UNIVERSITY OF DELHI

PERSONAL TAX PLANNING AND TAX MANAGEMENT

DSE 7.9

B.Com (Hons.) | B.Com (Prog.) — Fourth Year, Semester VII

UNIT 1

BASIC CONCEPTS

Meaning and Need of Tax Planning • Principles and Objectives
Obligations of Parties • Tax Avoidance and Tax Evasion • Legal Thinking • Scope
Planning through Exempted Income • through Permissible Deductions • and Clubbing

Governed by the INCOME-TAX ACT, 2025
(Act No. 30 of 2025, as amended by the Finance Act, 2026)
read with the INCOME-TAX RULES, 2026

TAX YEAR 2026-27

1 April 2026 to 31 March 2027
Academic Year 2026-27

Compiled by

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The Prescribed Syllabus

THE AUTHORITY FOR THIS SYLLABUS

The Discipline Specific Elective Course 7.9, *Personal Tax Planning and Tax Management*, was placed before the Executive Council of the University of Delhi, **EC (1282) dated 29.04.2026**, and takes effect from the Academic Year 2026-27. The paper carries 4 credits — 3 lecture and 1 tutorial — and is offered to B.Com (Hons.) and to B.Com (Prog.) alike in the Fourth Year, Semester VII.

The syllabus is written on the **Income-tax Act, 2025**. It refers in terms to "the Income-tax Act, 2025", to **section 202**, and to **Forms 130, 131 and 168**. Those are the numbers of the new Act and of the Income-tax Rules, 2026. They have no counterpart in the 1961 Act, and no application to FY 2025-26.

THE MOST IMPORTANT POINT IN THIS ENTIRE BOOKLET — PLEASE READ TWICE

Our syllabus for Academic Year 2026-27 is **Tax Year 2026-27**, that is, income of **1 April 2026 to 31 March 2027**, under the Income-tax Act, 2025.

It is **not** FY 2025-26 / AY 2026-27. Income of FY 2025-26 continues to be governed by the old Income-tax Act, 1961, and is assessed in Assessment Year 2026-27. If you plan on FY 2025-26 figures, you are planning under a repealed statute.

A second point follows. Under the 2025 Act the expression **"assessment year" no longer exists**. There is only the *tax year* [section 3]. "AY 2026-27" is not a valid expression in the new framework at all.

Credit distribution, eligibility and pre-requisites

Course title & Code	Credits	Lecture	Tutorial	Practical / Practice	Eligibility criteria	Pre-requisite
Personal Tax Planning and Tax Management: DSE-7.9	4	3	1	0	Pass in Class XII	NIL

SYLLABUS — the four Units, exactly as prescribed

Unit	Prescribed content	Hours
Unit 1 **Basic Concepts**	Meaning, Need of Tax Planning — Principles and objectives of Tax Planning, Obligations of parties to Tax Planning, Tax Avoidance and Tax Evasion — Legal thinking on Tax Planning, Tax Planning — Scope of Tax Planning. Tax planning through exempted income for residents / non-residents, Tax planning through permissible deductions for residents / non-residents, Tax planning with reference to clubbing provisions.	14
Unit 2 **Tax Planning under different heads of Income**	Tax planning measures relating to income from salary, Income from House Property, profits and gains of business or profession, capital gains and income from other sources.	11
Unit 3 **Tax Planning through investments**	Tax planning through various tax saving investment avenues available for individuals and HUF like Mutual funds, unit linked insurance plans, Bonds, Equity linked savings schemes, Post office savings schemes and others. Tax deductions under Income-Tax Act.	11

Unit	Prescribed content	Hours
Unit 4 (A) **Deduction, collection and recovery of tax**	Advance tax, tax deduction at source, tax collection at source, refund.	9 (for A and B together)
Unit 4 (B) **Assessment Procedures, Income-tax Authorities and Appeal and Revision**	Income-tax authorities, filing return of income, self-assessment, summary assessment, scrutiny assessment, best judgement assessment, time limit for completion of assessments and appeals and revisions.	

Learning Outcomes — B.Com (Hons.) [BCH: DSE-7.9]

After completion of the course, learners will be able to:

1. Examine how tax planning is useful and essential for every taxpayer and to understand the concept of tax evasion and tax planning from direct taxes point of view.
2. Determine residential status and its relationship with tax planning. Examine how tax planning is permitted under different provisions of the income tax act.
3. Assess the tax liability of individuals and HUFs having income under different heads, by considering tax planning measures providing for optimal tax relief.
4. Choose the avenues of investment with an intent to reduce tax liabilities and identify merits and limitations of different means of investments and examine various provisions relating to deduction and collection of tax at source and advance tax obligations.
5. Examine the provisions relating to survey, search, and seizure and the related powers of various income-tax authorities.
6. Examine the procedure for assessment and recall the time limits for completion of assessments as well as remedies available by way of appeal and revision.

Learning Outcomes — B.Com (Prog.) [BC: DSE-7.9]

After completion of the course, learners will be able to:

1. Recognise the concept of tax planning, use the residential status to plan the scope of income and e-filing of ITR-1.
2. Apply critical thinking to minimize tax liability of individuals with respect to salary income and understand how to develop the efficient pay packages.
3. Devise tax planning strategies in relation to income from house property.
4. Devise tax planning strategies in relation to income from transfer of capital assets viz., immovable property and shares.
5. Recognize the deductions available for the purpose of reducing tax liability.

The two courses compared

The syllabus of the two courses is word for word the same — the same four Units, the same hours, the same content. The differences lie outside the syllabus proper, and none of them affects what is taught or what is examined.

Point	B.Com (Hons.) — BCH: DSE-7.9	B.Com (Prog.) — BC: DSE-7.9
Units, hours, credits	Units 1 to 4; 14 + 11 + 11 + 9 hours; 4 credits (3 lecture + 1 tutorial)	Identical
Learning outcomes	Six, and they run through to survey, search and seizure and to appeals	Five, and they stop at deductions; ITR-1 and pay-package design are named
Practical exercises	Computation of tax liability of individuals and HUFs; comparison of the general provisions with section 202; rectification, appeal and revision; filling return forms from Form 130, 131 and 168 details	Reading the Act, the Finance Act, notifications and circulars on the Government website; hands-on filing of ITR-1 at www.incometax.gov.in
Suggested readings	Ahuja & Gupta, *Direct Taxes Ready*	Ahuja & Gupta, *Systematic Approach to*

Point	B.Com (Hons.) — BCH: DSE-7.9	B.Com (Prog.) — BC: DSE-7.9
	Reckoner; Gaur, Narang & Gaur; Singhania, *Direct Taxes: Law & Practice*	*Income Tax*; Mittal; Singhania, *Students' Guide to Income Tax*, University Edition

Students of both courses may therefore use this material without any adjustment whatever. Where a point belongs to one course only, it is marked in the margin of the text.

A note on the reading list

Every title on the prescribed list was written for the Income-tax Act, 1961, and an edition printed before April 2026 necessarily carries the section numbers, the rule numbers and the figures that were in force when it went to press. These are standard works and the reasoning in them holds good — the *logic* of tax planning has not changed. What has changed is every section number.

Until their 2026 editions reach you, take the section numbers, the rule numbers and the figures from this booklet, or from the bare Income-tax Act, 2025 and the Income-tax Rules, 2026.

Where each Unit is dealt with

Unit	Prescribed content	Where dealt with
Unit 1	Basic concepts of tax planning; avoidance and evasion; scope; planning through exempted income, permissible deductions and clubbing	Unit 1 booklet — this booklet
Unit 2	Tax planning under the five heads of income	Unit 2 booklet
Unit 3	Tax planning through investments; deductions under the Act	Unit 3 booklet
Unit 4 (A)	Advance tax, TDS, TCS, refund	Unit 4 Part A booklet
Unit 4 (B)	Income-tax authorities, returns, assessments, appeals and revision	Unit 4 Part B booklet

The teachers' meeting of 6 September 2025

An online meeting was held on Saturday, 6 September 2025 to prepare the Guidelines for the NEP: UGCF Syllabus (w.e.f. 2022-23) for this paper, organised by the Department of Commerce, Delhi School of Economics, University of Delhi and Sri Aurobindo College (Evening), University of Delhi. Dr. Supreet Kaur, Assistant Professor, Department of Commerce, represented the Department; the meeting was convened by Mr. Varun Panwar, Assistant Professor, Sri Aurobindo College (Evening); and fourteen other members of the faculty were present. The B.Com (Hons.) guidelines were settled at 4:00 PM and the B.Com (Prog.) guidelines at 5:00 PM; they are identical in every respect that bears on this booklet. **Those guidelines that bear on this booklet are set out below.**

The question paper

- The total number of questions will be **five**.
- All questions carry equal weightage of **18 marks each**.
- **Each question shall have an internal choice.**
- The question format must ensure comprehensive coverage of the entire syllabus.
- **No question shall contain more than two parts** — the illustrative format being (a) and (b), *or* (c) and (d).

The allocation of lectures, marks and questions

Unit	Name of the Unit	Hours	Marks	Questions
Unit 1	Basic Concepts	14	18	1 question with internal choice
Unit 2	Tax Planning under different heads of Income	11	36	2 questions with internal choice
Unit 3	Tax Planning through investments	11	18	1 question with internal choice
Unit 4 (A)	Deduction, collection and recovery of tax	4	9	1 question with internal choice, covering both parts
Unit 4 (B)	Assessment Procedures, Income-tax Authorities and Appeal and Revision	5	9	
Total		45	90	5 questions with internal choice

WHAT THE ALLOCATION MEANS FOR THIS UNIT

Unit 1 carries **18 marks of the 90** — one question, with an internal choice, and no more than two parts to it.

It also carries **14 of the 45 hours**, the largest allocation of any Unit in the paper. That is the highest ratio of teaching time to marks in the paper, and it is deliberate: this Unit is the foundation on which Units 2 and 3 are built, and the concepts settled here — the two regimes, exemption against deduction, the line between planning and evasion — are used in every later question.

So do not measure the importance of this Unit by its 18 marks. Measure it by the fact that a candidate who has not understood section 202 cannot answer any of the other 72.

The prescribed scope of this Unit

The guidelines set out, against each limb of the syllabus, the scope to which teaching and examination are to be confined, and the practical coverage expected. What follows is that table for this Unit, reproduced as settled.

Syllabus of the Unit	Scope of the Unit	Practical Coverage
Meaning, Need of Tax Planning — Principles and objectives of Tax Planning, Obligations of parties to Tax Planning, Tax Avoidance and Tax Evasion — Legal thinking on Tax Planning, Tax	**1. Meaning of Tax Planning** — (i) meaning of tax planning; (ii) principles and objectives of tax planning; (iii) role of tax planning in personal finance, business decision-making and government policy; (iv) distinction between tax planning, tax management, tax avoidance and tax evasion. **2. Need for Tax Planning** — (i) meaning and importance; (ii) relationship between tax planning, saving and investment; (iii) impact of tax planning on the national economy.	Simple theoretical case studies on tax planning, tax avoidance, tax evasion and tax management. **Legal case laws —**

Syllabus of the Unit	Scope of the Unit	Practical Coverage
Planning — Scope of Tax Planning.	**3. Obligations of Parties** — (i) taxpayer's obligation; (ii) consultant's or adviser's obligation. **4. Scope of Tax Planning** — (i) short-term tax planning; (ii) long-term tax planning. **5. Legal Thinking on Tax Planning** — (i) distinction between permissible planning and impermissible evasion; (ii) the evolving approach of the Indian judiciary and legislature.	(i) McDowell & Co. Ltd. v. CTO (ii) Vodafone International Holdings B.V. v. Union of India (iii) CIT v. Rajesh Jhaveri Stock Brokers Pvt. Ltd. (2007) 291 ITR 500 (SC)
Tax planning through exempted income for residents / non-residents.	**1. Tax Planning through Exempted Income** **(Part A) For residents** — (i) agricultural income, with partial integration; (ii) certain allowances — house rent allowance; leave travel concession; allowances exempt to a certain extent, being special allowances for the performance of official duties and allowances to meet personal expenses; (iii) retirement benefits — gratuity, commuted pension and leave encashment. **(Part B) For non-residents** — (i) remittances under Double Taxation Avoidance Agreements.	
Tax planning through permissible deductions for residents / non-residents.	**1. Tax Planning through Permissible Deductions** — (i) Chapter VI-A deductions: 80C, 80CCD, 80CCD(1B), 80D, 80E, 80G, 80TTA, 80TTB; (ii) housing loan interest deduction under section 24(b); (iii) standard deduction for salaried persons.	
Tax planning with reference to clubbing provisions.	**1. Tax Planning and Clubbing Provisions** — (i) income of spouse under section 64(1)(ii); (ii) income of minor child under section 64(1A); (iii) transfer of income without transfer of the asset under section 60.	

THE GUIDELINES AND THE INCOME-TAX ACT, 2025 — HOW TO READ THEM TOGETHER

The guidelines were settled on 6 September 2025. The Income-tax Act, 2025 came into force on 1 April 2026. The scope tables are therefore expressed in the section numbers of the Income-tax Act, **1961** — 80C, 80D, 10(13A), 54EC, 115BAC and the rest.

The syllabus itself, as amended by the Executive Council in EC (1282) dated 29.04.2026, is a syllabus on the Income-tax Act, **2025**. The two are not in conflict: **the guidelines settle what is examinable; the Act settles the law in which it is to be stated.**

This booklet therefore takes its **scope** from the guidelines and its **law** from the Income-tax Act, 2025 as amended by the Finance Act, 2026. So where the guidelines say “80C”, read section 123 with Schedule XV; where they say “10(13A)”, read Schedule III, Sl. No. 11 with Rule 279; where they say “115BAC”, read section 202; where they say “54EC”, read section 85. The full conversion table is in the last chapter of this booklet.

In the examination, give the section number of the 2025 Act. If you wish, add the 1961 number in brackets. Never give the 1961 number alone.

What this booklet does with the guidelines

The body of this booklet now carries **only** what the guidelines prescribe, stated in the law of the Income-tax Act, 2025. Material that went beyond the prescribed scope in the earlier printing has not been destroyed — it has been moved, with its former paragraph number shown, to the **Annexe** at the end, and is marked there as not examinable. Three things have been **added** to meet the guidelines: the role of tax planning at three levels (paragraph 1.3); *CIT v. Rajesh Jhaveri Stock Brokers Pvt. Ltd.* (paragraph 2.7); and relief under a Double Taxation Avoidance Agreement for a non-resident (paragraph 5.5).

Before You Begin

A word to the student

You have already done *Income Tax Law and Practice* in Semester V. There you learned to **compute** — how to arrive at income under each head, at gross total income, at total income and at the tax. This paper asks a different question. It asks: given the same facts, could the tax have been *less*, lawfully?

That is the whole of tax planning. It is not a new body of law; it is the same Act read forwards instead of backwards. In Semester V you were handed a set of facts and asked for the tax. Here you are handed a taxpayer and asked to arrange the facts.

Two things follow. First, you cannot plan what you cannot compute — so the computation you learned last year is the foundation of everything in this paper, and this material recapitulates it wherever it is needed. Second, planning is bounded. The boundary is the law itself, and a great deal of this Unit is about where exactly that boundary runs.

> **A STUDY TIP THAT WORKS**
>
> Every planning point in this paper has the same shape: *a rule of law*, then *the choice the rule leaves open*, then *the arithmetic that shows which choice is better*. When you read a section, ask at once: what does this let me choose? Date of payment? Form of receipt? Person in whose name? Regime? If a section leaves no choice, it is not a planning section — learn it and move on.
>
> *In the examination, a planning answer that shows the two alternatives side by side and states the saving in rupees will always beat an answer that merely describes the section.*

How this material is arranged

- **Chapter 1** settles the vocabulary — what tax planning means, why it is needed, its objectives and principles, and the obligations of everyone involved in it.
- **Chapter 2** is on tax avoidance and tax evasion, and on the legal thinking about them — from the *Duke of Westminster* to *McDowell*, *Azadi Bachao Andolan*, *Vodafone*, and the General Anti-Avoidance Rule now in sections 178 to 184.
- **Chapter 3** maps the scope of tax planning — by assessee, by period, by purpose and by stage — and introduces the master choice of this paper, the choice between the two regimes of tax.
- **Chapter 4** deals with residential status, because the scope of a person's total income, and therefore every planning opportunity open to him, is fixed by it.
- **Chapter 5** is on planning through exempted income, for residents and for non-residents.
- **Chapter 6** is on planning through the permissible deductions of Chapter VIII.
- **Chapter 7** is on planning with reference to the clubbing provisions of sections 96 to 100.
- **Chapter 8** is for revision — an old-section-to-new-section ready reckoner, a glossary, objective questions with answers, theory questions, and practical problems with full solutions.

A note on the ₹ symbol and on rounding. All amounts are in Indian rupees. Under section 516 of the Act, the amount of total income computed, and any amount payable or refundable, is rounded off to the nearest multiple of ₹10, ignoring paise. Follow this in the examination — it earns marks.

The sources from which this material has been written

Source	What it settles in this Unit
Income-tax Act, 2025 (Act No. 30 of 2025) — assent 21 August 2025, in force 1 April 2026	Sections 3, 5, 6, 9, 11, 12, 19, 96 to 100, 122 to 154, 155, 156, 178 to 184, 202, 262, 516 and Schedules II, III, VII, VIII and XV
Finance Act, 2026 — assent 30 March 2026 (Finance Bill No. 3 of 2026, introduced 1 February 2026)	Rates of income-tax for Tax Year 2026-27 in Part I-B of the First Schedule; surcharge; marginal relief; the omission of section 202(2)(a)(iii)
Income-tax Rules, 2026 — G.S.R. 198(E) dated 20 March 2026, in force 1 April 2026	Rules 277, 279 and 280 (leave travel concession, house rent allowance, special allowances); Rule 159 (transactions in which PAN is to be quoted)

Source	What it settles in this Unit
Memorandum explaining the provisions of the Finance Bill, 2026	That no change is proposed in the rates in section 202 or in the First Schedule
McDowell & Co. Ltd. v. CTO (1985) 154 ITR 148 (SC); UOI v. Azadi Bachao Andolan (2003) 263 ITR 706 (SC); Vodafone International Holdings B.V. v. UOI (2012) 341 ITR 1 (SC); IRC v. Duke of Westminster [1936] AC 1 (HL)	The legal thinking on tax planning, tax avoidance and tax evasion

What the Finance Act, 2026 changed for this Unit

Very little — which is good news, because the figures you learn this year are, with one exception, the figures the Income-tax Act, 2025 carried when it was first enacted.

Point	Position for Tax Year 2026-27
Slab rates under section 202 — the default regime	No change. The Memorandum states in terms that no change is proposed in the rates in section 202 or in the First Schedule.
Rates under Part I-B of the First Schedule — the optional regime	No change. The ₹2,50,000 / ₹3,00,000 / ₹5,00,000 exemption limits and the 5%, 20% and 30% slabs continue.
Surcharge, marginal relief, health and education cess	No change. Cess remains 4%; no marginal relief is available against cess.
Rebate under section 156	No change — ₹60,000 in the default regime and ₹12,500 in the optional regime.
Section 202(2)(a)(iii)	**Omitted**, so that the deduction under section 144 (a unit newly established in a Special Economic Zone) is no longer among the deductions withdrawn by the default regime. Of no consequence to an ordinary individual assessee, but part of the section as it now stands.
Section 262(10)(c) — PAN	Amended. The words “or other transactions” were added, so that the Board's power to prescribe documents in which PAN must be quoted now extends beyond documents pertaining to a business or profession. Effective 1 April 2026.

About this booklet

This booklet has been prepared by Artificial Intelligence — **Claude Opus 5.0 (Anthropic), Max** — under the guidance and supervision of **Advocate Dr. S. B. Rathore**, from the bare text of the Income-tax Act, 2025 and the Income-tax Rules, 2026 as downloaded from incometaxindia.gov.in, read with the Finance Act, 2026 and the Memorandum explaining the provisions of the Finance Bill, 2026.

It is issued **free of cost** to the students of the University of Delhi and to anyone else who finds it useful. It is not for sale.

Date: 08-08-26 (Original)

SUGGESTIONS AND CORRECTIONS ARE WELCOME

This is the first year in which this paper is being taught under the Income-tax Act, 2025, and the first edition of any material is bound to be capable of improvement. If you notice a discrepancy — a section number, a figure, a rate, a date — or if you have a suggestion on the presentation, the arrangement of topics, the illustrations, or anything else that would make the material easier for a student, please write to me. Teachers of other colleges are equally welcome to send their comments.

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Corrections received will be carried into the next revision, and the corrected file will be uploaded on the website.

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Page numbers refer to this booklet. Chapter headings are shown in bold.

CHAPTER 1

What Tax Planning Is, and Why It Is Needed

Before we look at a single section, we must be clear about four words that students use loosely and that the law distinguishes sharply — planning, management, avoidance and evasion. Everything in this paper turns on the difference.

1.1 The setting

Income-tax in India is charged on the *total income* of the previous tax year at the rates prescribed [section 4]. Two features of that charge create the whole subject of tax planning.

1. **The tax is progressive.** The rate rises as income rises. Under section 202 an individual pays nothing on the first ₹4,00,000 and 30% on income above ₹24,00,000. It follows at once that the same total sum of money bears less tax in two hands than in one, and less tax in two years than in one.
2. **The Act itself offers choices.** It exempts some receipts and not others; it allows deductions on conditions; it taxes some gains at 12.5% and others at slab rates; and it now offers two entire regimes of tax and lets the assessee pick. Wherever the Act offers a choice, the taxpayer is entitled to make the choice that costs him less.

Tax planning lives in the space those two features create. It is not a loophole and it is not a concession granted by the Assessing Officer. It is the ordinary consequence of a statute that taxes different arrangements differently.

1.2 Meaning of tax planning

DEFINITION

Tax planning is the arrangement of a person's financial affairs, within the four corners of the taxing statute, in such a manner that he obtains in full the benefit of every exemption, deduction, rebate, relief, allowance and concession that the statute permits, so that his tax liability is the least that the law requires him to bear.

Three elements are essential, and an answer that omits any one of them is incomplete —

(a) It is an arrangement, that is, a conscious and prior ordering of affairs. A person who discovers in March that he ought to have invested in April has not planned; he has regretted.

(b) It is within the four corners of the Act. The benefit claimed must be one the statute actually gives, on facts that are actually true.

(c) Its object is to reduce the liability lawfully, not to conceal it.

Two classical statements are worth remembering, and both earn marks.

TWO STATEMENTS TO QUOTE

Lord Tomlin in *IRC v. Duke of Westminster* [1936] AC 1 (HL) — "Every man is entitled, if he can, to order his affairs so that the tax attaching under the appropriate Acts is less than it otherwise would be. If he succeeds in ordering them so as to secure this result, then, however unappreciative the Commissioners of Inland Revenue or his fellow taxpayers may be of his ingenuity, he cannot be compelled to pay an increased tax."

Justice Learned Hand in *Helvering v. Gregory* (1934) — "Any one may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes."

Both statements are still good law in India so far as they go. *What has changed since 1936 is the answer to the question, ordered* how? *Chapter 2 of this booklet traces that change.*

1.3 The need for tax planning

Why should an individual plan at all? Six reasons are usually given, and they should be given in this order because the first two are the taxpayer's and the last two are the country's.

No.	The need	What it means in practice
1	**Reduction of the tax liability**	The direct and obvious reason. Every rupee of tax lawfully saved is a rupee of disposable income retained. For a salaried individual in the 30% bracket, a deduction of ₹1,50,000 is worth ₹46,800 including cess.
2	**Minimisation of litigation**	A planned transaction is a documented transaction. Where the assessee has chosen a course the Act plainly permits, and can show the papers, there is nothing for the Assessing Officer to dispute. Unplanned affairs generate additions, appeals, and years of cost.
3	**Productive investment**	The deductions in Chapter VIII are not scattered at random. They channel savings into life insurance, provident fund, pension, housing, education and health. Planning therefore converts tax that would have been paid into an asset the taxpayer owns.
4	**Healthy growth of the economy**	Savings so channelled become capital for infrastructure, housing and industry. A tax system that rewards saving is planning the economy through the taxpayer.
5	**Economic stability and employment**	Deductions such as section 146 (additional employee cost) and the incentives for undertakings in backward and North-Eastern areas exist to move investment where the Government wants it.
6	**Avoidance of the penal consequences of evasion**	The clearest need of all. A taxpayer who plans has no reason to conceal, and therefore no exposure to penalty under Chapter XXI or prosecution under Chapter XXII.

The role of tax planning — three levels

The guidelines ask for the role of tax planning at three levels, and an answer should take them in this order.

Level	The role tax planning plays
Personal finance	It decides how much of a person's earnings survive to be saved, and it directs the savings that survive. The choice of regime under section 202, the design of a pay package, the choice between a public provident fund account and an equity linked savings scheme — each is a financial decision taken for a tax reason, and each alters the household's wealth over a working life
Business decision-making	The form of organisation, the location of a unit, the decision to buy or to lease, the timing of the purchase of an asset and of the sale of one, the mix of debt and equity, the choice between remuneration and share of profit in a firm — none of these can be decided on commercial grounds alone, because the after-tax result is what the proprietor keeps
Government policy	The exemptions and deductions are the instruments through which the State directs private savings to the ends it has chosen — insurance, retirement provision, housing, education,

Level	The role tax planning plays
	health, charity, and employment. A taxpayer who plans is doing what the Act invited him to do, and the revenue forgone is the price the State has knowingly agreed to pay for that behaviour

THE SENTENCE THAT TIES THE THREE TOGETHER

Tax planning is not a leakage in the system; it is the system working. The Legislature writes an exemption in order to be used. A taxpayer who claims it is not defeating the Act — he is completing it.

That sentence answers the question "is tax planning ethical?", which is asked in one form or another in most years, and it is the bridge between this paragraph and Chapter 2.

1.4 The four words distinguished

This is the single most examined topic in Unit 1. Learn the table; then learn the two sentences under it.

