, in the same previous year wherever it is so deductible or payable under any provisions of the Act.

1.3-i Total Income

To understand Total Income one must know the following:

- (A) Definition of Income
- (B) Concept of Income
- (C) Gross Total Income
- (D) Deductions permissible from Gross Total Income

(A) Definition of Income [Section 2(24)]: Income includes:

- (i) profits and gains;
- (ii) dividend;
- (iii) voluntary contributions received by a trust created wholly or partly for charitable or religious purposes or by an institution established wholly or partly for such religious purposes or by an association or institution referred to in section 10(21), 10(23) or 10(23C)(iv), (v), (vi) and (via) or by a electoral trust;
- (iv) the value of any perquisite or profit in lieu of salary taxable under section 17(2) and (3);

- (v) any special allowance or benefit, other than perquisite included under (iv) above, specifically granted to the assessee to meet expenses wholly, necessarily and exclusively for the performance of the duties of an office or employment of profit;
- (vi) any allowance granted to the assessee either to meet the personal expenses at the place where the duties of his office or employment of profit are ordinarily performed by him or at a place where he ordinarily resides or to compensate him for the increased cost of living;
- (vii) the value of any benefit or perquisite, whether convertible into money or not, obtained from a company either by a director or by a person who has a substantial interest in the company, or by a relative of the director or such person, and any sum paid by any such company in respect of any obligation which, but for such payment, would have been payable by the director or other person aforesaid;
- (viii) the value of any benefit or perquisite, whether convertible into money or not, obtained by any representative assessee mentioned in clause (iii) or clause (iv) of sub-section (1) of section 160 or by any person on whose behalf or for whose benefit any income is receivable by the representative assessee (such person being hereafter in this sub-clause referred to as the 'beneficiary') and any sum paid by the representative assessee in respect of any obligation which, but for such payment, would have been payable by the beneficiary;
- (ix) any sum chargeable to Income-tax under section 28(ii), (iii), (iiia), (iiib) and (iiic) or section 41 or section 59;
- (x) the value of any benefit or perquisite taxable under section 28(iv);
- (xi) any sum chargeable to Income-tax under section 28(v);
- (xii) any capital gains chargeable under section 45;
- (xiii) the fair market value of inventory referred to in clause (via) of section 28;
- (xiii) the profits and gains of any business of insurance carried on by a mutual insurance company or by a co-operative society;
- (xiii) the profits and gains of any business of banking (including providing credit facilities) carried on by a co-operative society with its members;
- (xiv) any winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature whatsoever;

For the purpose of this sub-clause—

- (1) "lottery" shall include winnings from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever under any scheme or arrangement by whatever name called;
- (2) "card game and other game of any sort" shall include any game show, an entertainment programme on television or electronic mode, in which people compete to win prizes or any other similar game.

- (xv) any sum received by the assessee from his employees as contributions to any provident fund or superannuation fund or any fund set up under the provisions of the Employees' State Insurance Act, 1948 or any other fund for the welfare of such employee;
- (xvi) any sum received under a Key-man Insurance Policy including the sum allocated by way of bonus on such policy;
- (xvii) any sum referred to in section 28(vi) (See Chapter 6);
- (xviii) any sum of money referred to in section 56(2)(ix) (See Chapter 8);
- (xix) assistance in the form of a subsidy or grant or cash incentive or duty drawback or waiver or concession or reimbursement (by whatever name called) by the Central Government or a State Government or any authority or body or agency in cash or kind to the assessee **other than**—
 - (a) the subsidy or grant or reimbursement which is taken into account for determination of the actual cost of the asset in accordance with the provisions of *Explanation 10* to section 43(1);
 - (b) the subsidy or grant by the Central Government for the purpose of the corpus of a trust or institution established by the Central Government or State Government, as the case may be, shall also not form part of income.
- (xx) any sum of money or value of property referred to in section 56(2)(x) (See Chapter 8).
- (xxi) any compensation or other payment referred to in clause (xi) of sub-section (2) of section 56;

(B) Concept of Income: Generally speaking, the word 'Income' covers receipts in the shape of money or money's worth which arise with certain regularity or expected regularity from a definite source. However, all receipts do not form the basis of taxation under the Act. Broadly, an analogy is drawn of a tree and the fruits of that tree. The tree symbolises the source from which one gets fruits which symbolises 'Income'. The receipt arising from the sale of tree itself is, therefore, considered a capital receipt which is not income; but the receipts flowing from this source *viz.*, fruits is income. On application of this analogy, it can be said that while the receipt arising from the sale of a house is not income, the receipt arising from the realisation of rent is income. In the same way, receipt from the sale of a machine

is not income but from the sale of produce brought out from the machine is income. In these cases, however, if a person deals in purchase and sale of house properties or machines, these assets do not remain a source and the profit derived from activities of purchase and sale becomes income. The source need not necessarily be tangible as the return for human exertion is also income.