Point of distinction	Tax planning	Tax avoidance	Tax evasion	Tax management
Meaning	Arranging affairs to take the benefits the Act gives	Arranging affairs to defeat the intention of the Act while keeping within its letter	Reducing tax by illegal means — concealment, false claims, fabricated records	Complying with the Act — records, returns, TDS, advance tax, audit
Legality	Legal, and intended by the legislature	Not illegal in itself, but liable to be struck down under GAAR or a specific anti-avoidance rule	Illegal	Legal, and compulsory
Element of *mens rea*	Absent	Present — the object is to obtain a tax benefit	Present, and dishonest	Absent
Disclosure	Full and true	Usually full, but the arrangement is artificial	False, incomplete or suppressed	Full and true
Timing	Before the transaction	Before the transaction	Generally after the income has arisen	Before and after
Consequence	The benefit is allowed	The benefit may be denied and the arrangement recharacterised [sections 178 to 184]	Tax, interest, penalty under Chapter XXI and prosecution under Chapter XXII	Interest and penalty for default, but no charge of dishonesty
Example	Investing ₹1,50,000 in a public provident fund account to claim section 123	Routing an Indian investment through a shell company in a treaty country with no commercial purpose	Not disclosing rent received in cash; claiming a donation never made	Depositing tax deducted at source by the 7th of the following month; filing the return by the due date

THE TWO SENTENCES TO REMEMBER

Planning and avoidance differ in *object*; avoidance and evasion differ in *means*. The planner takes what the Act offers; the avoider takes what the Act did not mean to offer; the evader takes what the Act refuses, by lying.

Tax management is not a species of tax planning; it is its companion. Planning decides *what to do*; management ensures that what was done is properly recorded, returned and paid for. A brilliant plan destroyed by a late return is worth nothing — which is why Unit 4 of this syllabus is devoted entirely to management.

1.5 Objectives of tax planning

The objectives are conventionally stated as six. Note that only the first is about tax; the remaining five are about the taxpayer's larger financial position, and a good answer says so.

- **Reduction in tax liability** — availing every exemption, deduction, rebate and relief the Act permits, and choosing between them where they are alternatives.
- **Minimisation of litigation** — so that what is claimed is not disputed.
- **Productive investment** — directing savings into assets that also carry a tax benefit, so that the same rupee works twice.
- **Healthy growth of the economy** — the aggregate effect of individual planning under a well-designed statute.
- **Economic stability** — a planned taxpayer is a solvent taxpayer, with liabilities anticipated and provided for.
- **Deferment of tax liability** — where the tax cannot be avoided, postponing it. A rupee of tax paid next year is cheaper than a rupee paid this year, and the difference is real money.

1.6 Principles of tax planning

Principles are the working rules a planner applies. Six are settled.

No.	Principle	Application
1	**The principle of legality — planning must be within the Act**	The claim must be one the statute gives, on facts that are true. A device that depends on a false statement is evasion, whatever it is called.
2	**The principle of substance — the arrangement must be real**	It must have commercial substance and must be given effect to. A gift on paper that leaves control with the donor will be disregarded — and, since 1 April 2026, may be struck down under section 180.
3	**The principle of foresight — plan before, not after**	The charge attaches when the income accrues or is received. Once it has accrued in the wrong hands, or in the wrong year, no amount of documentation will move it.
4	**The principle of the whole picture — plan for total income, not for one head**	A deduction saved under one head may be lost under another. The regime choice under section 202 is the clearest instance: a taxpayer who looks only at the slab rates and forgets the deductions he is giving up will choose wrongly.
5	**The principle of the non-tax objective — the tax tail must not wag the commercial dog**	An investment that is poor on its own merits does not become good because it carries a deduction. A deduction under section 123 saves at most 30% of the amount invested; the other 70% must still earn its keep.
6	**The principle of continuity — plan for the long term**	Options under section 202(4) once withdrawn may never be exercised again by a person having business income; a capital asset sold a month too soon changes from long-term to short-term. Many choices in the Act are irreversible.

1.7 Obligations of the parties to tax planning

The syllabus asks specifically for the **obligations of parties to tax planning**. Four parties are involved, and each owes something to the others.

Party	Obligations
The taxpayer (assessee)	• To disclose to his adviser the whole of his affairs, truly and fully — a plan built on half the facts will fail on the other half. • To carry out the arrangement in substance, and not merely on paper. • To keep and preserve the books, vouchers and evidence that support every claim. • To quote his Permanent Account Number where required [section 262 with Rule 159], to pay advance tax, to deduct tax at source where he is liable to do so, and to furnish a true and complete return within the time allowed. • Not to ask his adviser for a device he knows to be false.
The tax adviser (chartered accountant, advocate, tax practitioner)	• To advise on the law as it stands, not as the client would like it to be. • To distinguish for the client, in terms, between what is planning, what is avoidance that may be struck down, and what is evasion — and to decline the third. • To keep himself current. In 2026-27 this obligation is unusually heavy: the entire section numbering has changed, and advice given from a pre-April-2026 edition will be wrong. • To maintain confidentiality, and to certify only what he has verified. A report under section 172 or an audit report signed without examination exposes the professional to penalty.
The Government and the legislature	• To make the law certain, so that a taxpayer can know in advance what a transaction will cost him. *Certainty* is the second of Adam Smith's canons and the first requirement of planning. • To make the law stable, and to avoid retrospective amendment, which destroys plans lawfully made. • To state the intention behind an incentive plainly, so that the benefit reaches those for whom it was meant. • To provide a fair machinery of assessment, appeal and refund.
The tax administration (the Income-tax Department)	• To allow, without being asked twice, every benefit to which the assessee is entitled on the material on record. • To apply the anti-avoidance provisions of Chapter XI only in accordance with the guidelines and conditions prescribed [section 183(b)], and not to treat every arrangement as impermissible. • To complete assessments within the time limits, to grant refunds with interest, and to give the assessee a hearing before any addition. • To issue circulars and clarifications that resolve doubt rather than create it.

Why this question is set

Examiners set "obligations of parties" because it tests whether the student sees tax planning as a *relationship* rather

> than a trick. The taxpayer cannot plan without candour; the adviser cannot advise without currency; neither can plan at all unless the Government has made the law certain and the Department applies it fairly. Write the answer in that spirit and it will read well.

1.8 Requisites of successful tax planning

- **Up-to-date knowledge of the law —** the Act, the Rules, the Finance Act, the notifications, the circulars and the decided cases.
- **Complete knowledge of the client's facts —** residential status, sources, family, existing investments, and intentions for the next five years.
- **Anticipation, not reaction —** the plan must be in place before the transaction.
- **Documentation —** every claim must be capable of proof.
- **Flexibility —** the law changes; a plan that cannot be altered is a liability.
- **Commercial soundness —** the arrangement must make sense even if the tax benefit is removed.

CHAPTER 2

Tax Avoidance, Tax Evasion and the Legal Thinking

The syllabus asks for "Tax Avoidance and Tax Evasion — Legal thinking on Tax Planning". This chapter answers it by following one question through ninety years of judicial history: where does lawful arrangement end?

2.1 The problem stated

A taxpayer who lies has evaded, and everybody agrees he must be punished. A taxpayer who invests ₹1,50,000 in a provident fund has planned, and everybody agrees he must be allowed. The difficulty lies between: the taxpayer who tells no lie at all, whose every step is real and documented, but whose arrangement was built for no reason except to attract less tax.

Is such a man to be allowed the benefit because he has broken no rule, or denied it because he has defeated the purpose of the statute? Courts in England and in India have answered that question differently at different times, and the answer now given in India is a statutory one.

2.2 The Westminster principle [1936]

In *IRC v. Duke of Westminster* [1936] AC 1, the Duke paid his gardener a wage. He replaced it with a covenant to pay an annuity of the same amount, because an annuity was deductible in computing his surtax while a wage was not. The gardener understood he would not also claim the wage. The Revenue argued that in substance nothing had changed.

The House of Lords held for the Duke. **The form chosen was a real legal form** — the deed was genuine, the annuity was payable and enforceable — and the Revenue could not substitute the economic substance for the legal form the parties had adopted. Lord Tomlin's sentence, quoted in Chapter 1, comes from this case.

The principle that emerges is called the **form-over-substance** or **Westminster** principle: *a genuine document is to be given its legal effect, and the taxing statute applied to that effect.*

2.3 The Indian reception

Indian courts adopted Westminster without difficulty for the first two decades after Independence.

- In **CIT v. A. Raman & Co.** (1968) 67 ITR 11, the Supreme Court said that avoidance of tax liability by so arranging commercial affairs that the charge of tax is distributed is *not prohibited*, and that the Revenue may not recast a transaction into one it considers more appropriate.
- In **CIT v. B. M. Kharwar** (1969) 72 ITR 603, the Court reaffirmed that the true legal relation arising from a transaction determines the tax, and that the taxing authority cannot ignore the legal character of the transaction.

2.4 McDowell & Co. Ltd. v. CTO [1985]

McDowell & Co. Ltd. v. Commercial Tax Officer (1985) 154 ITR 148 (SC)

Facts. McDowell manufactured Indian liquor. Excise duty on the liquor was payable before removal from the distillery. The buyers were made to pay the excise duty directly into the Government treasury, so that the duty never passed through McDowell's books. McDowell then excluded the duty from its "turnover" for sales tax.

Held. The excise duty was part of the turnover. The Court held that the liability was the manufacturer's, and the mode of payment adopted did not alter that.

The famous passage. Chinnappa Reddy J., in a separate concurring judgment, went considerably further. He said that the time had come to depart from the Westminster principle and "the alluring logic of tax avoidance"; that **"colourable devices cannot be part of tax planning"**; and that it is wrong to encourage the belief that it is honourable to avoid payment of tax by dubious methods.

He listed the evils of avoidance — substantial loss of public revenue; the growth of a "black money economy"; the diversion of the best professional talent into contriving schemes; and, worst, the sense of injustice felt by the honest taxpayer who cannot afford such advice.

Note what the case did not *decide. The concurring judgment is the source of the celebrated language, but the ratio of the majority was narrower. That distinction became decisive eighteen years later.*

2.5 Union of India v. Azadi Bachao Andolan [2003]

UOI v. Azadi Bachao Andolan (2003) 263 ITR 706 (SC)

Facts. Under the India–Mauritius Double Taxation Avoidance Agreement, capital gains on the sale of shares of an Indian company by a Mauritius resident were taxable only in Mauritius, which did not tax them. CBDT Circular No. 789 directed that a certificate of residence issued by Mauritius was sufficient evidence of residence. The circular was challenged as encouraging "treaty shopping".

Held. The circular was valid. An assessee is entitled to the benefit of a treaty provision more favourable than the domestic law. Treaty shopping, whatever its morality, was a matter for the Government to address by negotiating the treaty, not for the courts to correct by construction.

On McDowell. The Court held expressly that *McDowell* could **not** be read as laying down that every attempt at tax planning is illegitimate, nor that the legal effect of a genuine transaction may be ignored merely because it produces a tax advantage. The observations of Chinnappa Reddy J. were those of one judge, and the majority in *McDowell* had said nothing so wide.

The effect was to restore Westminster to Indian law, subject to the rule that a ***sham or colourable*** *transaction — one that is not what it pretends to be — will always be disregarded.*

2.6 Vodafone International Holdings B.V. v. UOI [2012]

Vodafone International Holdings B.V. v. Union of India (2012) 341 ITR 1 (SC)

Facts. Vodafone (Netherlands) bought from Hutchison (Hong Kong) the share of a Cayman Islands company, which held, through a chain of intermediate companies, the controlling interest in an Indian telecom operator. The Revenue said that what had really been transferred was a capital asset situated in India, and demanded tax.

Held (for the assessee). The transaction was a genuine transfer of a share of a foreign company between two non-residents outside India. The Court held there was **no conflict** between *McDowell* and *Azadi Bachao Andolan*; that legitimate tax planning is permissible; and that the Revenue must look at the transaction as a whole and not dissect it, applying a **"look at"** test rather than a "look through" test.

It laid down that the presence or absence of a business purpose, the period of holding, the timing of exit and the continuity of business are all relevant to deciding whether an arrangement is real or a device.

Vodafone *was reversed on its facts by a retrospective amendment to the 1961 Act in 2012, and that amendment was itself withdrawn in 2021. The* principle *stated in the judgment was never displaced, and it survives into the 2025 Act.*

2.7 CIT v. Rajesh Jhaveri Stock Brokers Pvt. Ltd. [2007]

The third of the three cases the guidelines name. It is not an avoidance case at all, and students who expect another McDowell are puzzled by it. Its place in this Unit is different and more practical: it tells you **what an assessment is**, and therefore what the taxpayer's and the Department's respective positions are when a return is filed.

CIT v. Rajesh Jhaveri Stock Brokers Pvt. Ltd. (2007) 291 ITR 500 (SC)

The facts. The assessee filed a return which was processed under what was then section 143(1) — a summary processing, in which an intimation was sent and no scrutiny was made. The Assessing Officer later issued a notice to reassess. The assessee objected that there had been an "assessment", and that reassessment therefore required a change of opinion, which is not permitted.

The decision. The Supreme Court held that **an intimation on summary processing is not an assessment.** No opinion is formed on it, because the Assessing Officer applies no mind to the merits; he merely checks the arithmetic. There being no opinion, there can be no *change* of opinion, and the reassessment was valid. The Court also held that "reason to believe" does not mean established fact — it is enough that there is *some* material on which a reasonable person could form the belief.

Why the guidelines put it in a tax planning paper. Because of what follows from it for the taxpayer — and this is the examinable part —

- **A return that has gone through unquestioned has not been approved.** The absence of a notice is not an endorsement. Planning must be defensible for the whole of the period during which the return may be reopened, not merely until the intimation arrives.
- **The documentation is the planning.** A course of action that the Act permits but the papers do not evidence will not survive a reassessment. This is the practical link back to paragraph 1.3 — minimisation of litigation.

> • **Tax management is not optional.** Rajesh Jhaveri is the case that shows why the second half of this paper exists: the best-planned transaction is worth nothing if the compliance around it is careless.
>
> *In an answer, use McDowell and Vodafone for the substance of the line between planning and avoidance, and Rajesh Jhaveri for the procedure that tests it afterwards.*

2.8 From judicial doctrine to statutory rule — the arrival of GAAR

Azadi Bachao Andolan and *Vodafone* left the Revenue with only two weapons — the sham doctrine, and whatever specific anti-avoidance provisions Parliament had enacted. Both are narrow. A **General** Anti-Avoidance Rule was therefore proposed in the Direct Taxes Code, examined by the Expert Committee under Dr. Parthasarathi Shome (2012), deferred more than once, and finally brought into force under the 1961 Act from 1 April 2017.

The Income-tax Act, 2025 re-enacts it as **Chapter XI, sections 178 to 184**, and it is part of our syllabus in substance because no discussion of "legal thinking on tax planning" is complete without it.

2.9 GAAR under the Income-tax Act, 2025 [sections 178 to 184]

Section	What it provides
178	An arrangement entered into by an assessee **may be declared to be an impermissible avoidance arrangement**, and the tax consequences determined accordingly. The Chapter may be applied to any *step in*, or *part of*, an arrangement — not only to the whole of it.
179	An **impermissible avoidance arrangement** means an arrangement the *main purpose* of which is to obtain a tax benefit, and which additionally — (a) creates rights or obligations not ordinarily created between persons dealing at arm's length; or (b) results, directly or indirectly, in the misuse or abuse of the provisions of the Act; or (c) lacks commercial substance, wholly or in part; or (d) is entered into or carried out by means or in a manner not ordinarily employed for bona fide purposes. Sub-section (2) adds a **presumption**: if the main purpose of a *step* is to obtain a tax benefit, the whole arrangement is presumed to have that main purpose, unless the assessee proves the contrary.
180	An arrangement **lacks commercial substance** if its substance differs significantly from the form of its steps; or if it involves round trip financing, an accommodating party, elements that offset or cancel each other, or a transaction that disguises the value, location, source, ownership or control of funds; or if the location of an asset, transaction or residence has no substantial commercial purpose other than a tax benefit; or if it has no significant effect on business risk or net cash flow. Three things are relevant but **not sufficient** by themselves: the period for which the arrangement exists, the fact that tax was paid under it, and the fact that it provides an exit route.
181	**Consequences.** The benefit may be denied; steps may be disregarded, combined or recharacterised; the arrangement may be treated as never entered into; an accommodating party may be disregarded; connected persons may be treated as one person; receipts and expenditure may be reallocated; residence or *situs* may be relocated; a corporate structure may be looked

Section	What it provides
	through. Equity may be treated as debt, capital as revenue, and *vice versa*.
182	In deciding whether a tax benefit exists, connected persons may be treated as one, an accommodating party may be disregarded, and the corporate structure looked through.
183	The Chapter applies **in addition to, or in lieu of**, any other basis of determining tax liability, and **as per such guidelines and subject to such conditions as may be prescribed**. This is the safeguard: GAAR is not at large.
184	Definitions — "accommodating party", "arrangement", "asset", "benefit", "connected person", "tax benefit". Note that "arrangement" is very wide: any step in, or part or whole of, any transaction, operation, scheme, agreement or understanding, *whether enforceable or not*.

THE FOUR-LIMB TEST — A WAY TO REMEMBER SECTION 179

An arrangement is impermissible only if **both** of the following hold —

Limb 1 (the purpose test). The main purpose is to obtain a tax benefit; **and**

Limb 2 (the tainted-element test). Any *one* of the four elements is present — non-arm's length rights, misuse or abuse of the Act, lack of commercial substance, or a manner not ordinarily employed for bona fide purposes.

So an arrangement with a genuine commercial purpose is safe even if it also saves tax; and an unusual arrangement is safe if saving tax was not its main purpose. It is the combination *that is struck down. Say this in the examination and you have understood GAAR.*

2.10 Where the line now lies — a working test

FOUR QUESTIONS TO ASK OF ANY ARRANGEMENT

1. Is every fact stated in it true? If not, it is evasion. Stop.

2. Does the Act, read fairly, give the benefit claimed on those facts? If yes, and the arrangement has a real commercial purpose, it is planning. Proceed.

3. Would the arrangement have been entered into if there were no tax benefit? If the honest answer is no, ask the fourth question.

4. Does it carry any of the four taints in section 179(1)? If it does, it is an impermissible avoidance arrangement and the benefit may be denied under section 181.

The safest planning is therefore planning that the Act invites *— an investment under section 123, a deduction under section 126, the choice of regime under section 202, the timing of a capital gain. None of these can be attacked under Chapter XI, because taking a benefit the statute deliberately offers is not a misuse or abuse of it.*

CHAPTER 3

The Scope of Tax Planning

Scope answers four questions — for whom, for how long, for what purpose, and at what stage. This chapter takes them in turn, and then sets out the one decision that dominates personal tax planning in Tax Year 2026-27.

3.1 Scope by reference to the period

Type	Meaning	Example
Short-range planning	Planning undertaken and executed within a single tax year, usually towards its close, with no commitment beyond that year	Investing in a five-year time deposit in March 2027 to claim a deduction under section 123 for Tax Year 2026-27; selling a loss-making holding before 31 March to set off a capital gain
Long-range planning	A plan laid at the beginning and carried through several years, which may yield no benefit at once but a substantial one later	Transferring an income-earning asset to a major son who has no other income; taking a housing loan whose interest will be deductible for years; building a pension corpus under section 124

3.2 The areas of personal tax planning — a map of this paper

Area	Where it is dealt with	Principal provisions
Residential status and the scope of total income	Unit 1, Chapter 4	Sections 5, 6 and 9
Exempted incomes	Unit 1, Chapter 5	Section 11 with Schedules II to VIII
Permissible deductions	Unit 1, Chapter 6	Chapter VIII, sections 122 to 154
Clubbing of income	Unit 1, Chapter 7	Sections 96 to 100 and section 25(a)
The five heads of income	Unit 2	Sections 15 to 95
Investment avenues	Unit 3	Chapter VIII, and the Schedules
Advance tax, TDS, TCS and refunds	Unit 4 (A)	Chapters XIX and XX
Returns, assessment, appeals and revision	Unit 4 (B)	Chapters XIV to XVIII

3.3 The limits of tax planning

- **GAAR** — Chapter XI, sections 178 to 184, discussed above.
- **The specific anti-avoidance rules** — clubbing, transfer pricing, deemed ownership, and the rest.
- **The requirement of substance** — an arrangement that is not carried out will not be recognised.
- **Cash restrictions** — a donation above ₹2,000 in cash earns nothing under section 133(5); a contribution to a political party in cash earns nothing under sections 136 and 137; and Chapter XII (sections 185 to 189) restricts the mode of payment generally.
- **Time limits** — an option not exercised by the due date under section 263(1) is lost for that year; an investment made on 1 April 2027 belongs to the next tax year.
- **Irreversibility** — section 202(4)(a)(iv): a person with business income who withdraws the option may never exercise it again while he has business income.

3.4 The master decision — the two regimes [section 202]

For an individual in Tax Year 2026-27, no other planning decision comes close to this one in value. It must be taken first, because it determines whether the rest of the planning is worth anything at all.

The default regime — section 202(1)

Sl.	Total income	Rate of tax
1	Up to ₹4,00,000	Nil
2	₹4,00,001 to ₹8,00,000	5%
3	₹8,00,001 to ₹12,00,000	10%
4	₹12,00,001 to ₹16,00,000	15%
5	₹16,00,001 to ₹20,00,000	20%
6	₹20,00,001 to ₹24,00,000	25%
7	Above ₹24,00,000	30%

The optional regime — Part I-B of the First Schedule to the Finance Act, 2026

Sl.	Total income	Rate of tax
1	Up to ₹2,50,000 (₹3,00,000 for a senior citizen; ₹5,00,000 for a very senior citizen)	Nil
2	Next slab up to ₹5,00,000	5%
3	₹5,00,001 to ₹10,00,000	20%
4	Above ₹10,00,000	30%

What the default regime takes away [section 202(2)]

This is the price of the lower rates, and it is the heart of the planning question.

Provision withdrawn	What is lost
Schedule III — Sl. Nos. 5, 6, 7, 8, 11 and 17	Daily allowance and allowances of members of legislatures; leave travel concession; special allowances from the employer; and the ₹1,500 per minor child exemption
Schedule III — Sl. Nos. 12 and 13, except as prescribed by Rule 280(3)	House rent allowance, and the special allowances to meet personal expenses (children education, hostel, transport for a disabled employee) except those the Rule saves
Section 19(1), Table Sl. No. 1	Tax on employment (professional tax)
Section 22(1)(b) for property referred to in section 21(6)	Interest on borrowed capital for a self-occupied house — the ₹2,00,000 deduction
Sections 33(8), 45(3)(a)/(b)/(c), 46, 47(1)(a), 48 and 49	Certain business deductions and allowances
Chapter VIII in its entirety, except sections 124(1), 124(2), 125(2) and 146	**Every deduction from gross total income except the pension-scheme contributions, the Agnipath Scheme and additional employee cost.** Sections 123, 126, 127, 128, 129, 133, 134, 153 and 154 are all unavailable.
Set-off	No set-off of a loss under the head "Income from house property" against any other head; and no carry-forward of a loss or depreciation attributable to a withdrawn

Provision withdrawn	What is lost
	deduction

What the default regime gives

- The lower slab rates set out above, and a nil rate up to ₹4,00,000 instead of ₹2,50,000.
- A standard deduction of **₹75,000** under section 19(1), Table Sl. No. 2, against ₹50,000 in the optional regime.
- A rebate under **section 156(2)(a) of ₹60,000** where the total income does not exceed ₹12,00,000, against ₹12,500 up to ₹5,00,000 in the optional regime — with marginal relief under section 156(2)(b) in the band up to about ₹12,70,588.
- The employer's contribution to the notified pension scheme deductible at **14% of salary in every case** under section 124(2), against 14% for a Government employer and 10% otherwise.

ILLUSTRATION 3.1 — THE REGIME CHOICE, WORKED

Shri Rakesh, aged 45, is a salaried employee. For Tax Year 2026-27 his gross salary is ₹16,00,000. He pays ₹1,50,000 into a public provident fund, ₹25,000 as health insurance premium for himself and his family, and ₹2,00,000 as interest on a loan for his self-occupied house. He pays professional tax of ₹2,500. *Which regime should he choose?*

Default regime. Gross salary ₹16,00,000 *less* standard deduction ₹75,000 = ₹15,25,000. No professional tax, no housing interest, no section 123, no section 126. **Total income = ₹15,25,000.**

Tax: nil on ₹4,00,000; 5% on ₹4,00,000 = ₹20,000; 10% on ₹4,00,000 = ₹40,000; 15% on ₹3,25,000 = ₹48,750. **Tax = ₹1,08,750.** Add cess 4% = ₹4,350. **₹1,13,100.**

Optional regime. Gross salary ₹16,00,000 *less* standard deduction ₹50,000 *less* professional tax ₹2,500 = ₹15,47,500. *Less* interest on housing loan ₹2,00,000 = ₹13,47,500. *Less* section 123 ₹1,50,000 and section 126 ₹25,000 = **₹11,72,500.**

Tax: nil on ₹2,50,000; 5% on ₹2,50,000 = ₹12,500; 20% on ₹5,00,000 = ₹1,00,000; 30% on ₹1,72,500 = ₹51,750. **Tax = ₹1,64,250.** Add cess 4% = ₹6,570. **₹1,70,820.**

Conclusion. The default regime is better by ₹57,720. He should not exercise the option under section 202(4).

Observe why. *The extra deductions the optional regime gave him came to ₹3,52,500 — his total income fell from ₹15,25,000 to ₹11,72,500 — which looks large. But the rate saving in the default regime is larger still, because the optional regime charges 30% from ₹10,00,000 while the default regime does not reach 30% until ₹24,00,000. The lesson is that the comparison must always be made on the tax, never on the deductions.*

A RULE OF THUMB — BUT CHECK IT EVERY TIME

For a salaried individual in Tax Year 2026-27, the optional regime generally begins to win only where the deductions and exemptions foregone exceed roughly **₹8,00,000 to ₹9,00,000** — a figure reached in practice only where there is a large housing-loan interest, full house rent allowance, and the whole of Chapter VIII.

This is a rule of thumb for checking your answer, not a substitute for the computation. In the examination, always show both computations in full and state the saving.

CHAPTER 4

Residential Status — the First Planning Tool

The syllabus asks for planning "through exempted income for residents / non-residents" and "through permissible deductions for residents / non-residents". Neither phrase can be understood until the status itself is understood — and the status is very largely a matter of choice.

4.1 Why the status is decided first

Section 4 charges tax on the total income of a person. Section 5 then says which incomes go into that total, and it answers differently for the three categories of residence. **The status therefore decides the size of the base before a single deduction is considered.** No other planning decision has so large an effect on so little effort.

It is also, for many people, genuinely open. A person who works abroad, or travels for business, or is returning to India after years outside it, can in most years determine his own status by regulating the number of days he spends in India. That is **purposive tax planning** in its purest form, and it is entirely lawful — the Act itself prescribes a day count, and counting days is not an abuse of it.

4.2 Scope of total income [section 5]

Nature of income	ROR	RNOR	NR
Received or deemed to be received in India	Taxable	Taxable	Taxable
Accrues or arises, or is deemed to accrue or arise, in India	Taxable	Taxable	Taxable
Accrues or arises outside India from a business **controlled from** India, or a profession **set up in** India	Taxable	**Taxable**	Not taxable
Accrues or arises outside India from any other source	Taxable	**Not taxable**	Not taxable
Income of an earlier year remitted to India during the tax year	Not income of this year	Not income of this year	Not income of this year

THE ONE LINE THAT DECIDES MOST QUESTIONS

Indian income is taxable for everybody. Foreign income is taxable only for an ROR — with the single exception that an RNOR is also taxed on foreign income from a business controlled from India or a profession set up in India.

A great many marks are lost each year because a candidate taxes a non-resident on foreign income, or exempts an ROR on it. Write the status at the head of the answer and keep looking back at it.

4.3 The planning openings

Opening	How it works	Caution
Regulating the days of stay	The 182-day and 60/120-day tests turn on a count. A person leaving for employment abroad who departs on 28 September rather than 2 October keeps his stay below 182 days and is a	Count the day of arrival and the day of departure both as days in India. Keep passport stamps; the burden of proof is on the assessee

Opening	How it works	Caution
	non-resident for the whole year, so his foreign salary escapes Indian tax entirely	
Using the RNOR window on return	A person returning to India after a long stay abroad is normally RNOR for two tax years under section 6(13)(a). During those two years his foreign income — interest on foreign deposits, rent from foreign property, pension from a foreign employer — is outside the Indian net altogether	The window is short. Foreign assets should be reviewed, and income-bearing ones dealt with, *before* ROR status attaches
The ₹15 lakh threshold	A visiting non-resident Indian whose Indian income stays at or below ₹15 lakh keeps the plain 182-day test and may stay in India up to 181 days	The threshold looks at total income *other than* foreign-source income. Indian rent, Indian interest and Indian capital gains all count towards it
The deemed-resident rule	It bites only where the person is liable to tax **nowhere**. An Indian citizen resident in a country that does tax him is outside section 6(7) however little tax he pays there	"Liable to tax" is a question of the other country's law, not of the amount actually paid
Timing an accrual	Foreign income that would be taxable as an ROR may sometimes be caused to accrue in a year in which the person is RNOR or NR	The accrual must be genuine. An arrangement whose only purpose is to move the accrual, with no commercial substance, is exposed to section 179

ILLUSTRATION 4.1 — PLANNING THE DATE OF DEPARTURE

Shri Siddharth, a citizen of India, has never left India. He is offered employment in Dubai and may join either on **25 September 2026** or on **5 October 2026**. His Indian income for Tax Year 2026-27 will be ₹6,00,000; his Dubai salary from the date of joining to 31 March 2027 will be about ₹40,00,000, and Dubai levies no income-tax. *Advise him.*

If he leaves on 25 September 2026. Days in India = 30 (April) + 31 (May) + 30 (June) + 31 (July) + 31 (August) + 25 (September) = **178 days**.

Condition 6(2)(a): 178 is less than 182 — not satisfied. Condition 6(2)(b): he is a citizen of India leaving India for the purposes of employment outside India, so section 6(3) makes 6(2)(b) inapplicable. **He is a NON-RESIDENT.** Only the Indian income of ₹6,00,000 is taxable. The Dubai salary is foreign income and escapes tax altogether.

If he leaves on 5 October 2026. Days in India = 178 + 5 (26 to 30 September) + 5 (1 to 5 October) = **188 days**. Condition 6(2)(a) is satisfied. He is **RESIDENT**, and — having been in India throughout the preceding ten years — **ORDINARILY RESIDENT**. His world income, including the entire Dubai salary of ₹40,00,000, enters his Indian total income.

Advice: leave on or before 30 September 2026. Ten days of difference in the date of departure alter the total income by ₹40,00,000 and the tax by roughly ₹12,48,000.

Is this lawful? Certainly. Parliament chose a day count as the test of residence; a taxpayer who counts the days and acts on the count is doing exactly what the section contemplates. There is no misuse or abuse of the Act within section 179(1)(b), and the arrangement — actually going to Dubai and actually working there — has the fullest commercial substance.

ILLUSTRATION 4.2 — THE RNOR WINDOW

Smt. Anuradha, a citizen of India, lived and worked in Canada from 2011 and returned to India permanently on 1 May 2026. She owns a house in Toronto that yields rent of ₹9,00,000 a year and holds Canadian deposits yielding interest of ₹4,00,000 a year. *What is her status for Tax Year 2026-27, and what should she do?*

Status. She is in India from 1 May 2026 to 31 March 2027 = 335 days, so she is a **resident** under section 6(2)(a). But she was a non-resident in each of the ten preceding tax years, so section 6(13)(a)(i) makes her **RESIDENT BUT NOT ORDINARILY RESIDENT**.

Effect. Her Canadian rent and Canadian interest are foreign income from a source that is neither a business controlled from India nor a profession set up in India. Under section 5 they are **not taxable** in India for Tax Year 2026-27, and, on these facts, for Tax Year 2027-28 as well — she will have been a non-resident in nine of the ten preceding years for that year too.

Planning. The two RNOR years are a window that will close. Within it she may, without Indian tax, repatriate accumulated foreign income, realise gains on foreign assets, and restructure foreign deposits. From Tax Year 2028-29 she will be an ROR and the whole of that income will be taxable in India, subject only to relief under section 159.

A remittance is not income. Money brought into India out of income of an earlier year is not taxable as income of the year of remittance *for any category of assessee. Students confuse this constantly.*

4.4 ADDITIONAL CASE STUDIES — twelve situations on residential status

ILLUSTRATION 4.3 — NON-RESIDENT INDIAN RETURNING ON A VISIT — CHOOSING THE DATE OF ARRIVAL

FACTS

Mr. Mayank is a citizen of India. He had never been outside India until he left for employment in Canada on **1 January 2023**. In each of the tax years 2023-24, 2024-25 and 2025-26 he came to India for **100 days**.

During Tax Year 2026-27 he proposes to come to India on a visit of **210 days**. His total income for the year, other than income from foreign sources, is **₹11,50,000**. He has two alternatives —

- Alternative A: arrive in India on **28 September 2026**
- Alternative B: arrive in India on **12 October 2026**

REQUIRED

(i) Determine his residential status under both alternatives.

(ii) Advise him which alternative constitutes better tax planning.

(iii) Compute the maximum number of days he may stay in India and the exact date on which he should arrive for optimum tax planning.

SOLUTION

Step 1 — Identify the applicable test.

Mr. Mayank is a **citizen of India who, being outside India, comes on a visit to India**. Section 6(4) therefore switches off section 6(2)(b), so the 60 days + 365 days test cannot apply to him. His total income other than income from foreign sources is ₹11,50,000, which does **not** exceed ₹15,00,000, so section 6(5) is not attracted and the figure of 60 days is not replaced by 120 days. **Only the 182-day test in section 6(2)(a) governs his case.**

Step 2 — Count the days of stay.

Alternative A — arrival 28-9-2026	Days	Alternative B — arrival 12-10-2026	Days
September 2026 (28th to 30th)	3	October 2026 (12th to 31st)	20
October 2026	31	November 2026	30
November 2026	30	December 2026	31
December 2026	31	January 2027	31
January 2027	31	February 2027	28
February 2027	28	March 2027	31
March 2027	31		
Total	**185**	**Total**	**171**

Step 3 — Conclusion on status.

- **Alternative A — 185 days.** 185 is not less than 182, so he is a **Resident** under section 6(2)(a).
- **Alternative B — 171 days.** 171 is less than 182 and section 6(2)(b) stands excluded by section 6(4). He is therefore a **Non-resident**.

Step 4 — Ordinarily resident or not (Alternative A only).

Test under section 6(13)(a)	Working	Result
Non-resident in 9 out of the 10 preceding tax years (TY 2016-17 to TY 2025-26)	Resident in TY 2016-17 to TY 2021-22 (always in India); in TY 2022-23 he was in India from 1-4-2022 to 1-1-2023 = **276 days**, hence Resident; Non-resident only in TY 2023-24, 2024-25 and 2025-26 (100 days each, 182-day test failing). **Non-resident in only 3 of 10 years.**	Not satisfied
In India for 729 days or less in the 7 preceding tax years (TY 2019-20 to TY 2025-26)	366 + 365 + 365 + 276 + 100 + 100 + 100 = **1,672 days**	Not satisfied

Since neither limb is satisfied, under Alternative A he is a **Resident and Ordinarily Resident**, and his **global**

income becomes taxable in India under section 5(1).

Step 5 — Better tax planning.

Alternative B is decisively better. By postponing his arrival by a mere **14 days** he moves from Resident and Ordinarily Resident to Non-resident. As a non-resident, his Canadian salary, his overseas interest and his foreign investment income fall entirely outside the Indian tax net under section 5(2); only income received or deemed received in India, and income accruing or deemed to accrue in India, is taxable.

Step 6 — Optimum planning: maximum days and exact date.

He may remain in India for a maximum of **181 days** in Tax Year 2026-27.

- Arrival on 1-10-2026 gives 182 days — Resident. **Not acceptable.**
- Arrival on 2-10-2026 gives 181 days — Non-resident. **This is the optimum date.**

Therefore he should arrive **on or after 2 October 2026**. If he arrives exactly on 2 October 2026 he enjoys the maximum permissible 181 days in this tax year, and the balance 29 days of his 210-day visit (1 April 2027 to 29 April 2027) fall into Tax Year 2027-28, where 29 days again keep him a non-resident.

Teaching note. A stay that straddles 31 March is split between two tax years. The same continuous 210-day visit can therefore be arranged so that the assessee is a non-resident in **both** years. This straddling technique is the single most useful device in residential-status planning.

Illustration 4.4 — Indian citizen leaving India for employment — choosing the date of departure

FACTS

Mr. Sid is a citizen of India. He has never been outside India since his birth and has been working with an Indian multinational company since 2019.

During Tax Year 2026-27 he is deputed on a foreign assignment in the United Kingdom for **219 days**. He is in India for the remainder of the year. He has three alternatives —

- Alternative A: leave India on **1 August 2026**
- Alternative B: leave India on **31 August 2026**
- Alternative C: leave India on **30 September 2026**

REQUIRED

(i) Determine his residential status under each alternative.

(ii) Advise him on better tax planning.

(iii) Compute the maximum number of days he may remain in India and the last date on which he must leave India for optimum tax planning.

SOLUTION

Step 1 — Identify the applicable test.

Mr. Sid is a **citizen of India who leaves India for employment outside India**. Section 6(3)(b) switches off section 6(2)(b). **Only the 182-day test in section 6(2)(a) applies.**

Step 2 — Count the days of stay in India.

Alternative	Stay in India before departure	Period abroad (219 days)	Stay in India after return	Total days in India	Status
A — leaves 1-8-2026	1-4-2026 to 1-8-2026 = 123	2-8-2026 to 8-3-2027	9-3-2027 to 31-3-2027 = 23	**146**	**Non-resident**
B — leaves 31-8-2026	1-4-2026 to 31-8-2026 = 153	1-9-2026 to 7-4-2027	Returns after the tax year ends = 0	**153**	**Non-resident**
C — leaves 30-9-2026	1-4-2026 to 30-9-2026 = 183	1-10-2026 to 7-5-2027	Returns after the tax year ends = 0	**183**	**Resident**

Step 3 — Ordinarily resident or not (Alternative C).

Mr. Sid has been in India throughout his life. He was therefore Resident in each of the 10 preceding tax years, and his stay in the 7 preceding tax years vastly exceeds 729 days. Neither limb of section 6(13)(a) is satisfied, so under Alternative C he is a **Resident and Ordinarily Resident** and his entire UK salary is taxable in India.

Step 4 — Better tax planning.

Alternatives A and B both produce non-residence. **Alternative B is the better choice** because it delivers the same tax result while allowing him one additional month at home before departure, and it pushes a larger part of the assignment into the following tax year.

Step 5 — Optimum planning: maximum days and last date of departure.

He may remain in India for a maximum of **181 days**. Counting forward from 1 April 2026 —

Month	Days	Cumulative
April 2026	30	30
May 2026	31	61
June 2026	30	91
July 2026	31	122
August 2026	31	153
September 2026 (1st to 28th)	28	**181**

He must therefore **leave India on or before 28 September 2026**. Departure on 29 September 2026 takes him to 182 days and converts him into a Resident and Ordinarily Resident.

Teaching note. Section 6(3)(b) is available only if the purpose of leaving India is **employment outside India**. The employment contract, the visa category and the deputation letter are the evidence on which the whole benefit rests.

ILLUSTRATION 4.5 — PERSON OF INDIAN ORIGIN VISITING INDIA — AND THE LIMITS OF THE 120-DAY RULE

FACTS

Mr. Arjun is a citizen of Bangladesh. His maternal grandfather was born in a village near Dhaka in **1945**, that is, in **undivided India**. Mr. Arjun is therefore a **person of Indian origin**.

He has not set foot in India since Tax Year 1995-96. During Tax Year 2026-27 he proposes to visit India for **200 days**. He has two alternatives —

- Alternative A: arrive on **1 October 2026**
- Alternative B: arrive on **5 October 2026**

REQUIRED

(i) Determine his residential status under both alternatives, assuming his total income other than income from foreign sources is **₹8,00,000**.

(ii) Determine the position if that income were **₹22,00,000** instead.

(iii) Advise him on the maximum permissible stay and the correct date of arrival.

SOLUTION

Part (i) — Indian income of ₹8,00,000.

He is a person of Indian origin coming on a visit to India, so section 6(4) excludes section 6(2)(b). His income other than income from foreign sources does not exceed ₹15,00,000, so section 6(5) is not attracted. Only the 182-day test applies.

Alternative	Period of stay in Tax Year 2026-27	Days	Status
A — arrival 1-10-2026	1-10-2026 to 31-3-2027	**182**	**Resident**
B — arrival 5-10-2026	5-10-2026 to 31-3-2027	**178**	**Non-resident**

Under Alternative A he is a Resident. Testing section 6(13)(a), he has not visited India since 1995-96 and was therefore a **non-resident in all 10 preceding tax years** (and his stay in the 7 preceding years is nil, well within 729 days). He is accordingly a **Resident but Not Ordinarily Resident**, so his foreign-source income still escapes Indian tax, but income received in India becomes taxable.

Under Alternative B he is a plain **Non-resident**.

Part (ii) — Indian income of ₹22,00,000.

Now section 6(5) is attracted and the words "60 days" in section 6(2)(b) are read as "120 days". But section 6(2)(b) has **two** limbs, and the second limb — presence in India for 365 days or more during the four preceding tax years — must still be satisfied. Mr. Arjun's stay in Tax Year 2022-23 to 2025-26 is **nil**. The second limb fails.

Length of stay	S. 6(2)(a) 182 days	S. 6(2)(b) as modified (120 days + 365 days)	Status
182 days	Satisfied	Second limb fails	**Resident** (and RNOR under s. 6(13)(a)(i))
181 days	Not satisfied	Second limb fails	**Non-resident**

The answer is therefore **unchanged**. The much-feared 120-day rule has no application to a first-time or long-absent visitor, because it operates only through section 6(2)(b), whose 365-day limb such a visitor cannot satisfy.

Part (iii) — Optimum planning.

Maximum permissible stay is **181 days**, so he should arrive **on or after 2 October 2026**. Arriving on 2 October 2026 gives him 181 days in this tax year; the balance 19 days of his 200-day visit fall in Tax Year 2027-28, where they are harmless.

Teaching note. Students routinely assume that once Indian income crosses ₹15,00,000 a stay of 120 days automatically makes a visitor resident. It does not. Section 6(5) only **amends a figure inside** section 6(2)(b); it does not create an independent test.

ILLUSTRATION 4.6 — FOREIGN SPORTSPERSON VISITING EVERY YEAR — SHORT-RUN AND LONG-RUN PLANNING

FACTS

Mr. Ben Stark is an Australian cricketer. He is neither a citizen of India nor a person of Indian origin. He has been coming to India for **95 days in every tax year since Tax Year 2018-19** to play in a domestic league, and had never visited India before that.

REQUIRED

(i) Determine his residential status for Tax Year 2026-27.

(ii) Suggest short-run tax planning.

(iii) Suggest long-run tax planning.

SOLUTION

Part (i) — Residential status for Tax Year 2026-27.

Section 6(2)(a): 95 days is less than 182 — not satisfied.

Section 6(2)(b): he is neither a citizen of India nor a person of Indian origin, so neither section 6(3) nor section 6(4) protects him and the test applies in full.

- Stay in Tax Year 2026-27 = 95 days, which is 60 days or more — satisfied.
- Stay in the four preceding tax years (2022-23 to 2025-26) = 95 x 4 = **380 days**, which is 365 days or more — satisfied.

He is therefore a **Resident**.

Step 2 — Ordinarily resident or not.

Tax year	Days in India	Days in 4 preceding years	Status
2016-17 and 2017-18	Nil	Nil	Non-resident
2018-19	95	Nil	Non-resident
2019-20	95	95	Non-resident
2020-21	95	190	Non-resident
2021-22	95	285	Non-resident
2022-23	95	380	Resident
2023-24 to 2025-26	95 each	380 each	Resident

- Section 6(13)(a)(i): non-resident in **6** of the 10 preceding tax years — falls short of 9. Not satisfied.
- Section 6(13)(a)(ii): stay in the 7 preceding tax years (2019-20 to 2025-26) = 95 x 7 = **665 days**, which is 729 days or less. **Satisfied.**

He is therefore a **Resident but Not Ordinarily Resident** for Tax Year 2026-27. His Australian match fees, endorsement income earned abroad and foreign investment income are outside the Indian charge; his Indian league fee is fully taxable.

Part (ii) — Short-run tax planning.

For the current year, he should restrict his stay to **59 days or less**. Section 6(2)(a) then fails for want of 182 days and section 6(2)(b) fails for want of 60 days, and he becomes a **Non-resident**. No relaxation of the 60-day figure is available to him, because sections 6(4) and 6(5) apply only to citizens of India and persons of Indian origin.

Part (iii) — Long-run tax planning. Two sustainable strategies —

Strategy	Annual ceiling	Working	Permanent status
Stay below the 365-day aggregate	**91 days a year**	91 x 4 = 364, which is less than 365, so the second limb of s. 6(2)(b) can never be satisfied	**Non-resident** for ever
Preserve the RNOR shield	**104 days a year**	104 x 7 = 728, which is 729 or less, so s. 6(13)(a)(ii) is permanently satisfied	**Resident but Not Ordinarily Resident** for ever

At his present pattern of 95 days a year he is already inside the second strategy: 95 x 7 = 665 days, which never crosses 729. He can therefore continue indefinitely as an RNOR without his foreign income ever entering the Indian net. If he wishes to be a full non-resident, four days a year must be sacrificed.

Illustration 4.7 — person of Indian origin with substantial Indian income — the one-day decision

FACTS

Mr. Aman is a foreign citizen. Both his grandparents were born in Lahore in **1943**, that is, in undivided India, so he is a **person of Indian origin**.

He has been coming to India for exactly **182 days in every tax year since 2005**. For Tax Year 2026-27 his total income other than income from foreign sources is **₹25,00,000**.

REQUIRED

(i) Determine his residential status for Tax Year 2026-27.

(ii) Advise him how he may become a non-resident.

(iii) Advise him if his commercial commitments require a stay of 150 days in India.

SOLUTION

Part (i) — Residential status.

Section 6(4) switches off section 6(2)(b) for a visiting person of Indian origin, but it **never** switches off section 6(2)(a). His stay of 182 days is 182 days or more, so he is a **Resident** under section 6(2)(a).

Test under section 6(13)	Working	Result
6(13)(a)(i) — non-resident in 9 of 10 preceding years	He has been resident in every preceding year on the same 182-day pattern	Not satisfied
6(13)(a)(ii) — 729 days or less in 7 preceding years	182 x 7 = **1,274 days**	Not satisfied
6(13)(b) — 120 days or more but less than 182 days	His stay is exactly 182 days, not less than 182	Not satisfied

He is therefore a **Resident and Ordinarily Resident**, and his **entire global income** is taxable in India.

Part (ii) — How to become a non-resident. Two independent routes are available —

Route	Action	Reasoning	Status
1	Reduce the stay to **119 days or less**	S. 6(2)(a) fails; s. 6(2)(b), read with the substituted figure of 120 days in s. 6(5), also fails	**Non-resident**
2	Reduce total income other than income from foreign sources to **₹15,00,000 or less** and stay up to **181 days**	S. 6(5) is not attracted, so the 60-day limb remains switched off by s. 6(4) and only the 182-day test applies	**Non-resident**

Route 2 is the more attractive one commercially: it costs him only one day of his visit, provided he can restructure his Indian-source receipts.

Part (iii) — A stay of 150 days with Indian income of ₹25,00,000.

Section 6(2)(a) fails, since 150 is less than 182. Section 6(5) is attracted, so section 6(2)(b) reads "120 days": his stay of 150 days is 120 days or more, and his stay in the four preceding tax years is 182 x 4 = 728 days, which is 365 days or more. He is therefore a **Resident**. But section 6(13)(b) applies precisely to this situation — a person covered by section 6(5) who is in India for 120 days or more but less than 182 days — so he is a **Resident but Not Ordinarily Resident**, and his foreign-source income remains untaxed in India.

Teaching note — the one-day decision. Compare Part (i) with Part (iii). At **182 days** he is a Resident and Ordinarily Resident and is taxed on his worldwide income. At **181 days** he is a Resident but Not Ordinarily Resident and his foreign income escapes altogether. A single day of stay decides the fate of his entire foreign income. This is the sharpest illustration in the whole Unit of why residential status must be planned and not merely computed.

Illustration 4.8 — Foreign National — Why the Quarter Does Not Matter but the Year-End Does

FACTS

Mr. Daksh is a foreign citizen and is not a person of Indian origin. He had never visited India before Tax Year 2022-23. His stay in India in the four preceding tax years is —

Tax year	Days in India
2022-23	120
2023-24	45
2024-25	87
2025-26	123
Total	**375**

A project requires him to spend **90 days** in India. He is considering completing the whole visit within one quarter —

- Option 1: April to June 2026; Option 2: July to September 2026;
- Option 3: October to December 2026; Option 4: January to March 2027.

REQUIRED

(i) Determine his residential status under each option.

(ii) Suggest better tax planning and compute the minimum days of stay required in each tax year for optimum tax planning.

SOLUTION

Part (i) — Residential status under the four options.

His stay in the four preceding tax years is **375 days**, which is 365 days or more, so the second limb of section 6(2)(b) is already satisfied and is beyond his control this year. In every one of the four options his stay in Tax Year 2026-27 is **90 days**, which is 60 days or more, so the first limb is also satisfied.

He is therefore a **Resident** under **all four options**. Shifting the visit from one quarter to another inside the same tax year achieves nothing whatsoever, because the tax year is a fixed block running from 1 April to 31 March.

On the further test in section 6(13)(a)(ii), his stay in the seven preceding tax years (2019-20 to 2025-26) is 375 days, which is 729 days or less, so in each option he is a **Resident but Not Ordinarily Resident**.

Part (ii) — Better tax planning: straddle the year-end.

The visit should be arranged to begin on **1 February 2027** and run for 90 days into the next tax year.

Tax year	Period of stay	Days	First limb of s. 6(2)(b)	Second limb of s. 6(2)(b)	Status
2026-27	1-2-2027 to 31-3-2027	**59**	59 is less than 60 — fails	375 days — satisfied	**Non-resident**
2027-28	1-4-2027 to 1-5-2027	**31**	31 is less than 60 — fails	45 + 87 + 123 + 59 = 314 days — fails	**Non-resident**

By starting the visit on 1 February 2027 instead of confining it to any single quarter, he becomes a **non-resident in both tax years** without losing a single day of the 90-day project.

Minimum requirement. He must arrive **on or after 1 February 2027** so that his stay in Tax Year 2026-27 does not exceed **59 days**; the balance of the visit, being 31 days, is in any case well below the 60-day threshold of the following year, where the 365-day limb has additionally broken down.

Teaching note. For a foreign national the 60-day figure is an absolute ceiling. Once the 365-day aggregate of the four preceding years is crossed, the only remaining lever is the **placement of the visit across 31 March**.

ILLUSTRATION 4.9 — INDIAN FILM ACTOR — DAYS ABROAD, HOSPITALISATION AND A FIVE-DAY MARGIN

FACTS

Mr. Bachhan is an Indian citizen and a film actor. He **left India on 1 April 2026** for a shooting schedule in the United States of America. In July 2026 he was hospitalised there for **7 days**. He **returned to India on 10 August 2026**.

He now proposes to leave for the United States again on **10 February 2027** to complete the shooting, returning to India on **6 April 2027**.

REQUIRED

(i) Determine his residential status for Tax Year 2026-27.

(ii) Suggest better tax planning.

SOLUTION

Part (i) — Computation of stay in India.

Period	Treatment	Days in India
1-4-2026	Day of departure counts as a day of stay in India	1
2-4-2026 to 9-8-2026	Outside India. The 7 days of hospitalisation abroad are days **outside** India; illness abroad attracts no relief under the Act	Nil
10-8-2026 to 10-2-2027	In India (day of arrival and day of the next departure both counted)	185
11-2-2027 to 31-3-2027	Outside India	Nil
Total		**186**

186 days is 182 days or more, so he is a **Resident** under section 6(2)(a). He has always been in India in earlier years, so neither limb of section 6(13)(a) is satisfied and he is a **Resident and Ordinarily Resident**. His American shooting fees and every other global receipt of the year are taxable in India.

Part (ii) — Tax planning.

He is over the line by only **five days**. Either of the following adjustments makes him a non-resident —

Adjustment	Revised stay	Status
Advance the second departure from 10-2-2027 to **5 February 2027**	1 + 180 = **181 days**	**Non-resident**
Delay the return from the first trip from 10-8-2026 to **15 August 2026**	181 days	**Non-resident**

Caution to be discussed in class. Non-residence is not automatically advantageous. His Indian film income is taxable in either case, and as a non-resident he loses the benefit of the basic exemption limit against certain incomes and may face higher withholding. The advice is sound only where the foreign income is substantial and is neither received in India nor deemed to accrue in India. The comparative merit of exclusion under section 5(2) against foreign tax credit under the India-USA tax treaty must be worked out before the ticket is booked.