1. The above is a broad generalisation. While a distinction is generally made between the capital receipt and revenue receipt, as illustrated above, the Act has widened the scope of income by expressly including within the meaning of "Income", the receipts which do not fall under the broad concept explained above. For instance, the Act specifically makes the profit arising from the sale of certain capital assets also subject to tax under certain circumstances as income under the head Capital Gains. The winnings from lotteries, crossword puzzles, races, card games, etc., which do not arise from any definite source and do not have the element of regularity have also been specifically clarified to be 'Income' under the Act.
2. It is not the gross receipts but only the net receipts arrived at after deducting the related expenses incurred in connection with earning such receipts, that are made the basis of taxation.
3. Some important principles which explain the importance of income for income-tax purpose are given below:
 - (i) **Regularity of Income:** Income connotes periodical monetary return coming in with some sort of regularity or expected regularity from definite sources. The source is not necessarily one which is expected to be continuously productive but it must be one whose object is production of a definite return, excluding anything in the nature of a mere windfall. However, this does not mean that income which does not arise regularly will not be treated as income for tax purposes, *e.g.*, winnings from lotteries, etc.
 - (ii) **Form of Income:** The income received by the assessee need not be in the shape of cash only. It may also be some other property or right which has monetary value. Wherever income is received in kind like perquisites then their value has to be found as per the rules prescribed and this value shall be taken to be the income.
 - (iii) **Tainted/Illegal Income:** Income is income, though tainted. For purposes of Income-tax, there is no difference between legal and tainted income. Even illegal income is taxed just like any legal income.
 - (iv) **Application of Income v Diversion:** Where an assessee applies an income to discharge an obligation after the income reaches the hands of the assessee, it would be an application of income and this would result in taxation of such income in the hands of the assessee. However, where there is a diversion of income before it reaches the hands of the assessee, it cannot be treated as an income of the assessee.
 - (v) **Disputed Income:** Any dispute regarding the title of the income cannot hold up the assessment of the income in the hands of the recipient. The recipient is, therefore, chargeable to tax though there may be rival claims to the source of the income.
 - (vi) **Contingent income:** A contingent income is not income. Until the contingency has happened, it cannot be postulated that income has accrued or has arisen to the assessee.
 - (vii) **Basis of Income:** Income can be taxed on receipt basis or on accrual basis. In case of income from business or income from other sources, the taxability would depend upon the method of accounting adopted by the assessee, while in other cases, it would generally be taxed on receipt or accrual basis, whichever happens earlier. However, a contingent income, *i.e.*, an income which may or may not arise cannot be taxed unless and until such contingency actually occurs and the income arises to the assessee.
 - (viii) **Personal Gifts:** Gifts received by a person on occasions like birthdays, marriage, festivals, etc., should not ordinarily be the income of the assessee and therefore, cannot be taxed in the hands of the recipient as his income. However, gift of money or gift of immovable property or certain moveable property received by any person from unrelated person(s) shall be chargeable to income-tax if the aggregate *sum of money* or value of gift received in the previous year exceeds ₹50,000. For details see Chapter 8.
 - (ix) **Composite Income:** Income-tax is a composite tax on all incomes received by or arising to a tax payer during a year. Therefore, tax will be imposed on the aggregate of all incomes earned/received by the assessee during the year.
 - (x) **Pin Money:** Pin money received by a woman for her dress or private expenditure as also small savings effected by a housewife out of moneys given to her by her husband for running the expenses of the kitchen would not be income in the eyes of the law. Any property acquired with the aid of such money or savings would form a capital asset belonging to the lady.
 - (xi) **Lumpsum Receipt:** If a receipt is an income then whether it is received in lumpsum or in instalments would not affect its taxability; for example, if a person receives arrears of salary in a lumpsum amount, it would still be his income.