ILLUSTRATION 4.10 — EMPLOYMENT TRIP OR LEISURE TRIP — THE SAME ABSENCE, TWO DIFFERENT STATUSES

FACTS

Mr. Neeraj is a citizen of India and an entrepreneur who has never travelled abroad. To set up a business in the United States of America, a presence there of **190 days** during Tax Year 2026-27 is unavoidable; the period cannot be compressed. He has two options —

- Option I: Mr. Neeraj himself goes to the USA and personally carries on the work there.
- Option II: Mr. Neeraj deputes his manager Mr. Shivin to carry out the work in the USA, and himself travels to the USA for the same 190 days on a leisure and family trip.

REQUIRED

(i) Determine Mr. Neeraj's residential status under both options.

(ii) Suggest better tax planning.

SOLUTION

In both options his stay in India is 365 - 190 = **175 days**.

Option I — he goes for employment or business.

He is a citizen of India **leaving India for employment outside India**. It is well settled, under Circular No. 346 dated 30 June 1982 issued under the corresponding provision of the 1961 Act, that the expression "for the purposes of employment outside India" is not confined to salaried employment and takes in **self-employment such as business or profession**. Section 6(3)(b) therefore applies and section 6(2)(b) is switched off. Only the 182-day test survives, and 175 days is less than 182. He is a **Non-resident**.

Option II — he goes on a holiday.

He is not leaving India for employment, so section 6(3) does not assist him. Section 6(4) is equally of no help, because it deals with the converse case of a person outside India **coming on a visit to India**. Section 6(2)(b) therefore applies in full —

- Stay in Tax Year 2026-27 = 175 days, which is 60 days or more — satisfied.
- Stay in the four preceding tax years = he was in India throughout, that is 1,461 days, which is 365 days or more — satisfied.

He is a **Resident**, and since he has always been in India, a **Resident and Ordinarily Resident**. His entire global income is taxable in India.

Better tax planning — Option I.

Particulars	Option I	Option II
Days outside India	190	190
Days in India	175	175
Purpose of leaving India	Employment / business	Leisure
Section 6(2)(b) applicable?	No — excluded by s. 6(3)(b)	Yes
Residential status	**Non-resident**	**Resident and Ordinarily Resident**

The identical physical absence of 190 days produces two opposite results. Everything turns on the **purpose** of leaving India. The employment or consultancy contract, the class of visa obtained, the board resolution authorising the assignment and the payroll records are the evidence on which the entire benefit rests, and they should be created before departure, not after assessment.

Teaching note. This case also shows the outer boundary of legitimate tax planning. Structuring a genuine business trip as one's own assignment is planning; papering a holiday as employment is evasion.

ILLUSTRATION 4.11 — GOVERNMENT SERVANT POSTED ABROAD — WHEN THE 120-DAY RULE BITES

FACTS

Ms. Ashwini is a citizen of India. She was appointed by the Government of India as a Senior Tax Counsellor in the Indian Mission at Ottawa and **left India for the first time on 3 June 2025** to join her post. Her salary from the Government of India for Tax Year 2026-27 is **₹32,00,000**; she has no other Indian income, but holds substantial deposits and investments in Canada.

During Tax Year 2026-27 she plans a visit to India of **190 days**. She has two alternatives —

- Alternative A: arrive on **3 November 2026**
- Alternative B: arrive on **1 October 2026**

REQUIRED

(i) Determine her residential status under both alternatives.

(ii) Suggest better tax planning and the arrival date that would make her a non-resident.

(iii) State whether non-residence would in fact save tax on her salary.

SOLUTION

Step 1 — Is her salary "income from foreign sources"?

This is the pivot of the case. Section 6(14) defines income from foreign sources as income accruing outside India **which is not deemed to accrue or arise in India**. Salary payable by the Government of India to a citizen of India for services rendered outside India is **deemed to accrue or arise in India** under section 9. Her salary of ₹32,00,000 is therefore **not** income from foreign sources, and her total income other than income from foreign sources **exceeds ₹15,00,000**.

Step 2 — Which test applies?

She is a citizen of India coming on a visit to India, so section 6(4) applies; but because of Step 1, section 6(5) is attracted and the words "60 days" in section 6(2)(b) are read as "**120 days**". The second limb of section 6(2)(b) is comfortably satisfied: her stay in the four preceding tax years is 365 + 366 + 365 + 64 = **1,160 days**.

Step 3 — Status under the two alternatives.

Alternative	Period	Days	S. 6(2)(a)	S. 6(2)(b) as modified	Status
A — arrival 3-11-2026	3-11-2026 to 31-3-2027	**149**	Fails	120 days and 365 days both satisfied	**Resident**
B — arrival 1-10-2026	1-10-2026 to 31-3-2027	**182**	Satisfied	—	**Resident**

Step 4 — Ordinarily resident or not.

Alternative	S. 6(13)(a)(i)	S. 6(13)(a)(ii)	S. 6(13)(b)	Final status
A — 149 days	Non-resident in only 1 of 10 preceding years — fails	Far above 729 days — fails	149 days is 120 or more but less than 182 — **satisfied**	**Resident but Not Ordinarily Resident**
B — 182 days	Fails	Fails	182 days is not less than 182 — fails	**Resident and Ordinarily Resident**

Step 5 — Better tax planning.

Alternative A is better. As an RNOR her Canadian bank interest, dividends and capital gains, being income accruing outside India and not derived from any business controlled in or profession set up in India, are excluded by section 5(1)(c). Under Alternative B they would all be taxed.

To become a full non-resident she must keep her stay **below 120 days**. Arrival on 2 December 2026 gives exactly 120 days (Resident); arrival on **3 December 2026 gives 119 days**, and she becomes a **Non-resident**. She should therefore arrive on or after 3 December 2026 if complete exclusion of foreign income is desired.

Step 6 — Does non-residence save tax on her salary? No.

Whatever her residential status, salary paid by the Government of India to a citizen of India for services rendered outside India is deemed to accrue or arise in India and is taxable under section 5(2)(b) even for a non-resident. Allowances and perquisites paid outside India by the Government for such services remain exempt. **The planning gain is confined entirely to her Canadian investment income.**

Teaching note. This case teaches two things at once: that a "deemed to accrue in India" income counts towards the ₹15,00,000 threshold in sections 6(5) and 6(7), and that planning residential status is pointless for an income that is taxable irrespective of status.

ILLUSTRATION 4.12 — THE GLOBAL NOMAD — DEEMED RESIDENCE UNDER SECTION 6(7)

FACTS

Mr. Vihaan is a citizen of India who has arranged his life so as to be a tax resident of no country at all. In Tax Year 2026-27 he is in India for **85 days**, and in each of the four preceding tax years he was likewise in India for 85 days. For the rest of the year he moves between Dubai, Singapore and Monaco, staying in each for short periods, and is **not liable to tax in any country** by reason of domicile, residence or any similar criterion.

His income for Tax Year 2026-27 is —

Particulars	Amount (₹)
Professional fees from a profession set up in India	24,00,000
Income from investments held outside India, received outside India	60,00,000
Total	**84,00,000**

REQUIRED

(i) Determine his residential status and his taxable income for Tax Year 2026-27.

(ii) What would be the position if his Indian professional fees were ₹14,00,000?

(iii) What would be the position if he were liable to tax in the United Arab Emirates?

(iv) Suggest suitable tax planning.

SOLUTION

Part (i) — Residential status.

Test	Working	Result
S. 6(2)(a)	85 days is less than 182	Fails
S. 6(2)(b)	85 days is 60 or more, but stay in the four preceding tax years is 85 x 4 = **340 days**, which is less than 365	Fails
S. 6(7) — deemed residence	(a) citizen of India — yes; (b) not liable to tax in any other country — yes; (c) total income other than income from foreign sources = ₹24,00,000, which exceeds ₹15,00,000 — yes	**Satisfied**

He is therefore a **deemed resident** under section 6(7). Section 6(8) does not exclude him because he is not resident under sections 6(2) to 6(6). By force of section 6(13)(c), a deemed resident is **always** not ordinarily resident.

Status: Resident but Not Ordinarily Resident.

Taxable income.

Particulars	Amount (₹)	Reasoning
Professional fees from a profession set up in India	24,00,000	Accrues in India — s. 5(1)(b)
Foreign investment income	Nil	Accrues outside India and is not derived from a business controlled in or a profession set up in India — excluded by s. 5(1)(c)
Total income	**24,00,000**	

Part (ii) — Indian professional fees of ₹14,00,000.

₹14,00,000 does not exceed ₹15,00,000, so condition (c) of section 6(7) fails. He is a **Non-resident**, and his taxable income in India is ₹14,00,000.

Part (iii) — Liable to tax in the United Arab Emirates.

Condition (b) of section 6(7) fails and he is again a **Non-resident**. The expression "liable to tax" does not require that tax has actually been paid; it is enough that the country has a right to tax him. He should obtain a Tax Residency

Certificate to evidence the position.

Part (iv) — Tax planning.

- Keep total income other than income from foreign sources at **₹15,00,000 or below**, by relocating the profession or restructuring the fee arrangement.
- Establish a genuine tax residence in some jurisdiction and hold a Tax Residency Certificate, so that condition (b) fails.
- Even if section 6(7) does apply, the damage is contained: he is only an **RNOR**, so his foreign-source income is still untouched, and only his Indian income is taxed. Section 6(7) is an anti-abuse provision aimed at stateless taxpayers, not a general revenue-raising measure.

Teaching note. Section 6(7) is tested against sections 6(2) to 6(6) **first**. It applies only when every ordinary test has failed. Students frequently apply it out of turn.

ILLUSTRATION 4.13 — RETURNING INDIAN SETTLING PERMANENTLY — USING THE RNOR WINDOW

FACTS

Mr. Shivam Sharma is a citizen of India. He was outside India from March 1989 to March 2026 on a foreign posting. He **returned to India on 15 April 2026** to settle here permanently.

During Tax Year 2026-27 he accepts a consultancy assignment of **90 days** with a company in the United States of America, the services being rendered wholly in the USA. He **leaves India on 1 December 2026 and returns on 1 March 2027**, and is in India for the rest of the year. The fee is **US $ 2,00,000**. He has two alternatives —

- Alternative A: receive the fee in India.
- Alternative B: receive the fee in the USA and remit it to India later.

REQUIRED

(i) Determine his residential status for Tax Year 2026-27.

(ii) Determine the taxability of the fee under both alternatives.

(iii) Suggest better tax planning and state how long the benefit will last.

SOLUTION

Part (i) — Residential status.

Period	Days in India
15-4-2026 to 30-11-2026	230
1-12-2026 to 28-2-2027 (abroad, 90 days)	Nil
1-3-2027 to 31-3-2027	31
Total	**261**

261 days is 182 days or more, so he is a **Resident**. He was a **non-resident in all ten preceding tax years** (2016-17 to 2025-26), so section 6(13)(a)(i) is satisfied; his stay in the seven preceding tax years is nil, so section 6(13)(a)(ii) is satisfied as well.

Status: Resident but Not Ordinarily Resident.

Part (ii) — Taxability of the consultancy fee.

For an RNOR, section 5(1) brings to charge (a) income received or deemed to be received in India, (b) income accruing or deemed to accrue in India, and (c) income accruing outside India **only if** derived from a business controlled in, or a profession set up in, India.

The fee accrues outside India, the services having been rendered wholly in the USA for a foreign client, and it is not derived from any business controlled in or profession set up in India. Clause (c) therefore does not catch it.

Alternative	Position	Taxable in India?
A — received in India	First receipt of the income takes place in India, so s. 5(1)(a) applies irrespective of residential status	**Yes — fully taxable**
B — received in the USA, remitted later	The income is first received outside India. What is subsequently brought into India is **money, not income**; a remittance of income already received abroad is outside the charge	**No**

Part (iii) — Better tax planning: Alternative B.

He should ensure that the fee is **first credited to his overseas bank account** and only thereafter remitted to India. The consultancy agreement, the invoice, the remittance advice and the foreign bank statement should all be preserved, since the whole exemption rests on proving the **place of first receipt**.

How long does the shelter last?

Tax year	S. 6(13)(a)(i) — non-resident in 9 of 10 preceding years	S. 6(13)(a)(ii) — 729 days or less in 7 preceding years	Status
2026-27	Non-resident in all 10 — satisfied	Nil days — satisfied	**RNOR**
2027-28	Non-resident in 9 of 10 (resident only	—	**RNOR**

Tax year	S. 6(13)(a)(i) — non-resident in 9 of 10 preceding years	S. 6(13)(a)(ii) — 729 days or less in 7 preceding years	Status
	in 2026-27) — satisfied		
2028-29	Non-resident in only 8 of 10 — fails	0+0+0+0+0+261+365 = **626 days** — satisfied	**RNOR**
2029-30	Fails	0+0+0+0+261+365+365 = **991 days** — fails	**Resident and Ordinarily Resident**

He therefore enjoys a **three-year RNOR window covering Tax Years 2026-27, 2027-28 and 2028-29**. Within that window he should realise his foreign capital gains, commute or draw down his foreign pension and annuity entitlements, close or restructure his overseas holdings and receive all foreign professional fees **outside** India. From Tax Year 2029-30 his global income becomes taxable in India.

Teaching note. The RNOR window is the single most valuable planning opportunity available to a returning Indian, and it is time-barred. The whole exercise is one of **timing**, not of concealment.

Illustration 4.14 — merchant navy officer — residential status decided by the Continuous Discharge Certificate

FACTS

Mr. Vikram is a citizen of India and a marine engineer serving as a member of the crew of an **Indian ship** engaged on foreign-bound voyages. His Continuous Discharge Certificate for Tax Year 2026-27 records the date of joining the ship as **15 May 2026** and the date of signing off as **20 November 2026**. Apart from that period he was in India throughout the year.

REQUIRED

(i) Determine his residential status for Tax Year 2026-27.

(ii) Suggest suitable tax planning.

SOLUTION

Part (i) — Computation of stay in India.

Section 6(6) provides that for a citizen of India who is a member of the crew of a **foreign-bound ship** leaving India, the number of days in India in respect of that voyage is determined in the prescribed manner. Under the prescribed rule (the successor to Rule 126 of the Income-tax Rules, 1962), the period **beginning on the date entered in the Continuous Discharge Certificate as the date of joining the ship and ending on the date entered as the date of signing off** is excluded from his period of stay in India.

Particulars	Days
Total days in Tax Year 2026-27	365
Less: eligible voyage period, 15-5-2026 to 20-11-2026	(190)
Days of stay in India	**175**

Section 6(2)(a): 175 days is less than 182 — not satisfied. Section 6(2)(b): he is a citizen of India who leaves India as a member of the crew of an Indian ship, so section 6(3)(a) switches the provision off altogether.

Status: Non-resident. His salary for services rendered on board outside India, credited to his NRE account, is outside the Indian charge.

Part (ii) — Tax planning.

His entire status turns on the two dates written in the Continuous Discharge Certificate.

- He must ensure an eligible voyage period of at least **184 days** (365 - 181), so that his stay in India cannot exceed 181 days. Joining a ship a few days earlier or signing off a few days later is a legitimate and fully documented method of preserving non-residence.
- He must confirm that the voyage is an **eligible voyage**, that is, one originating from a port in India and having a destination at a port outside India, or the converse. A purely coastal voyage does not qualify and its days will **not** be excluded.
- The Continuous Discharge Certificate must be preserved and its entries must match the ship's articles and the wage account, since the exclusion is granted strictly on the basis of the recorded sign-on and sign-off dates.

Teaching note. For a seafarer the residential status is decided not by where he actually was but by what the Continuous Discharge Certificate records. This is the clearest example in the Act of a status determined by documentation.

Illustration 4.15 — Summary of the planning principles in Illustrations 4.3 to 4.14

#	Principle	Case study
1	A stay straddling **31 March** is split between two tax years. One long visit can be arranged so that the assessee is non-resident in both years.	1, 6
2	For a visiting citizen of India or PIO with Indian income up to ₹15,00,000, the **only** test is 182 days. The safe arrival date for Tax Year 2026-27 is **2 October 2026**.	1, 3
3	For a citizen of India leaving India for **employment**, the only test is 182 days. The last safe date of departure is **28 September 2026**.	2, 8
4	The 120-day rule in section 6(5) operates only **through** section 6(2)(b). It is harmless unless the 365-day limb is also satisfied.	3
5	For a foreign national who is not a PIO, 60 days is an absolute ceiling; long-run safety lies in keeping the four-year aggregate below 365 days, that is **91 days a year**.	4, 6
6	Even where residence cannot be avoided, **RNOR status can be preserved** by keeping the seven-year aggregate at 729 days or less, that is **104 days a year**.	4, 6
7	At 182 days a visitor with high Indian income is ROR; at 181 days he is RNOR. **A single day decides the fate of the entire foreign income.**	5
8	The **purpose** of leaving India, not the length of absence, decides whether section 6(3)(b) applies. Contract, visa and payroll records are the evidence.	8
9	Income **deemed to accrue in India** is not “income from foreign sources”, and counts towards the ₹15,00,000 threshold in sections 6(5) and 6(7).	9
10	Planning residential status is pointless for an income taxable irrespective of status, such as Government salary for services rendered abroad.	9
11	Section 6(7) is tested **last**, only after sections 6(2) to 6(6) have all failed; and a deemed resident is always only an RNOR.	10
12	A returning Indian gets a **time-barred RNOR window**. Foreign gains, pensions and fees should be realised inside it, and received **outside** India.	11
13	For a seafarer, residential status is decided by the **dates recorded in the Continuous Discharge Certificate**, not by actual presence.	12

CHAPTER 5

Tax Planning through Exempted Income

Section 11 with Schedules II to VIII. An exempt receipt is the most efficient form of income there is — it costs no deduction, consumes no limit, and does not enter the total income at all. The planning question is how much of a person's receipts can lawfully be put into that form.

5.1 Exemption, deduction and rebate — three different things

	Exemption	Deduction	Rebate
Where it operates	On the income itself — it never enters gross total income	On gross total income — it is subtracted to arrive at total income	On the **tax** — it is subtracted from the tax computed
Provision	Section 11 with the Schedules	Chapter VIII, sections 122 to 154	Sections 155 and 156
Effect on the slab	Reduces the income and so may reduce the rate	Reduces the income and so may reduce the rate	No effect on the rate
Effect on filing	Still to be reported in the return	Claimed in the return	Claimed in the return
Example	Agricultural income; house rent allowance to the extent prescribed	₹1,50,000 under section 123	₹60,000 under section 156(2)

Why the distinction matters to a planner. An exemption is worth more than a deduction of the same amount whenever the deduction is subject to a ceiling that is already exhausted. A person who has already put ₹1,50,000 into section 123 gains nothing from a further ₹50,000 of provident fund; but a further ₹50,000 of house rent allowance properly structured is exempt in full.

5.2 The architecture of section 11

Section 11 is the gateway. It provides that in computing the total income of a tax year, the incomes enumerated in the Schedules shall not be included. The Schedules divide the field:

Schedule	What it contains
Schedule II	Incomes not included in the total income of *any* person — the general exemptions
Schedule III	Incomes not included in the total income of *eligible persons* — chiefly the salary-related exemptions, each with its own class of person and its own conditions
Schedule IV to VI	Exemptions relating to funds, institutions and specified bodies
Schedule VII with section 11(3)	Persons whose income is wholly exempt
Schedule VIII with section 12	Political parties and electoral trusts

THE REGIME FILTER — READ THIS BEFORE EVERY EXEMPTION

Section 202(2)(a) withdraws, in the **default regime**, the exemptions at **Schedule III, Sl. Nos. 5, 6, 7, 8, 11 and 17**, and at **Sl. Nos. 12 and 13** except as prescribed by Rule 280(3).

So the great salary exemptions — **house rent allowance (Sl. No. 11)**, **leave travel concession (Sl. No. 8)**, and the **special allowances (Sl. Nos. 12 and 13)** — are available only to a taxpayer who exercises the option under section 202(4) and goes into the optional regime.

This single fact reorganises the whole of salary planning in Tax Year 2026-27. A pay package built around house rent

> *allowance is worth nothing to a person in the default regime. Before advising on the structure of a package, decide the regime.*

5.3 Exempt incomes a resident individual should plan for

Exemption	Where	The planning point
Agricultural income	Section 2(5); Schedule II, Table Sl. No. 1	Exempt, but aggregated with the non-agricultural income for rate purposes where the agricultural income exceeds ₹5,000 and the non-agricultural income exceeds the exemption limit. Never so aggregated for a firm, an LLP or a company — see 5.6
Share of profit from a firm	Schedule III, Sl. No. 1	The share of a partner in the total income of the firm is exempt in his hands, the firm having paid tax. Remuneration and interest within the limits in section 35 are taxable in his hands but deductible for the firm — so the split between share of profit and remuneration is a planning decision
Receipts from a provident fund	Schedule III	Accumulated balance of a recognised provident fund on retirement, and the National Pension System withdrawal at Sl. No. 4, are exempt on conditions. Plan the timing of withdrawal
Gratuity, commuted pension, leave encashment	Section 19(1), Table Sl. Nos. 3, 7, 13, 14	Under the 2025 Act these are no longer exemptions at all — they enter gross salary and come out again as **deductions under section 19**. The figure is the same; the presentation is not, and the presentation is what section 19 prescribes
House rent allowance	Schedule III, Sl. No. 11, with Rule 279	Exempt to the **least of three**: the allowance received; rent paid *less* 10% of salary; 50% of salary in the eight listed cities or 40% elsewhere. **Available in the optional regime only**
Leave travel concession	Schedule III, Sl. No. 8, with Rule 277	Two journeys in the block **2026 to 2029**, fare only. **Optional regime only**
Children education, hostel and transport allowances	Schedule III, Sl. No. 13, with Rule 280(2)	Fixed monetary limits, whether or not spent. Survives in the default regime only to the extent Rule 280(3) prescribes
₹1,500 per minor child	Schedule III, Sl. No. 17	Where a minor's income is clubbed under section 99(1)(c), ₹1,500 per child is excluded. **Withdrawn in the default regime** by section 202(2)(a)(i)
Capital gain on agricultural land	Schedule III, Sl. No. 18	Gain on the transfer of agricultural land satisfying the conditions is exempt
Gratuity under section 19	Section 19 with Schedule III, Sl. No. 38	The computation prescribed by Schedule III

5.4 Structuring a pay package — the planning application

The classical exercise in this paper is: *given a total cost to the employer, how should the package be split so that the employee's tax is least?* Under the 2025 Act the answer depends entirely on the regime.

Component	Optional regime	Default regime
Basic salary	Fully taxable	Fully taxable
Dearness allowance	Fully taxable	Fully taxable
House rent allowance	**Exempt to the least of three** — the single largest lawful exclusion available to a salaried person	Fully taxable
Leave travel concession	**Exempt** — fare only, two journeys in the block	Fully taxable
Children education / hostel allowance	**Exempt** up to the prescribed limits	Taxable, except as saved by Rule 280(3)
Employer's contribution to the notified pension scheme	Deductible under section 124(1) — 14% of salary for a Government employer, 10% otherwise	**Deductible under section 124(2) — 14% of salary in every case**
Standard deduction [section 19(1), Sl. No. 2]	₹50,000	**₹75,000**
Professional tax [section 19(1), Sl. No. 1]	Deductible	Not deductible
Non-monetary perquisites (medical facility in the employer's hospital, telephone, subsidised food, interest-free loan below the threshold)	Exempt or concessionally valued	Exempt or concessionally valued — **unaffected by the regime**

THE PLANNING CONCLUSION ON PAY PACKAGES

In the optional regime, load the package with house rent allowance (matched by genuine rent actually paid), leave travel concession and the prescribed allowances.

In the default regime, those components are worth nothing. Load the package instead with — (i) the **employer's contribution to the notified pension scheme up to 14% of salary**, which is deductible under section 124(2) *in the default regime*; and (ii) **non-monetary perquisites**, whose exemption or concessional valuation does not depend on the regime at all.

That is the single most useful sentence in Unit 2 of this syllabus, and it is worth learning now.

5.5 Tax planning through exempted income for a non-resident

A non-resident's planning begins from a different place. His total income already excludes all foreign income by force of section 5, so the question is not what to exempt but **what to keep outside India**.

Point	Position
The base itself	Only income received or deemed received in India, and income accruing or deemed to accrue in India, is taxable. The largest single planning act available to a non-resident is to ensure that a receipt is genuinely received outside India and genuinely accrues outside India
Section 9 — deemed accrual	The section deems certain incomes to accrue in India — income from a business connection in India, from property or an asset or a source of income in India, from the transfer of a capital asset situate in India, salary earned in India, and interest, royalty and fees for technical services paid by a resident. These cannot be

Point	Position
	planned away merely by receiving the money abroad
Interest on notified foreign-currency deposits and bonds	Exempt in the hands of a non-resident on the conditions prescribed. This is the classical non-resident exemption and remains the mainstay of NRI planning
Capital gains on listed securities	Taxable, but at the special rates, and the benefit of the treaty may apply. Section 72(6) (shares or debentures of an Indian company acquired in foreign currency) is outside our syllabus but is the classical relief
Double taxation relief	Sections 159 and 160. Where India has an agreement with the other country, the assessee may take whichever of the treaty and the Act is more favourable — the ratio of *Azadi Bachao Andolan*
Deductions	A non-resident may claim the deductions of Chapter VIII that are not in terms confined to a resident. **Section 154 opens with the words "an individual, being resident in India" and is therefore closed to him**; sections 126 and 153 carry no such words and are open. See Chapter 6
Rebate under section 156	**Not available to a non-resident.** The rebate under both limbs is confined to a *resident* individual. This is a real and frequently forgotten disadvantage of non-resident status at modest levels of Indian income

ILLUSTRATION 5.1 — RESIDENT OR NON-RESIDENT, AT A MODEST INCOME

Shri Vivek has Indian income of ₹11,00,000 and no foreign income at all. *Does it help him to be a non-resident?*

As a resident in the default regime: total income ₹11,00,000. Tax = nil on ₹4,00,000 + 5% on ₹4,00,000 (₹20,000) + 10% on ₹3,00,000 (₹30,000) = ₹50,000. Rebate under section 156(2)(a) = ₹50,000 (the tax, being less than ₹60,000, and the total income not exceeding ₹12,00,000). **Tax payable = NIL.**

As a non-resident: the same total income of ₹11,00,000, the same tax of ₹50,000 — but **no rebate**, because section 156 is confined to a resident. Add cess 4% = ₹2,000. **Tax payable = ₹52,000.**

The lesson is that non-resident status is not a benefit in itself. It is a benefit only where there is foreign income to keep out. Where there is none, residence is worth ₹52,000 a year to this taxpayer.

Remittances and relief under a Double Taxation Avoidance Agreement

The guidelines name this expressly as the non-resident limb of tax planning through exempted income, and it is the one part of a non-resident's planning that has no counterpart in a resident's.

Point	Position under the Income-tax Act, 2025
The power	Sections 159 and 160 empower the Central Government to enter into an agreement with the Government of another country for the granting of relief from double taxation, for the avoidance of double taxation, for the exchange of information and for the recovery of tax
The choice	Where such an agreement applies, **the assessee may take whichever of the agreement and the Act is more favourable to him.** He is not obliged to elect one for all purposes; the comparison is made provision by provision
What the agreement typically gives	A lower rate of tax at source on dividend, interest, royalty and fees for technical services; and the allocation of the right to tax business profits to the country of residence unless there is a permanent establishment in India
Unilateral relief	Where there is **no** agreement, relief is still available — the resident is given credit for the tax paid in the other country on the doubly-taxed income, at the Indian rate or the foreign rate, whichever is lower

Point	Position under the Income-tax Act, 2025
The condition	A **Tax Residency Certificate** from the Government of the other country is required before the benefit of an agreement may be claimed, together with the prescribed declaration. Without it the agreement cannot be invoked, however clearly it applies
The limit	The general anti-avoidance rule applies notwithstanding an agreement. A structure whose only purpose is to obtain a treaty benefit — "treaty shopping" — may be looked through. This is the point on which *Azadi Bachao* and the later law diverge, and it should be noticed

THE PLANNING POINT, IN ONE LINE

A remittance out of India is not taxed as a remittance. What is taxed is the income, when and where the Act says it arises; the remittance is merely its movement. So a non-resident's planning is about the *character and source* of the receipt and about the treaty rate that attaches to it — never about the route the money takes home.

5.6 Agricultural income — partial integration, and the planning that escapes it

This is the one exempt income in the syllabus that can raise the tax on income that is not exempt. The guidelines name it first among the exemptions of this Unit, and they ask for two things — partial integration, and *tax planning* with it. The first is arithmetic and can be learnt in ten minutes. The second is the whole art of this paper, and it turns on a single observation: **partial integration is a device of the slab scale, and it therefore operates only on a person who is taxed on a slab scale.** Change the person, and the machinery has nothing to bite on.

5.6.1 What agricultural income is [section 2(5)]

Section 2(5) defines agricultural income in three limbs. All three require the land to be **situated in India** and to be **used for agricultural purposes** — land abroad yields ordinary, fully taxable income.

- **Clause (a)** — any **rent or revenue derived from land** which is situated in India and is used for agricultural purposes.
- **Clause (b)** — any income **derived from such land** by (i) agriculture; (ii) the performance by the cultivator or receiver of rent-in-kind of a process ordinarily employed to render the produce fit to be taken to market; or (iii) the sale of the produce so rendered fit.
- **Clause (c)** — income from a **farm building** on or in the immediate vicinity of the land, occupied by the cultivator or the receiver of rent, and required by him as a dwelling-house, store-house or out-building by reason of his connection with the land.

Income from **saplings or seedlings grown in a nursery** is deemed to be agricultural income. The exemption itself is given by **Schedule II, Table Sl. No. 1**, read with section 11.

TWO RULES A PLANNER MUST KNOW BEFORE HE PLANS

Rule 270 — composite income. Where the cultivator uses his own produce as raw material in a business, the *market value* of that produce is deducted in computing the business profit; the balance is business income and the market value is agricultural income. No further deduction is allowed for the expenditure incurred as cultivator.

Rule 271 — the growing-and-manufacturing percentages. Where the assessee grows *and* manufactures, the following proportion is business income chargeable to tax and the balance is agricultural income — rubber (latex, crepes, block rubbers) **35%**; coffee grown and cured **25%**; coffee grown, cured, roasted and ground **40%**; tea grown and manufactured **40%**.

The planning point. The split is fixed by the Rule, not by the accounts. A tea grower cannot improve it by book entries; but he can decide whether to manufacture at all, because a grower who merely sells green leaf earns 100% agricultural income.

5.6.2 The exemption, and the sting in it

Agricultural income is exempt — it never enters total income and never bears tax. But the Finance Act, in prescribing the rates, directs that in the case of certain persons the agricultural income shall be taken into account **for the purpose of determining the rate** at which the *non-agricultural* income is charged. That is partial integration. The agricultural income is not taxed; it is used as a ladder to lift the other income into higher slabs.

THE TWO CONDITIONS — BOTH MUST BE SATISFIED

Condition 1. The **net agricultural income exceeds ₹5,000**.

Condition 2. The **non-agricultural total income exceeds the maximum amount not chargeable to tax** — ₹4,00,000 under the default regime of section 202(1); ₹2,50,000 (senior citizen ₹3,00,000; very senior citizen ₹5,00,000) under the optional regime.

And the assessee must be a **specified person** — an individual, a Hindu undivided family, an association of persons, a body of individuals or an artificial juridical person.

Break any one of the three and partial integration does not take place at all. Every planning device in this section is an application of that sentence.

5.6.3 Who is caught and who is not — the pivot of all the planning

The reason the list of specified persons stops where it does is not arbitrary. Partial integration works by pushing income up a graduated scale. A person who is taxed at **one flat rate** has no scale to be pushed up — his first rupee and his last rupee bear the same rate, so aggregating an exempt income with his taxable income cannot alter anything. Parliament therefore did not bother to include him.

Person	How the person is taxed	Partial integration?
Individual	Slab scale — section 202(1) or the optional rates	**YES**
Hindu undivided family	Slab scale	**YES**
Association of persons / body of individuals	Slab scale	**YES**
Artificial juridical person	Slab scale	**YES**
Partnership firm	Flat 30% (+ surcharge 12% above ₹1 crore, + 4% cess)	**NO**
Limited liability partnership	Flat 30%, as for a firm	**NO**
Domestic company	Flat — 22% under section 200, or 25%/30%	**NO**
Co-operative society	Its own scale / flat 22% on option	**NO** — not a specified person
Local authority	Flat 30%	**NO**

Read the table as a planning instruction. The four rows in the upper half are the persons on whom partial integration operates; the five rows in the lower half are the vehicles into which the activity may be moved. The whole of the planning that follows consists of moving an income, or a source, from the upper half of this table to the lower half — or of keeping it out of the upper half in the first place.

5.6.4 The computation — five steps

PARTIAL INTEGRATION — THE FIVE STEPS

Step 1. Compute the **net agricultural income** — the agricultural income as reduced by any agricultural loss and by any tax on agricultural income levied by a State Government.

Step 2. Compute the tax on (**non-agricultural total income + net agricultural income**), as if that aggregate were the total income.

Step 3. Compute the tax on (**net agricultural income + the maximum amount not chargeable to tax**), as if that aggregate were the total income.

Step 4. Tax = Step 2 *less* Step 3.

Step 5. Reduce the result by the **rebate under section 156**, if available; then add **surcharge**, if any, and the **health and education cess at 4%**.

Note the order in Step 5. The rebate comes off first and the cess is charged on the figure after rebate. A candidate who adds the cess before the rebate will get a wrong figure in every problem of this kind.

Illustration 5.2 — what partial integration actually costs

Shri Mahendra, resident, aged 45, has for Tax Year 2026-27 a **business income of ₹16,00,000** and a **net agricultural income of ₹10,00,000**. He claims no deduction under Chapter VIII. Compute his tax under both regimes, and measure what the agricultural income costs him.

A. The default regime [section 202(1)]

Step 2 — tax on ₹26,00,000 = 20,000 + 40,000 + 60,000 + 80,000 + 1,00,000 + 60,000 = **₹3,60,000**.

Step 3 — tax on (₹10,00,000 + ₹4,00,000) = ₹14,00,000 = 20,000 + 40,000 + 30,000 = **₹90,000**.

Step 4 — ₹3,60,000 — ₹90,000 = ₹2,70,000. Step 5 — no rebate (total income exceeds ₹12,00,000); add cess ₹10,800. **Tax payable = ₹2,80,800.**

Had there been no agricultural income, the tax on ₹16,00,000 would have been ₹1,20,000 + cess = ₹1,24,800. **The agricultural income costs him ₹1,56,000**, although not one rupee of it is taxed.

B. The optional regime

Step 2 — tax on ₹26,00,000 = 12,500 + 1,00,000 + 4,80,000 = **₹5,92,500**.

Step 3 — tax on (₹10,00,000 + ₹2,50,000) = ₹12,50,000 = 12,500 + 1,00,000 + 75,000 = **₹1,87,500**.

Step 4 — ₹4,05,000; add cess ₹16,200. **Tax payable = ₹4,21,200.** Against a tax of ₹3,04,200 had there been no agricultural income — a cost of ₹1,17,000.

Two conclusions. First, the default regime is far better for Shri Mahendra (₹2,80,800 against ₹4,21,200), and the regime choice of section 3.4 must still be made first. Second, and less obvious, the *cost of integration itself* is larger in the default regime (₹1,50,000 before cess) than in the optional regime (₹1,12,500), because Step 3 shelters less there. Do not confuse the two comparisons.

A ceiling worth remembering

The cost of partial integration cannot rise without limit. As the non-agricultural income climbs into the top slab, Step 2 less Step 3 approaches (agricultural income × 30%) less the tax computed at Step 3, and the excess settles at a fixed figure — **₹3,00,000 under the default regime and ₹1,12,500 under the optional regime**, plus cess.

Each of those figures is exactly the value of the graduation in that regime — the tax on ₹24,00,000 under section 202(1), and the tax on ₹10,00,000 under the optional rates. **Partial integration can never take away more than the benefit of the slab scale itself, because that is the only thing it withdraws.**

Why it matters to a planner. It fixes the budget. No restructuring undertaken merely to escape integration is worth more than ₹3,12,000 a year, and any scheme whose cost — in stamp duty, professional fees, audit, or a higher flat rate — exceeds that figure destroys value even if it works perfectly.

5.6.5 Seven situations in which partial integration does not take place

Each of the following breaks one of the three requirements in 5.6.2. They are arranged from the weakest to the strongest, and each is followed by what it is actually worth.

Situation 1 — Keep the net agricultural income at ₹5,000 or below. Condition 1 fails and there is no integration at all. On the facts of Illustration 5.2, an agricultural income of ₹5,000 leaves the tax at ₹1,24,800; an agricultural income of ₹6,000 brings integration into play and raises it to ₹1,25,736. *Worth ₹936.* The threshold has not been revised for decades and is now of no practical value except to the very small holder. State it in the examination; do not plan around it.

Situation 2 — Keep the non-agricultural total income at or below the maximum amount not chargeable to tax. Condition 2 fails and, however large the agricultural income, there is no integration — and, of course, no tax. Under the default regime the shelter is ₹4,00,000 of non-agricultural income; under the optional regime, ₹2,50,000, or ₹5,00,000 for a very senior citizen. A retired farmer whose only other income is bank interest of ₹3,80,000 pays nothing on an agricultural income of any size. **This is the condition that most of the entity planning below is really aimed at** — not at removing the agricultural income from the individual, but at removing the *other* income from him.

Situation 3 — Carry on the activity through a partnership firm. This is the principal device and it deserves care, because it is often stated too simply. A firm is not a specified person, so its agricultural income is exempt and is never integrated. The partner receives (i) a **share of profit**, which is exempt in his hands under Schedule III, Table Sl. No. 1, and (ii) **remuneration and interest** within the ceilings of section 35, which are taxable in his hands as *profits and gains of business or profession* — and which are, emphatically, **not agricultural income**. Nothing therefore enters the partner's return that is capable of being integrated.

ILLUSTRATION 5.3 — THE SAME FACTS IN FOUR FORMS

Shri Mahendra of Illustration 5.2 — agricultural income ₹10,00,000, business income ₹16,00,000 — considers four forms of organisation. The firm and the company have two working partners / one working director drawing the maximum permissible payment. All computations are under the default regime.

Form of organisation	How the tax arises	Tax for the year
(a) Sole proprietor	Integration applies: ₹3,60,000 *less* ₹90,000, + cess	**₹2,80,800**
(b) Firm, no remuneration	No integration, but the whole ₹16,00,000 bears 30% + 4% cess	**₹4,99,200**
(c) Firm, maximum remuneration	Firm ₹4,60,000 @ 31.2% = ₹1,43,520; partners ₹5,70,000 each, tax nil after the section 156(2)(a) rebate	**₹1,43,520**
(d) Company under section 200	Salary ₹11,40,000 to the director; company ₹4,60,000 @ 25.168%; director nil after rebate	**₹1,15,770**

Read row (b) before row (c). Merely becoming a firm makes Shri Mahendra *worse off* by ₹2,18,400. He has escaped integration, and he has paid for the escape with a flat 30% on income that the slab scale was taxing at an average of 7.5%. **Incorporation by itself is not the plan.**

The plan is row (c). Section 35 permits the firm to deduct remuneration of ₹5,40,000 on the first ₹6,00,000 of book profit (the higher of ₹3,00,000 and 90%) and 60% of the balance ₹10,00,000, that is ₹6,00,000 — ₹11,40,000 in all. That converts ₹11,40,000 of flat-rate firm income into slab-rate partner income, on which two partners at ₹5,70,000 each pay nothing. **Saving against the proprietorship: ₹1,37,280.**

Note carefully what produced the saving. Measured against the proprietorship, the change of form by itself costs ₹2,18,400, because a flat 30% replaces a slab scale whose average rate on this income is far lower; the section 35 remuneration then recovers ₹3,55,680, leaving a net saving of ₹1,37,280. The escape from integration — worth ₹1,56,000 on its own — is real, but it is not what carries the arrangement. **The device works because of the combination, not because of the change of form alone.** This is the sentence to write in the examination.

Situation 4 — The limited liability partnership. Taxed exactly as a firm — flat 30%, the same section 35 ceilings on remuneration and interest, the same exemption for the partner's share — so the arithmetic of row (c) above is unchanged. What it adds is limited liability and perpetual succession, and what it costs is compulsory audit above the prescribed turnover and annual filing with the Registrar. In several States, however, the agricultural land laws restrict the holding of agricultural land by a body corporate; **check the State law before choosing the LLP over the ordinary firm.**

Situation 5 — The company — and the trap in it. A company is not a specified person either, and row (d) above shows that with a director's salary it produces the lowest figure of the four. But the moment the company *distributes* its agricultural profit, the shareholder is taxed on the distribution in full.

MRS. BACHA F. GUZDAR v. CIT (1955) 27 ITR 1 (SC) — AND HOW A PLANNER READS IT

The appellant held shares in two tea companies. Sixty per cent of the companies' income was exempt as agricultural income. She claimed that the same proportion of her dividend was exempt in her hands. **The Supreme Court rejected the claim.** A dividend is derived from the shares, not from the land; it rests on the contract between the company and its member; and it is not impressed with the character of the source from which the company earned it.

The taxpayer in Guzdar wanted the agricultural character and lost it. A planner escaping partial integration wants exactly the opposite — and Guzdar gives it to him. Because the dividend is **not** agricultural income, there is nothing in the shareholder's hands to integrate. The price is that the dividend is fully taxable as income from other sources.

The arithmetic of the price. If Shri Mahendra's company in row (d) distributes the ₹10,00,000 of agricultural profit as dividend, his total income becomes ₹10,65,000 (salary, after the ₹75,000 standard deduction) + ₹10,00,000 = ₹20,65,000, and his tax is **₹2,24,900** — more than the ₹1,56,000 of integration he set out to avoid.

The rule that follows. A company is the right vehicle for agricultural income that is to be **retained and reinvested** — in land, plant, cold storage, a warehouse. It is the wrong vehicle for agricultural income that the family needs to *draw*. A firm, whose share of profit reaches the partner untaxed, is the right vehicle for that.

Situation 6 — A second slab-rate person: the Hindu undivided family. The HUF *is* a specified person, so this does not escape integration — it halves it. Each of the two persons gets its own Step 3 shelter, and where the family's other income sits in one pair of hands only, the HUF's agricultural income escapes Condition 2 altogether. On the facts of Illustration 5.2, if half the land is genuinely HUF property, Shri Mahendra is integrated on ₹5,00,000 only — Step 2 on ₹21,00,000 = ₹2,25,000, Step 3 on ₹9,00,000 = ₹30,000, tax

₹1,95,000 + cess = **₹2,02,800** — and the HUF, having no non-agricultural income, pays nothing. *Saving ₹78,000, with no change in who farms the land.*

THE ONE ROUTE THAT IS CLOSED

He cannot get there by conversion. If Shri Mahendra throws his self-acquired agricultural land into the family hotchpot, **section 99(4)** (Chapter 7 of this booklet) includes the income from the converted property in his own total income, and the agricultural income comes straight back to him for integration. The same follows on a partition, under section 99(4) read with the proviso relating to the spouse's share.

The HUF route is available only where the land is **already** joint family property — ancestral land, land acquired with joint family funds, or land received by the HUF under the will or gift of a third person. Where it is available it is the cheapest of all the devices, because it requires no new entity, no stamp duty and no audit.

Situation 7 — Timing, and the choice of regime. Two smaller points that cost nothing. First, the integration is computed year by year, so an agricultural income that can lawfully be realised across two tax years — by the timing of the sale of the crop, not by a book entry — is sheltered twice at Step 3. Second, since Step 3 shelters ₹4,00,000 in the default regime against ₹2,50,000 in the optional regime, **an assessee with substantial agricultural income has one more reason to stay in the default regime**, over and above the lower rates.

5.6.6 When the restructuring does not pay

A planner who recommends a firm to every client with a field will destroy value for most of them. Below the rebate threshold, partial integration is very often costless, and the flat 30% of the firm is a real and permanent charge.

ILLUSTRATION 5.4 — THE COUNTER-EXAMPLE

Shri Ramesh, resident, has a business income of ₹9,00,000 and a net agricultural income of ₹1,00,000. Default regime.

As a proprietor. Both conditions are satisfied, so integration applies. Step 2 — tax on ₹10,00,000 = ₹40,000. Step 3 — tax on ₹5,00,000 = ₹5,000. Step 4 = ₹35,000. Step 5 — his total income is ₹9,00,000, which does not exceed ₹12,00,000, so the rebate under section 156(2)(a) of ₹60,000 wipes the whole of it out. **Tax = NIL.** Partial integration has cost him nothing.

As a firm. Book profit ₹9,00,000; maximum remuneration under section 35 = ₹5,40,000 + 60% of ₹3,00,000 = ₹7,20,000; the firm pays 31.2% on the balance ₹1,80,000 = **₹56,160**, and the partners pay nothing. **The restructuring has created a liability of ₹56,160 where none existed.**

The lesson. The rebate under section 156(2)(a) is worth ₹60,000 and it is available to an individual, not to a firm. Below a total income of about ₹12,00,000 it will usually absorb the whole cost of integration, and no entity planning should be attempted at all.

The table below traces the break-even on the facts of Illustration 5.2 (net agricultural income ₹10,00,000, default regime, two working partners drawing the maximum section 35 remuneration).

Non-agricultural income	As a proprietor	As a firm	Verdict
₹9,00,000	₹31,200	₹56,160	Firm worse by ₹24,960
₹12,00,000	₹1,04,000	₹93,600	Firm better by ₹10,400
₹16,00,000	₹2,80,800	₹1,43,520	Firm better by ₹1,37,280
₹24,00,000	₹5,30,400	₹2,43,360	Firm better by ₹2,87,040
₹40,00,000	₹10,29,600	₹5,95,920	Firm better by ₹4,33,680

The break-even lies a little above a non-agricultural income of ₹12,00,000 — which is to say, at the point where the rebate under section 156(2)(a) is exhausted. Below it, leave the client alone. Above it, the gap widens rapidly, though the reader should note that part of the widening comes from splitting the remuneration between two partners and is a benefit of the firm form generally, not of the escape from integration.

5.6.7 The limits — seven things that will not work

- **Letting the land to the entity at a rent.** Rent or revenue derived from agricultural land is itself agricultural income under section 2(5)(a). A proprietor who leases his field to his own firm and takes rent has changed nothing: the rent is agricultural income *in his hands* and is integrated as before. The land must be contributed to the firm as capital, or held by it.

- **Diverting the income without parting with the land.** **Section 96** includes in the transferor's total income all income arising to another person by virtue of a transfer where there is no transfer of the assets from which the income arises. An agreement that the crop shall belong to the firm while the land remains the proprietor's is exactly this.
- **Making the spouse a partner with the transferor's money.** Where an asset transferred to a spouse or son's wife otherwise than for adequate consideration is contributed as capital to a firm, **section 99(2)** clubs the proportionate income back. The partner must bring her own capital and must be a real partner.
- **Converting self-acquired land into HUF property.** Blocked by **section 99(4)**, as explained above.
- **An arrangement with no commercial substance.** **Chapter XI, sections 178 to 184.** A firm that exists only on paper, whose partners do nothing, whose deed is executed after the harvest, and whose only effect is a tax benefit, is an impermissible avoidance arrangement and may be disregarded. A firm of real farmers who farm is not, however large its tax saving — *Azadi Bachao Andolan* and *Vodafone* are as much a protection here as anywhere else.
- **Forgetting the capital gain on the land itself.** Contributing land to a firm or company is a transfer. **Rural** agricultural land is outside the definition of a capital asset, so no gain arises — this is why the device is usually costless. **Urban** agricultural land *is* a capital asset, and contributing it will crystallise a capital gain at once. Establish which it is, on the population and aerial-distance tests, before anything is signed.
- **Forgetting the law outside the Income-tax Act.** Most States restrict the purchase and holding of agricultural land by non-agriculturists and by bodies corporate, and impose ceilings on holdings. Stamp duty on the transfer, the cost of audit, and the annual filings are all real. Measure them against the ceiling in 5.6.4 — at most ₹3,12,000 a year — before advising.

A CHECKLIST FOR A CLIENT WITH AGRICULTURAL INCOME

- **Is it agricultural income at all?** Land in India; used for agricultural purposes; within one of the three limbs of section 2(5).
- **Is it composite?** Apply Rule 270; if tea, coffee or rubber, apply the percentages in Rule 271.
- **Do both conditions bite?** Net agricultural income above ₹5,000, *and* non-agricultural income above ₹4,00,000 or ₹2,50,000.
- **Choose the regime first**, under section 3.4 of this booklet. Then measure the cost of integration by the five steps.
- **Is the cost absorbed by the rebate?** If the total income is below about ₹12,00,000 under the default regime, stop here.
- **If not, is there already an HUF?** The cheapest solution first.
- **If not, will the family draw the profit or retain it?** Draw — a firm or LLP. Retain and reinvest — a company.
- **Is the land rural or urban?** And what does the State land law permit?
- **Is the arrangement real?** Deed before the season, capital genuinely contributed, partners genuinely working, books kept.

CHAPTER 6

Tax Planning through Permissible Deductions

Chapter VIII of the Act, sections 122 to 154. This is the field in which most personal tax planning is actually done — and, since 1 April 2026, the field that the default regime very nearly abolishes.

6.1 Where the law is

Chapter VIII is headed *Deductions to be made in computing total income*. It is arranged in five Parts: Part A the general provisions; Part B deductions in respect of certain payments; Part C deductions in respect of certain incomes; Part D other deductions; Part E the interpretation. **Section 122 is the gateway** and the four rules in it govern every deduction that follows.

Provision	The rule
Section 122(2)	The aggregate of the deductions under Chapter VIII **shall not exceed the gross total income**. A deduction can reduce the total income to nil but can never create a loss
Section 122(10)	"Gross total income" means the total income computed under the Act **before** any deduction under Chapter VIII
General rule	No double deduction — an amount allowed under one section of the Chapter cannot be allowed again under another
General rule	The deduction must be **claimed in the return**, and the return must be furnished by the due date where the section so requires

6.2 The regime filter — read this first

SECTION 202(2)(A)(XII)

In the **default regime**, the total income is computed **"without any exemption or deduction under … Chapter VIII other than the provisions of sections 124(1) and 124(2), or 125(2) or 146"**.

Four provisions survive out of thirty-three. They are —

Section 124(1) and 124(2) — the employer's contribution to the notified pension scheme (14% of salary in every case in the default regime);

Section 125(2) — contribution to the Agnipath Scheme;

Section 146 — deduction in respect of additional employee cost.

Everything else goes: section 123 (life insurance, provident fund, tuition fees, housing repayment), section 126 (health insurance), section 127, section 128, section 129 (education loan interest), sections 130 to 132 (housing and electric-vehicle loan interest), section 133 (donations), section 134 (rent paid), sections 136 and 137 (political contributions), section 153 (interest on deposits) and section 154 (own disability).

6.3 The deductions for a resident individual — the planning table

This table is the working tool of the whole paper. Learn the limits; they are examined directly.

The guidelines confine the deductions for this Unit to those in the table below. They are given in the numbering of the Income-tax Act, 2025, with the 1961 section the guidelines use shown alongside. The remaining provisions of Chapter VIII are collected in the Annexe, and the investment-linked ones are worked out in Unit 3.

2025 Act	Guidelines (1961)	Deduction	Limit	Default regime
123 with Schedule XV	80C	Life insurance premia, provident fund, public provident fund,	₹1,50,000 in the aggregate	**No**

2025 Act	Guidelines (1961)	Deduction	Limit	Default regime
		national savings certificates, equity linked savings schemes, five-year deposits, Sukanya Samriddhi, tuition fees for any two children, repayment of housing loan principal, stamp duty and registration		
124(1)	80CCD(2)	Employer's contribution to the notified pension scheme	14% of salary where the employer is the Central or a State Government; 10% otherwise	—
124(2)	80CCD(2)	The same, where tax is computed under section 202(1)	**14% of salary in every case**	**Yes**
124(3) and (4)	80CCD(1B)	The assessee's own contribution to the notified pension scheme	₹50,000, over and above the ₹1,50,000	**No**
126	80D	Health insurance premia and medical expenditure — self, family and parents	₹25,000 each; ₹50,000 where the person insured is a senior citizen; preventive health check-up ₹5,000 within those limits; maximum ₹1,00,000 for an individual	**No**
129	80E	Interest on a loan taken for higher education	No monetary ceiling; the initial tax year and seven tax years more, or until the interest is paid in full, whichever is earlier	**No**
133	80G	Donations to certain funds and charitable institutions	100% or 50%, with or without the qualifying limit of 10% of adjusted gross total income. **Nothing at all for a cash donation above ₹2,000**	**No**
153	80TTA / 80TTB	Interest on deposits	₹10,000 on a savings account; ₹50,000 on any account, including time deposits, for a resident senior citizen	**No**
22(2)	24(b)	Interest on capital borrowed for a house property	₹2,00,000 for a self-occupied house (₹30,000 where the five-year or certificate condition fails); no ceiling for a let-out house	**No** for a self-occupied house; **yes** for a let-out one
19(1), Table Sl. No. 2	16(ia)	Standard deduction from salary	₹75,000 in the default regime; ₹50,000 in the optional regime	**Yes**, and larger

Two of the ten are not Chapter VIII at all — say so, and gain the mark

Section 22(2) — the guidelines' 24(b) — is a deduction in computing income under the head "Income from house property". It is taken *before* gross total income is arrived at.

Section 19(1), Table Sl. No. 2 — the guidelines' 16(ia) — is a deduction from salary, and is likewise taken before gross total income.

The other eight are deductions **from** gross total income under Chapter VIII. The distinction matters because of section 122(2): a Chapter VIII deduction cannot exceed gross total income and can never create a loss, whereas the interest deduction under section 22(2) can, and does, produce a loss under the head house property.

6.4 Deductions and the non-resident

The syllabus asks specifically for planning through permissible deductions **for residents and non-residents**. The rule is simple and turns on the words of each section.

Position	Sections
Confined to a resident by express words	Section 154 — "an individual, being resident in India". Section 156 — the rebate, under both sub-sections, is for a "resident individual"
Open to a non-resident on the words of the section	Sections 123, 126, 127, 128, 129, 133, 134, 135, 136, 137 and 153 — none of them requires residence
Open in law, but rarely available in fact	Section 134 (rent paid) requires the assessee to be paying rent for his own residence; section 129 requires the education loan to be for himself or a relative. Both are theoretically open to a non-resident and practically uncommon
The real disability	The **rebate** under section 156. A resident with a total income of ₹12,00,000 in the default regime pays no tax at all; a non-resident with the same income pays ₹65,000 plus cess. This is the largest single difference the status makes at ordinary levels of income

6.5 How to plan the deductions — the order of work

1. **Compute the gross total income under both regimes.** They differ, because house rent allowance, leave travel concession, professional tax and self-occupied housing interest enter one and not the other.
2. **List the Chapter VIII deductions actually available**, with evidence. Do not assume a deduction will be allowed because the money was spent; section 133(5) disallows a cash donation above ₹2,000 however genuine, and section 126(9) prescribes the mode of payment.
3. **Apply the ceiling in section 122(2)** — the aggregate cannot exceed the gross total income.
4. **Compute the tax under both regimes, including the rebate and marginal relief**, and choose.
5. **Then, and only then, consider fresh investment.** A deduction that will not be usable in the chosen regime is not worth making for tax reasons.

ILLUSTRATION 6.1 — WHERE THE OPTIONAL REGIME WINS

Smt. Meera, aged 52 and resident, has a gross salary of ₹28,00,000. She pays house rent of ₹6,00,000 a year in Delhi and receives house rent allowance of ₹7,20,000 (included in the gross salary). Her basic salary is ₹14,40,000 and she has no dearness allowance or commission. She pays ₹1,50,000 into a provident fund, ₹50,000 as health insurance premium for herself and her senior-citizen mother, ₹2,00,000 as interest on a loan for her self-occupied house, and professional tax of ₹2,500. *Which regime?*

Default regime. Gross salary ₹28,00,000 *less* standard deduction ₹75,000 = ₹27,25,000. Nothing else is allowed. **Total income = ₹27,25,000.**

Tax: nil + 20,000 + 40,000 + 60,000 + 80,000 + 1,00,000 + 30% of ₹3,25,000 (₹97,500) = **₹3,97,500**. Cess 4% = ₹15,900. **₹4,13,400.**

Optional regime. House rent allowance exempt to the least of — (a) received ₹7,20,000; (b) rent ₹6,00,000 *less* 10% of salary ₹1,44,000 = ₹4,56,000; (c) 50% of salary (Delhi) = ₹7,20,000. **Least = ₹4,56,000.**

Gross salary ₹28,00,000 *less* HRA exempt ₹4,56,000 = ₹23,44,000 *less* standard deduction ₹50,000 *less* professional tax ₹2,500 = ₹22,91,500. *Less* housing interest ₹2,00,000 = gross total income **₹20,91,500**. *Less* section 123

₹1,50,000 and section 126 ₹50,000 = **total income ₹18,91,500.**

Tax: nil on ₹2,50,000 + 5% on ₹2,50,000 (₹12,500) + 20% on ₹5,00,000 (₹1,00,000) + 30% on ₹8,91,500 (₹2,67,450) = **₹3,79,950.** Cess 4% = ₹15,198. **₹3,95,148.**

Conclusion. The optional regime is better by ₹18,252. She should exercise the option under section 202(4)(b), along with the return furnished under section 263(1).

Compare this with Illustration 3.1, where the default regime won. The difference is the house rent allowance. Once a large genuine HRA exemption is in play, the optional regime becomes competitive at high incomes — and that is precisely why the structure of the pay package and the choice of regime must be decided together, not one after the other.

Illustration 6.2 — the rebate cliff, and why ₹12,00,000 matters

Shri Nitin, resident, aged 35, expects a total income of **₹12,10,000** for Tax Year 2026-27 in the default regime. His employer offers to pay him a bonus of ₹40,000 in March 2027 or in April 2027, as he prefers. *Advise him.*

At ₹12,10,000. Tax = 20,000 + 40,000 + 15% of ₹10,000 (₹1,500) = ₹61,500. Section 156(2)(a) does not apply, the income exceeding ₹12,00,000. Section 156(2)(b) gives marginal relief: the tax ₹61,500 exceeds the excess of income over ₹12,00,000 (₹10,000) by ₹51,500, so the rebate is ₹51,500. Tax = ₹10,000, plus cess ₹400 = **₹10,400.**

If he could bring the total income to ₹12,00,000 — say by a contribution of ₹10,000 to the notified pension scheme under section 124(3), which is one of the four survivors — the tax would be ₹60,000, the rebate under 156(2)(a) the whole ₹60,000, and the **tax NIL.**

Note two things. First, marginal relief means the cliff at ₹12,00,000 is a slope, not a precipice — it runs out at about ₹12,70,588. Second, section 124(3) is not *among the four provisions saved by section 202(2), so this particular route is closed in the default regime; the only lawful ways down to ₹12,00,000 there are sections 124(1), 124(2), 125(2) and 146. Deferring the bonus to April 2027 achieves the same result and is the better advice.*

CHAPTER 7

Tax Planning with Reference to the Clubbing Provisions

Sections 96 to 100 of Chapter V, read with section 25(a). The clubbing provisions are the Act's answer to the oldest planning device of all — splitting an income among the family. For the planner they are both a wall and a doorway.

7.1 Why the Chapter exists

Income-tax is progressive. A person with one income of ₹24,00,000 pays far more than four people with ₹6,00,000 each. There is therefore a standing temptation to divide an income among a wife, a son's wife and a minor child whose own incomes are small.

Chapter V answers it. It does **not forbid** the transfer — a person may give away what he owns, and the gift is perfectly good in civil law. It simply provides that **for the purposes of income-tax the income shall continue to be treated as the transferor's**. The transferee keeps the money; the transferor pays the tax. Section 100 then allows the Assessing Officer to recover that tax from the transferee, so that the burden falls where the money went.

> **THE ONE PRINCIPLE BEHIND THE WHOLE CHAPTER**
>
> **Clubbing follows the asset, not the money.**
>
> Where a person parts with the *income* but keeps the *asset* — section 96 — the income is his.
>
> Where he parts with the *asset* but keeps the *power to take it back* — section 97 — the income is his.
>
> Where he parts with *both*, but to a person so close that the family enjoyment of it is unchanged — section 99 — the income is still his.

7.2 Where the law is

Section	What it does	Old section
96	Transfer of income where the asset is not transferred	60
97	Revocable transfer of assets	61 and 63(a)
98	“Transfer” and “revocable transfer” defined	63
99(1)	The four substantive occasions — spouse, son's wife, minor child, and transfers for benefit	64(1)
99(2)	The formula where the transferred asset is invested in a business	Explanation 3 to 64(1)
99(3) and (4)	Separate property converted into joint family property, and partition	64(2)
99(5)	Which spouse; which parent; substantial interest; “property”; “income”	Explanations to 64
100	Recovery of the tax from the person whose income it really is	65
25(a)	A house transferred to a spouse or a minor child — the transferor remains the **deemed owner**	27(i)

7.3 Section 96 — transfer of income without transfer of the asset

All income arising to any person by virtue of a transfer, **whether revocable or not**, and **whether effected before or after the commencement of the Act**, where there is **no transfer of the assets** from which the income arises, is chargeable as the income of the transferor.

ILLUSTRATION 7.1 — SECTION 96

Shri Deepak owns debentures of a company yielding interest of ₹80,000 a year. By a deed he irrevocably assigns the interest for the next ten years to his brother, retaining the debentures. *Whose income is the interest?*

Shri Deepak's. The income has been transferred; the asset has not. Section 96 applies **regardless of the irrevocability** of the assignment, and **regardless of who the transferee is** — the section speaks of "all income arising to *any person* by virtue of a transfer". Neither the relationship between the parties nor the age of the transferee has anything to do with it.

Do not say that the interest escapes section 99 "because a brother is not a relative". That is wrong on both counts. Section 99 does not use the word relative *at all — it names the* ***spouse****, the* ***son's wife*** *and the* ***minor child****, and a brother is simply not among them. And a brother* is *a relative: see section 2(94), and the wider list in section 92(5)(g). The correct reason is that section 96 does not depend on relationship at all.*

TWO DEFINITIONS OF "RELATIVE" — DO NOT MIX THEM UP

The Act uses the word in two different widths, and an examiner will test whether you know which is which.

Section 2(94) — the general definition. In relation to an individual, "relative" means the **husband, wife, brother, sister, or any lineal ascendant (maternal as well as paternal) or descendant** of that individual.

Section 92(5)(g) — the wider definition, for gifts under section 92(2)(m). For an individual it covers the spouse; brother or sister; **brother or sister of the spouse**; **brother or sister of either of the parents**; any lineal ascendant or descendant; any lineal ascendant or descendant **of the spouse**; and the **spouse of any of those persons**. For a Hindu undivided family, any member of it.

And Chapter V uses neither. Sections 96 to 100 do not turn on the word "relative". Section 96 applies to a transfer of income to any person whatever; section 97 to any revocable transfer; and section 99 only to the four named classes — spouse, son's wife, minor child, and a transfer for the benefit of the spouse or the son's wife.

So an uncle, a nephew, a brother and a major child are all outside section 99 — but a brother and an uncle are inside section 92(5)(g), so a gift to them, or from them, is outside the gift charge. The two questions are quite separate, and both are worth marks.

7.4 Section 99(1)(a) — the spouse

Limb	What is clubbed	The exception
99(1)(a)(i)	Salary, commission, fees or any other remuneration, in cash or kind, received by the spouse from a concern in which the individual has a **substantial interest**	**Not clubbed** where the income is solely attributable to the application of the spouse's *technical or professional knowledge, experience and qualification*
99(1)(a)(ii)	Income from assets transferred, directly or indirectly, to the spouse **otherwise than for adequate consideration**	**Not clubbed** where the transfer is for adequate consideration, or in connection with an agreement to live apart. Subject to section 25(a) for a house property

Substantial interest [section 99(5)]: beneficial ownership of shares carrying **not less than 20%** of the voting power, or entitlement to not less than 20% of the profits, at any time during the tax year. Where both spouses have a substantial interest and both receive remuneration, the income is clubbed in the hands of the spouse whose **total income, before including this income, is greater**; and once so clubbed it continues to be clubbed there unless the Assessing Officer otherwise directs after hearing them.

7.5 Section 99(1)(c) — the minor child

The income of a **minor child** is included in the total income of the parent. Three categories are excluded:

- Income accruing on account of **work done** by the child;
- Income from **activities in which his skill, talent, specialised knowledge or experience** is applied;
- Income of a minor child **suffering from a disability of the nature specified in section 154**.

In whose hands? [section 99(5)] In the hands of the parent whose **total income, excluding the minor's income, is greater**. Where the marriage does not subsist, in the hands of the parent who maintains the child. Once included in one parent's income, it continues there unless the Assessing Officer otherwise directs after hearing that parent.

The ₹1,500 exemption. Schedule III, Sl. No. 17 excludes such clubbed income to the extent it does not exceed **₹1,500 in respect of each minor child**. **This exemption is withdrawn in the default regime** by section 202(2)(a)(i) — a small but frequently examined point.

7.6 What is NOT clubbed — the planning openings

This is the part of the Chapter that a planner uses. Every one of these is lawful, because in every one of them the Act itself has drawn the line.

No.	The opening	Why it works
1	**A gift to a major child**	Section 99 names the spouse, the son's wife and a **minor** child. A major son or daughter is not in the list. Income from an asset gifted to a major child is that child's own income, taxed in that child's own slab with that child's own basic exemption. **But note the trap:** section 99(1)(b) names the **son's wife** with no age qualification at all, so a gift to a major son is outside the section while a gift to his wife is squarely inside it
2	**A gift to a parent**	Parents are not in the list either. A gift to a senior-citizen parent with little income is particularly efficient: the parent has a higher basic exemption in the optional regime (₹3,00,000, or ₹5,00,000 if very senior) and a ₹50,000 deduction under section 153
3	**A gift to a brother, sister or other relative**	Not in the list, so nothing is clubbed. And nothing is taxable in the *recipient's* hands either, because **section 92(3)(a)** takes a receipt "from any relative" out of the gift charge in section 92(2)(m), and section 92(5)(g) defines relative widely enough to cover a brother, a sister, an uncle and an aunt. Watch the position only where the donee is **not** within that list — a cousin, a friend, a nephew's wife — for then a receipt above ₹50,000 is itself taxable as income from other sources
4	**Transfer for adequate consideration**	Section 99(1)(a)(ii), (b) and (d) all apply only to transfers *otherwise than for adequate consideration*. A sale at fair value, genuinely paid for out of the transferee's own means, is outside the section altogether. Section 99(1)(a)(ii) adds a second escape — a transfer *in connection with an agreement to live apart*
5	**Income from the accretion**	Section 99(1)(a)(ii) clubs income "from assets transferred". Where the transferee saves the clubbed income

No.	The opening	Why it works
		and invests it, the income of that second investment arises from a *different* asset — one the transferor never transferred — and is therefore the transferee's own. The clubbing exhausts itself over time
6	**The spouse's professional income**	The closing words of section 99(1)(a)(i) exclude income "solely attributable to the application of technical or professional knowledge, experience and technical or professional qualification of the spouse". A genuinely qualified spouse genuinely employed is outside the clause. Note the word **solely**: a token qualification will not do
7	**The minor's own earnings**	Work done by the child, and activities using his skill or talent, are excepted. A child actor or a young sportsperson is taxed in his own hands
8	**A disabled minor child**	Income of a minor child with a disability of the nature specified in section 154 is not clubbed at all
9	**Income after the child attains majority**	Section 99(1)(c) speaks of a *minor* child, so it operates only while the child is a minor. Where the child attains majority during the tax year, the income of the part of the year during which he was a minor is clubbed and the income of the remainder is his own — so the year's income must be apportioned
10	**A loan instead of a gift**	A genuine interest-bearing loan to a relative, evidenced and serviced, is not a transfer of an asset otherwise than for adequate consideration

A WARNING THAT BELONGS HERE

Every one of the ten openings above is lawful **provided the transaction is real**. A "gift" to a major son whose bank account the father operates, or a "loan" on which no interest is ever paid, is not a transfer at all; it will be disregarded on ordinary principles, and — since 1 April 2026 — may in addition be an arrangement lacking commercial substance under **section 180(1)(a)**, with the consequences in section 181.

The line is the same one drawn in Chapter 2. Take what the Act offers; do not pretend.

ILLUSTRATION 7.2 — GIFT TO A SPOUSE COMPARED WITH A GIFT TO A MAJOR DAUGHTER

Shri Mohan, resident, has a total income of ₹30,00,000 and is taxed at 30%. He wishes to settle ₹40,00,000 of fixed deposits, yielding interest of ₹2,80,000 a year, on a member of his family. His wife has no income. His daughter, aged 22, is a student with no income. *On whom should he settle it?*

On the wife. The transfer is to a spouse, otherwise than for adequate consideration. Section 99(1)(a)(ii) clubs the whole ₹2,80,000 with Shri Mohan's income. Tax at 30% plus cess = **₹87,360.** Nothing is saved.

On the daughter. A major child is not within section 99. The ₹2,80,000 is her own income. In the default regime her total income of ₹2,80,000 is below ₹4,00,000, so her **tax is NIL. Saving = ₹87,360 a year.**

*The gift itself is not taxable in the daughter's hands: **section 92(3)(a)** takes a receipt "from any relative" out of the gift charge in section 92(2)(m), and a father is a lineal ascendant within section 92(5)(g)(i)(E). And once the deposits are hers, the interest on the* re-invested *interest is also hers. This single, simple and entirely lawful step is the most valuable* *clubbing-related planning available to an ordinary family.*

Illustration 7.3 — the minor child

Smt. Kavita (total income ₹18,00,000) and her husband Shri Prashant (total income ₹9,00,000) have two children: Aarav, aged 10, who has interest income of ₹60,000 from a deposit gifted by his grandmother, and Diya, aged 15, who earned ₹1,20,000 from a series of stage performances. *How are these taxed in Tax Year 2026-27 under the optional regime?*

Aarav's ₹60,000. Interest is not income from work done or from the application of skill, so section 99(1)(c) applies. It is clubbed with the income of the parent whose total income is greater — **Smt. Kavita's**. Schedule III, Sl. No. 17 excludes ₹1,500. **Amount clubbed = ₹58,500.**

Diya's ₹1,20,000. This is income from activities in which her talent is applied, and is expressly excepted by section 99(1)(c)(ii). It is **not clubbed**. It is Diya's own income, assessed in her own hands, and below the basic exemption limit, so **no tax**.

*Had the family been in the **default regime**, the ₹1,500 exclusion would not have been available at all — section 202(2)(a)(i) withdraws Schedule III, Sl. No. 17 — and the whole ₹60,000 would have been clubbed.*

CHAPTER 8

Revision, Ready Reckoner and Question Bank

Everything in this Unit, compressed. Work through the problems with a pen before you look at the solutions.

8.1 Old section to new section — a ready reckoner for Unit 1

Subject	Income-tax Act, 1961	Income-tax Act, 2025
Charge of income-tax	4	4
Scope of total income	5	5
Residence in India	6	6
Income deemed to accrue or arise in India	9	9
Incomes not included in total income	10	11 with Schedules II to VIII
Income of political parties and electoral trusts	13A, 13B	12 with Schedule VIII
Heads of income	14	13
Deductions from salary	16	19(1), Table
House rent allowance	10(13A) with Rule 2A	Schedule III, Sl. No. 11, with Rule 279
Leave travel concession	10(5) with Rule 2B	Schedule III, Sl. No. 8, with Rule 277
Special allowances	10(14) with Rule 2BB	Schedule III, Sl. No. 13, with Rule 280
₹1,500 per minor child	10(32)	Schedule III, Sl. No. 17
Deductions from house property	24	22
Deemed owner — spouse or minor child	27(i)	25(a)
Transfer of income without transfer of asset	60	96
Revocable transfer of assets	61 and 63(a)	97
"Transfer" and "revocable transfer" defined	63	98

Subject	Income-tax Act, 1961	Income-tax Act, 2025
Clubbing — spouse, son's wife, minor child	64(1)	99(1)
Asset invested in a business — the formula	Explanation 3 to 64(1)	99(2)
Conversion of separate property into HUF property	64(2)	99(3) and (4)
Recovery from the person whose income it is	65	100
Gross total income	80B(5)	122(10)
Deductions — Chapter VI-A	80C to 80U	Chapter VIII, sections 122 to 154
Life insurance, provident fund, tuition fees	80C	123 with Schedule XV
Pension scheme of the Central Government	80CCD	124
Agnipath Scheme	80CCH	125
Health insurance premia	80D	126
Dependant with a disability	80DD	127
Specified disease	80DDB	128
Interest on an education loan	80E	129
Interest on a housing loan — first-time buyer	80EE, 80EEA	130 and 131
Interest on an electric-vehicle loan	80EEB	132
Donations	80G	133
Rent paid	80GG	134
Political contributions	80GGB, 80GGC	136 and 137
Interest on deposits	80TTA, 80TTB	153
The assessee's own disability	80U	154
Rebate	87A	156
Relief for arrears	89	157
Double taxation relief	90, 91	159 and 160
Transfer pricing	92 to 92F	161 to 173
Transactions in securities	94	175
Thin capitalisation	94B	177
General Anti-Avoidance Rule	95 to 102 (Chapter X-A)	178 to 184 (Chapter XI)
The new default regime	115BAC	202
Permanent Account Number	139A	262
Return of income	139	263
Rounding off	288A, 288B	516
Agricultural income	2(1A) and 10(1)	2(5) with Schedule II, Table Sl. No. 1

Subject	Income-tax Act, 1961	Income-tax Act, 2025
Composite income — apportionment	Rules 7, 7A, 7B and 8	Rules 270 and 271
Share of profit of a partner	10(2A)	Schedule III, Table Sl. No. 1
Remuneration and interest to partners	40(b)	35
Concessional rate for a domestic company	115BAA	200
Rural agricultural land not a capital asset	2(14)(iii)	2(5) read with the definition of capital asset

8.2 Glossary of Unit 1

Term	Meaning
Tax planning	Arranging one's affairs within the four corners of the Act so as to attract the least tax the law requires
Tax avoidance	Arranging one's affairs so as to defeat the intention of the Act while remaining within its letter; liable to be struck down under Chapter XI
Tax evasion	Reducing tax by illegal means — concealment, false claims, fabricated records
Tax management	Compliance with the Act — records, deduction of tax at source, advance tax, returns, audit
Impermissible avoidance arrangement	An arrangement whose main purpose is a tax benefit and which carries any of the four taints in section 179(1)
Commercial substance	Section 180. An arrangement lacks it where its substance differs significantly from its form, or where it involves round trip financing, an accommodating party, offsetting elements, or a location without commercial purpose
Accommodating party	Section 184(1). A party whose participation is mainly to obtain a tax benefit for the assessee
Tax year	Section 3. The twelve months from 1 April to 31 March. There is no "previous year" and no "assessment year" under the 2025 Act
Gross total income	Section 122(10). The total income computed under the Act before any deduction under Chapter VIII
Total income	Gross total income less the deductions of Chapter VIII, rounded to the nearest ₹10 under section 516
Default regime	Section 202(1). The regime that applies unless the option is exercised — lower rates, almost no deductions
Optional regime	Part I-B of the First Schedule to the Finance Act. Applies only where the option under section 202(4) is exercised — higher rates, full deductions
Substantial interest	Section 99(5). Beneficial ownership of shares carrying not less than 20% of the voting power, or entitlement to not less than 20% of the profits
Senior citizen	Section 2(100). A resident individual who is sixty or more at any time during the tax year. An age is completed on the day **before** the birthday, so for Tax Year 2026-27 the cut-off

Term	Meaning
	date of birth is 1 April 1967
Deemed resident	Section 6(7). An Indian citizen with Indian income above ₹15 lakh who is liable to tax in no other country; always an RNOR by section 6(13)(c)
Adequate consideration	Consideration of a value comparable to that of the asset transferred. Love and affection is not adequate consideration
Relative — the general definition	Section 2(94). The husband, wife, brother, sister, or any lineal ascendant (maternal as well as paternal) or descendant of the individual
Relative — for gifts	Section 92(5)(g), and it is wider. It adds the brother or sister of the spouse, the brother or sister of either parent, the lineal ascendants and descendants of the spouse, and the spouse of any of those persons; and, for an HUF, any member of it
"Relative" in Chapter V	**The word does not appear there at all.** Section 96 applies to a transfer of income to any person; section 99 applies only to the spouse, the son's wife, the minor child, and a transfer for the benefit of the spouse or son's wife
Permissive tax planning	Taking a benefit the Act expressly offers
Purposive tax planning	Arranging matters so as to attract a favourable provision
Substantive tax planning	Shifting income between years, persons or heads
Partial integration	The device by which the agricultural income of a specified person, though exempt, is aggregated with his non-agricultural income *for the purpose of determining the rate* at which the non-agricultural income is charged. It taxes no agricultural income; it withdraws the benefit of the lower slabs.
Net agricultural income	Agricultural income as reduced by agricultural losses and by any tax on agricultural income levied by a State Government. It is this figure, and not the gross receipt, that is compared with ₹5,000 and used at Steps 2 and 3.
Specified person	For partial integration — an individual, a Hindu undivided family, an association of persons, a body of individuals or an artificial juridical person. A firm, an LLP, a company, a co-operative society and a local authority are not specified persons, because each is taxed at a flat rate.
Rural agricultural land	Agricultural land outside the jurisdiction of a municipality or cantonment board with a population of 10,000 or more, and beyond 2 km / 6 km / 8 km (measured aerially) of such limits according as the population is up to 1,00,000, up to 10,00,000, or above. It is not a capital asset, so its transfer yields no capital gain.

8.3 Objective questions

No.	Question and options
1	Tax planning is — (a) illegal; (b) legal and within the four corners of the Act; (c) permissible only for a company; (d) the same as tax evasion

No.	Question and options
2	The Westminster principle was laid down in — (a) *McDowell v. CTO*; (b) *IRC v. Duke of Westminster*; (c) *Azadi Bachao Andolan*; (d) *Vodafone*
3	“Colourable devices cannot be part of tax planning” was said by — (a) Lord Tomlin; (b) Chinnappa Reddy J.; (c) Ruma Pal J.; (d) Learned Hand J.
4	*Azadi Bachao Andolan* held that *McDowell* — (a) overruled Westminster entirely; (b) cannot be read as making every attempt at tax planning illegitimate; (c) applies only to sales tax; (d) was *per incuriam*
5	The General Anti-Avoidance Rule in the Income-tax Act, 2025 is in — (a) Chapter X, sections 161 to 177; (b) Chapter XI, sections 178 to 184; (c) Chapter X-A, sections 95 to 102; (d) Chapter XII
6	An arrangement lacks commercial substance under section 180 if it involves — (a) round trip financing; (b) an accommodating party; (c) elements that offset each other; (d) all of these
7	Under section 179(2), where the main purpose of a *step* is to obtain a tax benefit, the whole arrangement is — (a) automatically void; (b) presumed to have that main purpose unless the assessee proves otherwise; (c) unaffected; (d) referred to the Settlement Commission
8	An individual is resident under section 6(2)(a) if he is in India for — (a) 60 days; (b) 120 days; (c) 182 days or more; (d) 365 days
9	A resident but not ordinarily resident is taxable on foreign income only if it is from — (a) any source whatever; (b) a business controlled from or a profession set up in India; (c) an immovable property; (d) none
10	The exemption for a minor child's clubbed income is — (a) ₹1,000; (b) ₹1,500 per child; (c) ₹1,500 in all; (d) ₹5,000
11	That exemption is — (a) available in both regimes; (b) withdrawn in the default regime; (c) withdrawn in the optional regime; (d) abolished
12	The deductions surviving in the default regime are under sections — (a) 123, 126 and 133; (b) 124(1), 124(2), 125(2) and 146; (c) 153 and 154; (d) none
13	The aggregate of Chapter VIII deductions cannot exceed — (a) ₹1,50,000; (b) the total income; (c) the gross total income; (d) ₹12,00,000
14	The rebate under section 156(2)(a) is — (a) ₹12,500; (b) ₹25,000; (c) ₹60,000; (d) ₹1,00,000
15	The rebate under section 156 is available to — (a) any assessee; (b) a resident individual only; (c) any individual; (d) an individual and an HUF
16	Income arising to a person by a transfer of income without transfer of the asset is taxed under — (a) section 96; (b) section 97; (c) section 99; (d) section 100
17	Income of a minor child is clubbed in the hands of the parent whose total income (excluding the minor's income) is — (a) less; (b) greater; (c) either, at the assessee's option; (d)

No.	Question and options
	determined by the Assessing Officer in every case
18	Income from an asset gifted to a **major** son is — (a) clubbed with the father's; (b) clubbed with the mother's; (c) the son's own income; (d) exempt
19	Substantial interest means beneficial ownership of shares carrying not less than — (a) 10%; (b) 20%; (c) 26%; (d) 51% of the voting power
20	In section 99(2), the value of the assets invested is taken as on — (a) the date of investment; (b) the first day of the tax year; (c) the last day of the tax year; (d) the date of transfer
21	The standard deduction in the default regime is — (a) ₹40,000; (b) ₹50,000; (c) ₹75,000; (d) ₹1,00,000
22	House rent allowance is exempt to the extent of 50% of salary where the accommodation is in — (a) four cities; (b) six cities; (c) eight cities; (d) any metropolitan area
23	A cash donation under section 133 earns no deduction where it exceeds — (a) ₹2,000; (b) ₹10,000; (c) ₹20,000; (d) ₹50,000
24	Total income is rounded off under section 516 to the nearest — (a) ₹1; (b) ₹10; (c) ₹100; (d) ₹1,000
25	Tax management is concerned with — (a) reducing tax; (b) compliance with the Act; (c) avoiding tax; (d) concealing income
26	Partial integration of agricultural income does NOT apply to — (a) an individual; (b) a Hindu undivided family; (c) a partnership firm; (d) an association of persons
27	Agricultural income is exempt under — (a) Schedule II, Table Sl. No. 1; (b) section 19(1); (c) Schedule III, Sl. No. 8; (d) section 156
28	Partial integration applies only where the net agricultural income exceeds — (a) ₹5,000; (b) ₹50,000; (c) ₹1,500; (d) ₹5,00,000
29	At Step 3 the maximum amount not chargeable to tax, for an assessee in the default regime, is — (a) ₹2,50,000; (b) ₹3,00,000; (c) ₹4,00,000; (d) ₹5,00,000
30	Under Rule 271, income from the sale of tea grown and manufactured by the seller in India is business income to the extent of — (a) 25%; (b) 35%; (c) 40%; (d) 60%
31	In Mrs. Bacha F. Guzdar v. CIT the Supreme Court held that a dividend from a tea company is — (a) wholly agricultural income; (b) 60% agricultural income; (c) not agricultural income at all; (d) exempt under section 11
32	A partner’s share in the profits of a firm is exempt under — (a) Schedule II, Sl. No. 1; (b) Schedule III, Table Sl. No. 1; (c) section 35; (d) section 200
33	Gain on the transfer of rural agricultural land is — (a) taxable as business income; (b) taxable as capital gain; (c) not taxable, the land not being a capital asset; (d) agricultural income

Answers

Q	A	Q	A	Q	A	Q	A	Q	A
1	b	8	c	15	b	22	c	29	c
2	b	9	b	16	a	23	a	30	c
3	b	10	b	17	b	24	b	31	c
4	b	11	b	18	c	25	b	32	b
5	b	12	b	19	b	26	c	33	c
6	d	13	c	20	b	27	a		
7	b	14	c	21	c	28	a		

8.4 Fill in the blanks

1. Tax planning must be within the _____ corners of the Act.
2. The case that laid down “every man is entitled, if he can, to order his affairs so that the tax attaching is less than it otherwise would be” is _____.
3. GAAR is contained in Chapter _____ of the Income-tax Act, 2025.
4. An arrangement is impermissible only if its _____ purpose is to obtain a tax benefit.
5. Under section 6(13)(a)(ii) an individual is not ordinarily resident if he was in India for _____ days or less in the seven preceding tax years.
6. Foreign income of a non-resident is _____ in India.
7. The four deductions surviving the default regime are under sections _____, _____, _____ and _____.
8. The maximum deduction under section 126 for an individual is ₹_____.
9. The exemption for the clubbed income of a minor child is ₹_____ per child.
10. Income from an asset transferred to a _____ is clubbed even though the transferee is a major.
11. Section _____ allows recovery of the tax from the person in whose name the asset stands.
12. A gift to a _____ child is not hit by the clubbing provisions.
13. Partial integration takes place only if the net agricultural income exceeds ₹_____.
14. Agricultural income is exempt under Schedule _____, Table Sl. No. 1.
15. Partial integration does not apply to a _____ or to a company, because each is taxed at a _____ rate.
16. Under Rule 271, _____ per cent of the income from tea grown and manufactured in India is business income.
17. The case deciding that a dividend from a tea company is not agricultural income is _____.
18. Income from property converted by an individual into the property of his Hindu undivided family is clubbed under section _____.

Answers. 1. four · 2. IRC v. Duke of Westminster [1936] AC 1 · 3. XI · 4. main · 5. 729 · 6. not taxable · 7. 124(1), 124(2), 125(2), 146 · 8. 1,00,000 · 9. 1,500 · 10. spouse (or son's wife) · 11. 100 · 12. major · 13. 5,000 · 14. II · 15. firm (or limited liability partnership); flat · 16. 40 · 17. Mrs. Bacha F. Guzdar v. CIT (1955) 27 ITR 1 (SC) · 18. 99(4)

8.5 Short-answer and long-answer questions

Short answer (4 to 6 marks)

1. Define tax planning and state its essential elements.
2. Distinguish between tax planning and tax management.
3. State any five needs for tax planning.
4. What are the objectives of tax planning?
5. State the principles of tax planning.
6. What is meant by permissive, purposive and substantive tax planning? Give one example of each.
7. Explain short-range and long-range tax planning.
8. State the obligations of a tax adviser in tax planning.

9. What is an "impermissible avoidance arrangement" under section 179?
10. When does an arrangement lack commercial substance under section 180?
11. State the three relaxations from the 60-day test in section 6(3).
12. Who is a "deemed resident" under section 6(7), and what is his residential status?
13. Distinguish between an exemption, a deduction and a rebate.
14. Which deductions of Chapter VIII survive in the default regime?
15. State any five situations in which the clubbing provisions do NOT apply.
16. Explain section 96 with an example.
17. When is a transfer "revocable" under section 98?
18. In whose hands is a minor child's income clubbed?
19. "A brother is not a relative, so section 99 does not apply to a gift made to him." Comment on this statement.
20. Distinguish between the definition of "relative" in section 2(94) and that in section 92(5)(g), and state where each is used.

21. Define agricultural income under section 2(5) and state its three limbs.
22. What is partial integration? State the three requirements before it can operate.
23. State the five steps of partial integration, and say at which step the rebate is allowed.
24. Why does partial integration not apply to a firm or to a company?
25. Explain Rule 270 and Rule 271 with one example of each.
26. State any four situations in which partial integration does not take place.
27. What is agricultural income, and what is the tax treatment of income which is partly agricultural and partly from business?
28. Explain the tax treatment of income from growing and manufacturing (i) rubber, (ii) coffee, and (iii) tea.
29. "An exempt income cannot increase the tax." Comment, with reference to agricultural income.
30. Is the rebate under section 156(2)(a) available to a Hindu undivided family? What difference does the answer make where the family has agricultural income?

Long answer (10 to 15 marks)

1. "Tax planning is legal, tax avoidance is not illegal, tax evasion is illegal." Discuss, with reference to decided cases.
2. Trace the legal thinking on tax planning from *IRC v. Duke of Westminster* to the General Anti-Avoidance Rule now in Chapter XI of the Income-tax Act, 2025.
3. Explain the scope of tax planning under the Income-tax Act, 2025 with reference to the assessee, the period, the purpose and the stage.
4. Discuss the obligations of the parties to tax planning.
5. "Residential status is the first and the most valuable planning tool available to an individual." Explain, with illustrations.
6. Explain tax planning through exempted income for a resident and for a non-resident.
7. Explain tax planning through the permissible deductions of Chapter VIII, and state how the position differs for a non-resident.
8. Discuss the choice between the default regime under section 202(1) and the optional regime, and state the circumstances in which each is to be preferred.
9. Explain the clubbing provisions of sections 96 to 100, and state the planning opportunities that remain open under them.
10. "The clubbing provisions do not forbid a transfer; they merely refuse to recognise it for tax purposes." Discuss.

11. "Partial integration is a device of the slab scale, and it therefore operates only on a person who is taxed on a slab scale." Explain the statement and set out the tax planning that follows from it.
12. An assessee with a substantial agricultural income and a substantial business asks whether he should convert his proprietorship into a partnership firm or into a private company in order to avoid partial integration. Advise him, stating the tax and the non-tax considerations, and the circumstances in which he should do neither.
13. Explain the decision in Mrs. Bacha F. Guzdar v. CIT and show how a tax planner uses it, and where it defeats him.
14. Shri A, a resident individual, has a substantial agricultural income and a substantial business income. Set out, in the order in which you would take them, the steps by which you would reduce the effect of partial integration on his tax, and state at each step what the step is worth and what it costs.

8.6 Practical problems with solutions

Problem 1 — residential status and planning

Shri Naveen, a citizen of India, has always lived in India. On 12 August 2026 he leaves India to take up employment in Muscat and does not return during the tax year. His Indian income for Tax Year 2026-27 is ₹7,00,000 and his Muscat salary from 12 August 2026 to 31 March 2027 is ₹36,00,000. Determine his residential status and his total income. Would your answer differ if he had left on 12 October 2026?

Solution. Days in India to 12 August 2026 = 30 + 31 + 30 + 31 + 12 = **134 days**.

Condition 6(2)(a): 134 is less than 182 — not satisfied.

Condition 6(2)(b): he is a citizen of India leaving India for the purposes of employment outside India, so section 6(3) makes condition 6(2)(b) inapplicable to him.

He is a NON-RESIDENT for Tax Year 2026-27. Under section 5 only Indian income is taxable. **Total income = ₹7,00,000.** The Muscat salary of ₹36,00,000 is foreign income and is not taxable in India.

If he had left on 12 October 2026. Days in India = 134 + 19 (13 to 31 August) + 30 (September) + 12 (October) = **195 days**. Condition 6(2)(a) is satisfied; he is a **resident**, and, having been in India throughout the preceding years, **ordinarily resident**. His world income is taxable. **Total income = ₹7,00,000 + ₹36,00,000 (less such part as relates to the period after departure — here the whole of it) = ₹43,00,000.**

The planning point: the date of departure is within the taxpayer's control, and moving it forward by two months alters the taxable income by ₹36,00,000. Nothing in Chapter XI touches this, because Parliament chose a day count and the taxpayer has merely counted.

Problem 2 — the choice of regime

Shri Anil, resident, aged 40, furnishes the following for Tax Year 2026-27 — gross salary ₹13,00,000 (no house rent allowance); contribution to public provident fund ₹1,20,000; health insurance premium for self and family ₹22,000; interest on a loan for his self-occupied house ₹1,80,000; professional tax ₹2,400; donation by cheque to the Prime Minister's National Relief Fund ₹20,000 (100%, no qualifying limit). Compute his tax under both regimes and advise him.

Default regime. ₹13,00,000 *less* standard deduction ₹75,000 = **₹12,25,000.**

Tax = nil on ₹4,00,000 + 5% on ₹4,00,000 (₹20,000) + 10% on ₹4,00,000 (₹40,000) + 15% on ₹25,000 (₹3,750) = **₹63,750.**

Section 156(2)(a) does not apply (income exceeds ₹12,00,000). Section 156(2)(b): the tax ₹63,750 exceeds the excess over ₹12,00,000 (₹25,000) by ₹38,750 — **rebate ₹38,750.** Tax = ₹25,000. Cess 4% = ₹1,000. **Tax payable = ₹26,000.**

Optional regime. ₹13,00,000 *less* standard deduction ₹50,000 *less* professional tax ₹2,400 = ₹12,47,600. *Less* housing interest ₹1,80,000 = gross total income **₹10,67,600.** *Less* section 123 ₹1,20,000, section 126 ₹22,000, section 133 ₹20,000 = **total income ₹9,05,600.**

Tax = nil on ₹2,50,000 + 5% on ₹2,50,000 (₹12,500) + 20% on ₹4,05,600 (₹81,120) = **₹93,620.** No rebate (income exceeds ₹5,00,000). Cess 4% = ₹3,745. **Tax payable = ₹97,365.**

Advice: remain in the default regime. Saving ₹71,365.

Extra deductions of ₹3,19,400 were available in the optional regime — his total income fell from ₹12,25,000 to ₹9,05,600 — and they were still not enough. The reason is the rebate: at a total income near ₹12,00,000 the default regime is extraordinarily generous, and it takes a very large deduction indeed to beat it.

Problem 3 — clubbing, comprehensively

Shri Rajesh furnishes the following for Tax Year 2026-27. Compute the income to be included in his total income, giving reasons.

(i) He transferred ₹20,00,000 to his wife without consideration; she invested it in debentures yielding interest of ₹1,60,000.

(ii) His wife re-invested the ₹1,60,000 of interest and earned a further ₹12,000.

(iii) He gifted ₹15,00,000 to his son's wife on 1 May 2026; she earned interest of ₹1,05,000 on it.

(iv) He gifted ₹10,00,000 to his major son; the son earned ₹80,000 of interest.

(v) His minor son Rohit earned ₹45,000 as interest on a deposit made from a gift by Shri Rajesh's father.

(vi) His minor daughter Sneha earned ₹90,000 from playing the sitar at concerts.

(vii) His wife, a qualified architect, drew a salary of ₹9,00,000 from a firm in which Shri Rajesh holds 30% of the profits, for architectural work actually done by her.

(viii) He transferred a house to his wife without consideration; the annual value less the deduction under section 22 comes to ₹2,40,000.

Shri Rajesh's own total income before the above is ₹22,00,000 and his wife's is ₹9,00,000. He is in the optional regime.

Solution.

(i) ₹1,60,000 — CLUBBED. Asset transferred to the spouse otherwise than for adequate consideration; section 99(1)(a)(ii).

(ii) ₹12,000 — NOT clubbed. What is clubbed is the income from the transferred asset. Income from the *accretion* — the re-investment of the clubbed income — is the wife's own income.

(iii) ₹1,05,000 — CLUBBED. Asset transferred to the son's wife after 1 June 1973 otherwise than for adequate consideration; section 99(1)(b). There is no professional-skill exception here.

(iv) ₹80,000 — NOT clubbed. A major child is not within section 99. It is the son's own income.

(v) ₹45,000 *less* ₹1,500 = ₹43,500 — CLUBBED. Section 99(1)(c). It is immaterial that the gift came from the grandfather and not from Shri Rajesh: the sub-section clubs the income of a minor child whatever its source, subject only to the three exceptions. Shri Rajesh's total income (₹22,00,000) exceeds his wife's (₹9,00,000), so it is clubbed with his. Schedule III, Sl. No. 17 gives ₹1,500.

(vi) ₹90,000 — NOT clubbed. Income from an activity in which the minor's talent is applied; section 99(1)(c)(ii). Sneha's own income.

(vii) ₹9,00,000 — NOT clubbed. Shri Rajesh has a substantial interest (30% ≥ 20%), so the sub-section is attracted; but the income is solely attributable to the application of his wife's professional qualification and experience, and the closing words of section 99(1)(a)(i) — "but shall not include income solely attributable to the application of technical or professional knowledge, experience and technical or professional qualification of the spouse" — take it out. (It is an exception written into the clause itself, not a proviso.)

(viii) ₹2,40,000 — INCLUDED, but not by clubbing. On a transfer of house property to a spouse otherwise than for adequate consideration, **section 25(a)** makes the transferor the **deemed owner**, so the income is his own and is computed under the head "Income from house property" in his own hands. It does not travel through Chapter V at all. Section 99(1)(a)(ii) itself signposts this — it is expressly made "subject to the provisions of section 25(a)".

Total to be included in Shri Rajesh's income = ₹1,60,000 + ₹1,05,000 + ₹43,500 + ₹2,40,000 = ₹5,48,500.

Two traps in this problem. Item (ii) — income on the accretion — and item (viii) — deemed ownership rather than clubbing. Both are set almost every year.

Problem 4 — planning the family's assets

Shri Suresh, resident, aged 58, has a total income of ₹32,00,000. He holds ₹60,00,000 of bank deposits yielding 7% (₹4,20,000 a year). His family consists of his wife (no income), his son aged 24 (a student, no income), his daughter aged 16, and his mother aged 79 (no income). Advise him how to settle the deposits so as to reduce the family's tax lawfully, assuming everyone is in the optional regime.

Solution — take each candidate in turn.

The wife. Section 99(1)(a)(ii) clubs the whole ₹4,20,000 with Shri Suresh. **No saving.**

The minor daughter. Section 99(1)(c) clubs it, less ₹1,500. **Saving ₹1,500 only.**

The major son. Not within section 99. The income becomes his own. Total income ₹4,20,000. Tax in the optional regime = nil on ₹2,50,000 + 5% on ₹1,70,000 = ₹8,500. The total income does not exceed ₹5,00,000, so the rebate under section 156(1) is 100% of the tax or ₹12,500, whichever is less = ₹8,500. **Tax NIL.**

The mother, aged 79 — a senior citizen. Basic exemption ₹3,00,000 in the optional regime. Total income ₹4,20,000 *less* section 153 deduction of ₹50,000 (interest on deposits, senior citizen) = ₹3,70,000. Tax = 5% on ₹70,000 = ₹3,500. Rebate under section 156(1) = ₹3,500. **Tax NIL.**

Advice. Settle the deposits on the **major son** or the **mother**, or split them between them. Either produces a family saving of the whole tax Shri Suresh would otherwise have paid — ₹4,20,000 at 30% plus cess = **₹1,31,040 a year**.

Three cautions. First, the gift must be real: the money must go into their accounts and they must control it. Second, a gift from a lineal ascendant or descendant is not taxable in the recipient's hands: section 92(3)(a) takes a receipt from a relative out of the gift charge in section 92(2)(m), and both a son and a mother are within section 92(5)(g). Third, the mother is 79 — plan for the devolution of the deposits as well as for the income.

PROBLEM 5 — AVOIDANCE OR PLANNING?

Shri Vikram wishes to sell a plot of land held for eight years, on which the long-term capital gain will be ₹80,00,000. His adviser suggests three courses. Classify each as tax planning, tax avoidance liable to be struck down under Chapter XI, or tax evasion.

(a) Invest the gain in a residential house within the time allowed, and claim the exemption under section 82.

(b) Sell the plot on 2 April 2027 instead of 28 March 2027, so that the tax falls due a year later.

(c) Transfer the plot to a shell company in a treaty jurisdiction incorporated a month earlier, with no employees, no office and no activity, and have that company sell it.

(d) Understate the sale consideration in the deed and receive part of the price in cash.

Solution.

(a) Tax planning. Section 82 exists precisely to encourage this. Taking a benefit the statute deliberately offers cannot be a misuse or abuse of the Act within section 179(1)(b).

(b) Tax planning — substantive planning by deferment. The taxpayer is free to choose when to sell his own property. The transaction is real and the timing genuine. Note this is deferment, not avoidance: the tax is postponed, not escaped.

(c) Tax avoidance, and an impermissible avoidance arrangement. The main purpose is a tax benefit [section 179(1)]; the company is an **accommodating party** [section 184(1)]; the arrangement **lacks commercial substance** because the location of the transaction has no substantial commercial purpose other than the tax benefit [section 180(1)(c)] and there is no significant effect on business risk or net cash flow [section 180(1)(d)]. Under section 181 the corporate structure may be looked through and the gain taxed in Shri Vikram's hands.

(d) Tax evasion. A false statement in the deed and an undisclosed cash receipt. Tax, interest, penalty under Chapter XXI and prosecution under Chapter XXII.

This is the classic four-way question and it is worth practising. Notice that (a) and (b) are both planning although they work quite differently — one takes an exemption, the other moves a date.

PROBLEM 6 — EXEMPTED INCOME AND THE REGIME

Smt. Priya, resident, aged 38, is employed in Bengaluru. Her package for Tax Year 2026-27 is — basic salary ₹20,00,000; house rent allowance ₹9,60,000; leave travel concession ₹80,000 (she travelled and spent ₹80,000 on fares); children education allowance ₹4,800 for two children. She pays rent of ₹9,00,000 and professional tax of ₹2,400, and contributes ₹1,50,000 to a public provident fund. Compute her income under the head "Salaries" and her total income under both regimes.

Optional regime.

House rent allowance — least of: (a) ₹9,60,000 received; (b) rent ₹9,00,000 *less* 10% of salary ₹2,00,000 = ₹7,00,000; (c) 50% of ₹20,00,000 = ₹10,00,000 (Bengaluru is on the list of eight). **Exempt ₹7,00,000.** Leave travel concession **exempt ₹80,000** (fare actually incurred, within the block 2026-2029). Children education allowance — Rule 280(2), Sl. No. 7 allows **₹3,000 per month per child for up to two children**, that is ₹72,000 a year, so the whole ₹4,800 is **exempt** and nothing is taxable. (Do not use the old ₹100 a month; that was Rule 2BB of the 1962 Rules and it went on 1 April 2026.)

Gross salary = ₹20,00,000 + (₹9,60,000 − ₹7,00,000) + nil + nil = **₹22,60,000.** *Less* standard deduction ₹50,000 and professional tax ₹2,400 = **₹22,07,600.**

Less section 123 ₹1,50,000 = **total income ₹20,57,600.** Tax = ₹12,500 + ₹1,00,000 + 30% of ₹10,57,600 (₹3,17,280) = **₹4,29,780**; cess ₹17,191; **₹4,46,971.**

Default regime. No house rent allowance, no leave travel concession, no education allowance exemption, no professional tax, no section 123.

Gross salary = ₹20,00,000 + ₹9,60,000 + ₹80,000 + ₹4,800 = **₹30,44,800.** *Less* standard deduction ₹75,000 = **total income ₹29,69,800.**

Tax = ₹20,000 + ₹40,000 + ₹60,000 + ₹80,000 + ₹1,00,000 + 30% of ₹5,69,800 (₹1,70,940) = **₹4,70,940**; cess ₹18,838; **₹4,89,778.**

Advice: exercise the option under section 202(4)(b) and take the optional regime. Saving ₹42,807.

This is the mirror image of Illustration 3.1. Where the package is built around exempt allowances and the rent is genuinely paid, the optional regime wins. Where it is not, the default regime wins. There is no general answer — only a computation.

PROBLEM 7 — PARTIAL INTEGRATION UNDER BOTH REGIMES

Shri Devender, resident, aged 52, furnishes the following for Tax Year 2026-27 — income from business ₹18,00,000; net agricultural income ₹8,00,000; deposit in a public provident fund account ₹1,50,000; medical insurance premium paid by cheque ₹28,000. Compute his tax liability under both regimes and advise him.

Solution — the default regime [section 202(1)]. No deduction under Chapter VIII is available except sections 124(1), 124(2), 125(2) and 146, so neither the provident fund deposit nor the insurance premium is deductible. Non-agricultural total income = ₹18,00,000; net agricultural income = ₹8,00,000. Both conditions are satisfied.

Step 2 — tax on ₹26,00,000 = ₹3,60,000. Step 3 — tax on (₹8,00,000 + ₹4,00,000) = ₹12,00,000 = ₹60,000. Step 4 = ₹3,00,000. No rebate; add cess ₹12,000. **Tax = ₹3,12,000.**

Solution — the optional regime. Gross total income ₹18,00,000, less ₹1,50,000 under section 123 and ₹28,000 under section 126 = total income ₹16,22,000.

Step 2 — tax on (₹16,22,000 + ₹8,00,000) = ₹24,22,000 = 12,500 + 1,00,000 + 4,26,600 = ₹5,39,100. Step 3 — tax on (₹8,00,000 + ₹2,50,000) = ₹10,50,000 = 12,500 + 1,00,000 + 15,000 = ₹1,27,500. Step 4 = ₹4,11,600; add cess ₹16,464. **Tax = ₹4,28,064, rounded under section 516 to ₹4,28,060.**

Advice. The default regime is cheaper by ₹1,16,060, and the margin is not close. Two reasons combine: the lower slab rates, and the larger Step 3 shelter of ₹4,00,000 against ₹2,50,000. *An assessee with a substantial agricultural income has a second reason, beyond the rates, for staying in the default regime.* He should also note that his ₹1,50,000 in the provident fund is now buying him nothing in tax, and reconsider it as an investment on its merits.

Problem 8 — the choice of the form of organisation

Shri Naresh, resident, aged 47, owns 30 acres of **rural** agricultural land and runs a rice-milling business. For Tax Year 2026-27 his net agricultural income is ₹12,00,000 and his business income ₹20,00,000. He asks you to compare three courses — **(a)** continue as a sole proprietor; **(b)** form a firm with his major son, both working partners, the deed authorising the maximum remuneration permitted by section 35, the land being contributed to the firm as capital; **(c)** form a private company which opts for section 200 and pays him a salary of ₹15,00,000. Compute the tax in each case under the default regime and advise.

(a) Sole proprietor. Step 2 — tax on ₹32,00,000 = ₹5,40,000. Step 3 — tax on ₹16,00,000 = ₹1,20,000. Step 4 = ₹4,20,000; cess ₹16,800. **Tax = ₹4,36,800.**

(b) Partnership firm. The firm is not a specified person, so its agricultural income of ₹12,00,000 is exempt and is not integrated anywhere. Book profit ₹20,00,000. Maximum remuneration under section 35 = ₹5,40,000 (on the first ₹6,00,000) + 60% of ₹14,00,000 = ₹8,40,000, in all **₹13,80,000**. The firm pays 30% + 4% cess on ₹6,20,000 = ₹1,93,440. Each partner receives ₹6,90,000, on which the tax of ₹14,500 is extinguished by the rebate of ₹60,000 under section 156(2)(a). The share of profit, including the whole of the agricultural profit, is exempt in their hands under Schedule III, Table Sl. No. 1. **Tax = ₹1,93,440.**

(c) Private company under section 200. Company — business income ₹20,00,000 less salary ₹15,00,000 = ₹5,00,000, taxed at 22% plus surcharge 10% plus cess 4% = 25.168% = ₹1,25,840. Shri Naresh — salary ₹15,00,000 less the standard deduction of ₹75,000 = ₹14,25,000; tax ₹93,750 + cess = ₹97,500. **Total = ₹2,23,340.**

Advice. The firm is the cheapest at ₹1,93,440, a saving of ₹2,43,360 on the proprietorship. The company is dearer because the salary of ₹15,00,000 carries the individual past the rebate. **Four cautions must go with the advice** — (i) the land is rural, so contributing it to the firm attracts no capital gains tax; had it been urban, it would; (ii) the State land law must permit the firm to hold it; (iii) the deed must be executed, and the capital genuinely contributed, before the season, not after it; (iv) if the company were chosen and later distributed the agricultural profit as dividend, the dividend would be fully taxable in his hands — *Mrs. Bacha F. Guzdar v. CIT* — and the whole advantage would be lost.

Problem 9 — five proposals, of which four fail

Shri Bhupender has a net agricultural income of ₹15,00,000 and a business income of ₹25,00,000 for Tax Year 2026-27. An adviser puts five proposals to him, each intended to avoid partial integration. Comment on each, with reasons and with the section relied on.

(i) Let the land to a firm of himself and his wife at an annual rent of ₹15,00,000. *Fails.* Rent or revenue derived from agricultural land is itself agricultural income under section 2(5)(a). The rent is agricultural income in his own hands, and is integrated exactly as before. Nothing has been achieved except a lease.

(ii) Agree that the standing crop shall belong to the firm, the land remaining his. *Fails.* This is a transfer of income without a transfer of the asset from which it arises, and **section 96** includes the whole of it in his total income.

(iii) Gift ₹20,00,000 to his wife, who contributes it as capital to the firm. *Fails to the extent of the formula.* Where an asset transferred to the spouse otherwise than for adequate consideration is contributed as capital to a firm, **section 99(2)** clubs the proportionate income in the transferor's hands. She must bring her own capital and be a real partner.

(iv) Throw the self-acquired land into the family hotchpot, so that the Hindu undivided family earns the agricultural income. *Fails.* **Section 99(4)** includes the income from converted property in the individual's own total income, and it returns to him for integration.

(v) Contribute the rural agricultural land to a genuine firm of himself and his major son, both working partners, under a deed executed before the sowing season, with the maximum remuneration authorised by section 35. *Succeeds.* The firm is not a specified person; its agricultural income is exempt and cannot be integrated; the partners' share is exempt under Schedule III, Table Sl. No. 1; the remuneration is business income and not agricultural income. Rural agricultural land is not a capital asset, so the contribution yields no capital gain. The arrangement has commercial substance and is not touched by Chapter XI. **Subject always to the State land law and to the arrangement being carried out in fact, this is the one proposal to accept.**

Problem 10 — salary, house property and agricultural income

Shri Vinod Kumar, resident, aged 45, furnishes the following for Tax Year 2026-27 — gross salary ₹5,76,000; rent received from a let-out house ₹3,00,000 (this is the annual value; no municipal tax was paid); agricultural income ₹20,00,000; deposit in a public provident fund account ₹36,000. You are required to — **(a)** compute his total income and tax assuming there is no agricultural income; **(b)** compute them with the agricultural income of ₹20,00,000; and **(c)** state the increase caused by partial integration.

(a) and (b) — the default regime [section 202(1)]

Salary ₹5,76,000 less the standard deduction of ₹75,000 [section 19(1), Table Sl. No. 2] = ₹5,01,000. House property: annual value ₹3,00,000 less 30% under section 22 = ₹2,10,000. Gross total income ₹7,11,000. The provident fund deposit earns nothing, section 123 having been withdrawn by section 202(2). **Total income ₹7,11,000.**

Without agricultural income — tax = 5% of ₹3,11,000 = ₹15,550, wholly extinguished by the rebate of ₹60,000 under section 156(2)(a). **Tax = NIL.**

With agricultural income — Step 2: tax on ₹27,11,000 = 20,000 + 40,000 + 60,000 + 80,000 + 1,00,000 + 93,300 = ₹3,93,300. Step 3: tax on (₹20,00,000 + ₹4,00,000) = ₹24,00,000 = ₹3,00,000. Step 4 = ₹93,300. Step 5: less rebate ₹60,000 = ₹33,300; add cess ₹1,332. **Tax = ₹34,632, rounded to ₹34,630.**

(a) and (b) — the optional regime

Salary ₹5,76,000 less ₹50,000 = ₹5,26,000; house property ₹2,10,000; gross total income ₹7,36,000 less section 123 ₹36,000 = **total income ₹7,00,000.**

Without agricultural income — 12,500 + 20% of ₹2,00,000 = ₹52,500 + cess = **₹54,600.**

With agricultural income — Step 2: tax on ₹27,00,000 = ₹6,22,500. Step 3: tax on ₹22,50,000 = ₹4,87,500. Step 4 = ₹1,35,000 + cess ₹5,400 = **₹1,40,400.**

	Default regime [s. 202(1)]	Optional regime
Tax without agricultural income	**NIL**	₹54,600
Tax with agricultural income of ₹20,00,000	**₹34,630**	₹1,40,400
(c) Increase caused by partial integration	**₹34,630**	**₹85,800**

Problem 11 — house property and a large agricultural income

Shri Daksh Singh Rajput, resident, aged 44, owns a house in Mumbai let for residential purposes at ₹60,000 per month. Its municipal valuation is ₹4,20,000. Municipal taxes are 20% of the municipal value, of which ₹46,000 was paid during the year. He has other income of ₹1,00,000 and agricultural income of ₹25,70,000. Compute his tax for Tax Year 2026-27 (a) ignoring and (b) taking the agricultural income; and (c) state the increase.

Income from house property. Annual value = the higher of the municipal value and the actual rent = ₹7,20,000. Less municipal taxes **actually paid** ₹46,000 (not the ₹84,000 levied) = net annual value ₹6,74,000. Less 30% under section 22 = ₹2,02,200. **Income from house property ₹4,71,800.** Add other income ₹1,00,000. **Total income ₹5,71,800** under either regime, no Chapter VIII deduction being claimed.

Default regime. *Without agricultural income* — tax = 5% of ₹1,71,800 = ₹8,590, extinguished by the rebate. **NIL.** *With agricultural income* — Step 2: tax on ₹31,41,800 = 3,00,000 + 2,22,540 = ₹5,22,540. Step 3: tax on ₹29,70,000 = 3,00,000 + 1,71,000 = ₹4,71,000. Step 4 = ₹51,540. Step 5: the rebate under section 156(2)(a), being ₹60,000 or the tax payable if less, absorbs the whole ₹51,540. **Tax = NIL.**

Optional regime. *Without* — 12,500 + 20% of ₹71,800 = ₹26,860 + cess = **₹27,930.** *With* — Step 2: tax on ₹31,41,800 = ₹7,55,040. Step 3: tax on ₹28,20,000 = ₹6,58,500. Step 4 = ₹96,540 + cess = **₹1,00,400.** No rebate, the total income exceeding ₹5,00,000.

	Default regime [s. 202(1)]	Optional regime
Tax without agricultural income	**NIL**	₹27,930
Tax with agricultural income of ₹25,70,000	**NIL**	₹1,00,400
(c) Increase caused by partial integration	**NIL**	**₹72,470**

Problem 12 — composite income: the sugar mill [Rule 270]

Shri Navin owns a sugar mill as a sole proprietor. For Tax Year 2026-27 his profit and loss account shows a profit of ₹39,00,000. He has used 6,000 quintals of sugarcane grown on his own farms, the cost of which has *not* been debited to the account. The market price of sugarcane during the season was ₹550 a quintal, and the cost of cultivation (seed, manure, fertiliser and the rest) was ₹21,00,000. He has no other income. Compute his agricultural and business income and the tax payable, and advise him.

(a) The apportionment under Rule 270. Where the cultivator uses his own produce as raw material in his business, the **market value** of that produce is deducted in computing the business profit, and the same market value *less* the cost of cultivation is the agricultural income. No further deduction is allowed for the cultivation expenditure.

Computation	Working	₹
Net profit as per profit and loss account		₹39,00,000
Less: market value of own sugarcane consumed	6,000 quintals × ₹550	(₹33,00,000)
Business income		**₹6,00,000**
Market value of the sugarcane		₹33,00,000
Less: cost of cultivation		(₹21,00,000)
Agricultural income		**₹12,00,000**

(b) The tax — default regime. Step 2: tax on (₹6,00,000 + ₹12,00,000) = ₹18,00,000 = 20,000 + 40,000 + 60,000 + 40,000 = ₹1,60,000. Step 3: tax on (₹12,00,000 + ₹4,00,000) = ₹16,00,000 = ₹1,20,000. Step 4 = ₹40,000. Step 5: the rebate of ₹60,000 absorbs it. **Tax = NIL.**

The tax — optional regime. Step 2: tax on ₹18,00,000 = ₹3,52,500. Step 3: tax on ₹14,50,000 = ₹2,47,500. Step 4 = ₹1,05,000 + cess = **₹1,09,200.** Tax on the business income alone would have been ₹33,800, so the integration costs ₹75,400 in that regime.

(c) The advice. Elect the default regime and the liability is nil. The alternative course is to transfer the farms to a partnership firm or LLP formed with family members, so that the agricultural income belongs to a person who is not a specified person, which reduces the tax from ₹1,09,200 to ₹33,800 — a saving of ₹75,400.

PROBLEM 13 — PLANTATIONS AND ESTATES [RULE 271]

Shri Rama Shetty, resident and ordinarily resident, derived the following during Tax Year 2026-27 from plantations and estates owned by him. Compute his agricultural income, his total income and his tax liability.

Sl.	Particulars	₹
1	Sale of centrifuged latex processed from rubber plants grown in West Bengal	₹2,50,000
2	Sale of coffee grown, cured, roasted and ground **in Sri Lanka**; the sale consideration was received at Chennai	₹3,00,000
3	Sale of coffee grown and cured in Tamil Nadu	₹1,25,000
4	Sale of tea grown and manufactured in Assam	₹3,75,000
5	Saplings and seedlings grown in a nursery at Cochin; the basic operations were not carried out on land	₹1,50,000
6	Sale of coffee grown, cured, roasted and ground in Chennai	₹5,00,000

Solution — the apportionment. Rule 271 fixes the business percentage; the balance is agricultural.

Sl.	Rule	Agricultural	Business / taxable
1	Rubber — 35% business	₹1,62,500 (65%)	₹87,500
2	Land is **outside India** — section 2(5) not satisfied	Nil	₹3,00,000
3	Coffee grown and cured — 25% business	₹93,750 (75%)	₹31,250
4	Tea grown and manufactured — 40% business	₹2,25,000 (60%)	₹1,50,000
5	Nursery — **deemed** agricultural by section 2(5)	₹1,50,000	Nil
6	Coffee grown, cured, roasted **and ground** — 40% business	₹3,00,000 (60%)	₹2,00,000
	Total	**₹9,31,250**	**₹7,68,750**

The tax — default regime. Total income ₹7,68,750; net agricultural income ₹9,31,250. Step 2: tax on ₹17,00,000 = 20,000 + 40,000 + 60,000 + 20,000 = ₹1,40,000. Step 3: tax on ₹13,31,250 = 20,000 + 40,000 + 19,688 = ₹79,688. Step 4 = ₹60,312. Step 5: less rebate ₹60,000 = ₹312; add cess ₹13. **Tax = ₹325, rounded under section 516 to ₹330.**

The tax — optional regime. Step 2: tax on ₹17,00,000 = ₹3,22,500. Step 3: tax on ₹11,81,250 = ₹1,66,875. Step 4 = ₹1,55,625 + cess ₹6,225 = **₹1,61,850.**

Problem 14 — the investment decision, and the firm that answers it

Shri Rahul Giri, resident, aged 50, has a salary income of ₹20,00,000 (after the standard deduction) and surplus funds of ₹1,00,00,000 accumulated in earlier years. He is considering — **(i)** a bank fixed deposit yielding 6%, that is ₹6,00,000 of interest; **(ii)** the purchase of agricultural land yielding rent of ₹6,00,000 a year; **(iii)** the purchase of the same land by a partnership firm of himself and his major son, the funds being contributed as capital. Advise him. Default regime throughout.

(i) The fixed deposit. Total income ₹20,00,000 + ₹6,00,000 = ₹26,00,000; tax ₹3,60,000 + cess = **₹3,74,400.**

(ii) The land in his own name. The rent is agricultural income under section 2(5)(a) and is exempt — but both conditions are satisfied, so it is integrated. Step 2: tax on ₹26,00,000 = ₹3,60,000. Step 3: tax on (₹6,00,000 + ₹4,00,000) = ₹10,00,000 = ₹40,000. Step 4 = ₹3,20,000 + cess = **₹3,32,800.**

(iii) The land bought by the firm. The firm is not a specified person. Its only income is the agricultural rent, which is exempt in its hands and is integrated nowhere. The partners' share of that profit is exempt under Schedule III, Table Sl. No. 1. Nothing enters Shri Rahul's return except his salary. Tax on ₹20,00,000 = ₹2,00,000 + cess = **₹2,08,000.**

Course	Tax for the year	What the ₹6,00,000 is worth
(i) Bank fixed deposit	₹3,74,400	Nothing — it is fully taxed
(ii) Agricultural land in his own name	₹3,32,800	**₹41,600** of a possible ₹1,66,400
(iii) Agricultural land bought by the firm	**₹2,08,000**	**₹1,66,400** — the whole of it

What the figures say. Had the ₹6,00,000 been exempt with no rate effect, it would have been worth ₹1,66,400 a year against the deposit. Held in his own name it is worth only ₹41,600: **partial integration claws back three-quarters of the exemption.** Bought by the firm, the whole benefit survives, and the saving against course (ii) is ₹1,24,800 a year — for the price of a partnership deed.

Three cautions. (a) The land must be **bought by the firm**. If Shri Rahul buys it and lets it to the firm for rent, the rent is his own agricultural income under section 2(5)(a) and he is back where he started. (b) The son must be a real partner bringing his own capital or his own labour; if the capital is a gift from the father, section 99(2) will club the proportionate income. (c) The State land law must permit the firm to acquire agricultural land. Subject to those, this is a prospective arrangement made before the transaction.

Problem 15 — three short cases

Case (i). *X, aged 56, has agricultural income of ₹52,00,000 and non-agricultural income of ₹2,00,000 for the year. His non-agricultural income of the preceding year was ₹2,50,000. Is he liable to income-tax?*

No. Partial integration requires *both* conditions. Condition 2 fails, because ₹2,00,000 does not exceed the maximum amount not chargeable to tax — ₹4,00,000 in the default regime, ₹2,50,000 in the optional. The ₹52,00,000 is therefore ignored altogether, and ₹2,00,000 is itself below the exemption limit. **Tax = NIL, in either regime.** The preceding year's figure is a distractor: integration is computed for each tax year separately.

Case (ii). *S, aged 50, has a total income of ₹15,00,000. Compute his tax in the default regime where his agricultural income is (a) Nil; (b) ₹5,000; (c) ₹3,50,000.*

Agricultural income	Does integration apply?	Tax
(a) Nil	No — Condition 1 fails	₹1,09,200
(b) ₹5,000	No — it must **exceed** ₹5,000	₹1,09,200
(c) ₹3,50,000	Yes — both conditions satisfied	₹1,58,600

Working for (c): Step 2 — tax on ₹18,50,000 = ₹1,70,000. Step 3 — tax on ₹7,50,000 = ₹17,500. Step 4 = ₹1,52,500 + cess = ₹1,58,600. *The increase is ₹49,400.* Note that (a) and (b) give the same figure: the section says "exceeds ₹5,000", so exactly ₹5,000 is outside it.

Case (iii). *Compute the tax of an individual having (Case 1) agricultural income ₹5,00,000 and income from other sources ₹6,60,000; (Case 2) agricultural income ₹4,500 and income from other sources ₹5,00,000.*

Case 1 — default regime. Both conditions satisfied. Step 2: tax on ₹11,60,000 = 20,000 + 36,000 = ₹56,000. Step 3: tax on ₹9,00,000 = 20,000 + 10,000 = ₹30,000. Step 4 = ₹26,000, absorbed by the rebate. **NIL.** *Optional regime* — Step 2 ₹1,60,500, Step 3 ₹62,500, Step 4 ₹98,000 + cess = **₹1,01,920.**

Case 2. Agricultural income of ₹4,500 does not exceed ₹5,000, so Condition 1 fails and there is no integration. Default regime: tax on ₹5,00,000 = ₹5,000, extinguished by the rebate. Optional regime: ₹12,500, extinguished by the rebate of ₹12,500. **NIL in both.**

Further questions for practice [answers in brackets]

- A resident individual has a business income of ₹22,00,000 and a net agricultural income of ₹14,00,000. Compute the tax under both regimes and state what the integration costs him in each. [₹5,20,000 default; ₹6,08,400 optional; the cost is ₹2,60,000 and ₹1,17,000 respectively]
- A **Hindu undivided family** has a business income of ₹5,00,000 and a net agricultural income of ₹9,00,000. Compute its tax in the default regime, and state what an individual on the same figures would pay. [₹15,600 for the HUF; **NIL** for an individual — the rebate under section 156(2)(a) is given only to a *resident individual*, and this is the commonest error in the examination]
- A resident individual grows and manufactures tea in Assam, the composite income being ₹40,00,000. He has no other income. Compute his agricultural income, his total income and his tax in the default regime. [Business ₹16,00,000; agricultural ₹24,00,000; tax ₹3,74,400; the integration costs ₹2,49,600]
- A private company whose whole income is agricultural distributes ₹30,00,000 as dividend to its only shareholder, whose salary income after the standard deduction is ₹12,00,000. Compute the shareholder's tax and comment. [₹8,73,600, against NIL had there been no dividend — *Mrs. Bacha F. Guzdar v. CIT*; the exemption does not survive the distribution]
- A resident individual has a business income of ₹30,00,000 and agricultural income of (a) ₹5,000; (b) ₹5,00,000. Compute his tax in the default regime. [(a) ₹4,99,200; (b) ₹6,24,000 — an increase of ₹1,24,800]
- "An exempt income cannot increase the tax." Discuss the statement with reference to agricultural income, and state the four ways in which the increase may lawfully be prevented.

8.7 A one-page revision sheet for Tax Year 2026-27

Point	Figure or rule
Tax year	1 April 2026 to 31 March 2027 [section 3]. No "previous year", no "assessment year"
Default regime slabs [section 202(1)]	Nil to ₹4,00,000; 5% to ₹8,00,000; 10% to ₹12,00,000; 15% to ₹16,00,000; 20% to ₹20,00,000; 25% to ₹24,00,000; 30% above
Optional regime slabs	Nil to ₹2,50,000 (₹3,00,000 senior, ₹5,00,000 very senior); 5% to ₹5,00,000; 20% to ₹10,00,000; 30% above
Cess	4% health and education cess. No marginal relief against cess
Standard deduction [section 19(1), Sl. No. 2]	₹75,000 default; ₹50,000 optional
Rebate [section 156]	₹12,500 up to ₹5,00,000; **₹60,000** up to ₹12,00,000 in the default regime, with marginal relief to about ₹12,70,588. **Resident individual only**
Deductions surviving the default regime	Sections 124(1), 124(2), 125(2) and 146 — nothing else in Chapter VIII
Section 123 ceiling	₹1,50,000
Section 124(3) and (4)	₹50,000 over and above the ₹1,50,000
Section 126 maximum for an individual	₹1,00,000
Section 127 / 154	₹75,000; ₹1,25,000 for severe disability
Section 153	₹10,000 savings account; ₹50,000 any account for a senior citizen
Residence [section 6(2)]	182 days; or 60 days + 365 days in four preceding years
Relaxations [section 6(3)]	Employment abroad and crew — 182 only. Visiting NRI with Indian income ≤ ₹15 lakh — 182 only; above ₹15 lakh — 120 days
RNOR [section 6(13)]	Non-resident in 9 of 10 preceding years; **or** in India 729 days or less in 7 preceding years; **or** 6(13)(b); **or** deemed resident

Point	Figure or rule
Clubbing	Sections 96, 97, 98, 99, 100 and section 25(a)
Substantial interest	20% of voting power or of profits
Minor child exemption	₹1,500 per child [Schedule III, Sl. No. 17] — **not in the default regime**
GAAR	Sections 178 to 184. Main purpose + any one of four taints
Rounding [section 516]	Nearest ₹10
Senior citizen [section 2(100)]	Resident, 60 or more at any time in the tax year. Cut-off date of birth for 2026-27: 1 April 1967
Agricultural income [section 2(5)]	Exempt — Schedule II, Table Sl. No. 1. Rural land: outside a municipality of 10,000, and beyond 2 / 6 / 8 km
Partial integration — when	Net agricultural income above ₹5,000 AND non-agricultural income above ₹4,00,000 (default) or ₹2,50,000 (optional)
Partial integration — on whom	Individual, HUF, AOP, BOI, artificial juridical person only. Never a firm, an LLP, a company, a co-operative society or a local authority
Partial integration — the ceiling	The cost can never exceed ₹3,00,000 (default) or ₹1,12,500 (optional), plus cess
Composite income	Rule 270; Rule 271 — rubber 35%, coffee 25% or 40%, tea 40% taxable as business income
Firm — rate and section 35	30% + 4% cess. Remuneration: higher of ₹3,00,000 or 90% on the first ₹6,00,000 of book profit, then 60%; interest 12%

8.8 Where to go next

Unit 2 takes the five heads of income one by one and asks, of each, what the planner can do — the structure of the pay package, the choice between a self-occupied and a let-out house, presumptive taxation, the timing of a capital gain, and the treatment of income from other sources.

Unit 3 is on the investment avenues — provident fund, public provident fund, equity linked savings schemes, unit linked insurance plans, bonds, mutual funds and the post office schemes — and on the deductions that attach to them.

Unit 4 turns from planning to management: advance tax, tax deducted and collected at source, refunds, the income-tax authorities, returns, assessments, appeals and revision.

> **A closing word**
>
> The most valuable thing you will take from this paper is not a list of sections. It is the habit of asking, before any financial decision, *what does this cost me in tax, and is there a lawful arrangement that costs less?* You will use that habit for the rest of your life, long after the section numbers have changed again.
>
> *Good luck in December.*

ANNEXE

Beyond the Prescribed Scope

Material retained for the student who wants it, and for the classroom — but outside the scope settled by the teachers' meeting of 6 September 2025, and therefore not examinable.

HOW TO USE THIS ANNEXE

This Annexe collects thirteen paragraphs that stood in the body of the earlier printing. Most of them were displaced by a single sentence in the guidelines: the scope of tax planning is confined to *short-term and long-term*; the case law is confined to *three* decisions; the deductions are confined to *ten* provisions; and the clubbing provisions are confined to *three*.

Nothing in this Annexe is required for the examination. Read the body of the booklet first, and completely. Come here only if you have time, or if a question in class or in practice takes you beyond the syllabus.

The paragraphs have been renumbered A.1, A.2 and so on. Their former numbers are shown in brackets so that anyone working from an earlier printing can find them.

A.1 Specific anti-avoidance rules in the 2025 Act [formerly 2.9]

Long before GAAR, Parliament had legislated against particular devices. These **specific** anti-avoidance rules (SAAR) operate automatically, without any declaration, and the student should be able to name a few.

Provision	The device it defeats
Sections 96 to 100 (Chapter V)	Diversion of income to a spouse, a son's wife, a minor child or a revocable transferee — **Chapter 7 of this booklet**
Section 92(2)(m), with the exceptions in section 92(3)	Receipt of money or property without consideration, or for inadequate consideration, dressed up as a gift. A receipt from a "relative" as defined in section 92(5)(g) is excepted
Sections 161 to 173 — transfer pricing	Shifting profit out of India by mispricing transactions with associated enterprises
Section 174	Transfer of income to non-residents
Section 175	Avoidance of tax by certain transactions in securities — bond washing and dividend stripping
Section 176	Transactions with persons in a notified jurisdictional area
Section 177	Limitation on interest deduction — thin capitalisation
Section 25(a)	The deemed owner rule — a house transferred to a spouse or minor child remains the transferor's for the purposes of the head "Income from house property"

Where a SAAR applies, it applies of its own force. GAAR is the residuary weapon, for the device that Parliament did not foresee.

A.2 Scope by reference to the assessee [formerly 3.1]

Every *person* within the meaning of section 2(77) may plan, but the opportunities differ.

Person	The principal planning opportunities
Individual	Choice of regime [section 202]; residential status; structure of the pay package; deductions under Chapter VIII; timing of capital gains; use of the clubbing

Person	The principal planning opportunities
	exceptions; gifts to major children and parents
Hindu undivided family	Creation of the family; partition; separate basic exemption; the bar in section 99(3) on converting separate property into family property
Firm / LLP	Interest and remuneration to partners within the limits of section 35; presumptive taxation
Company	Form of organisation; dividend policy; the special rates; deductions in Part C of Chapter VIII
AOP / BOI, trust, local authority	Status, and the rate consequences that follow it

Our paper is "Personal Tax Planning", so the individual and the Hindu undivided family are the assessees we shall study.

A.3 Scope by reference to purpose — the three classical types [formerly 3.3]

Type	What it is	Example
Permissive tax planning	Planning that takes advantage of provisions the Act *expressly* permits — exemptions, deductions, rebates, reliefs and concessions	Claiming the deduction under section 126 for health insurance premia; claiming exemption for house rent allowance under Schedule III, Sl. No. 11
Purposive tax planning	Planning with the specific object of attracting a favourable provision — choosing the status, the residence, the form or the timing that the Act treats better	Choosing to be a non-resident by regulating the days of stay; investing in the name of a major child so that the clubbing provisions do not apply; choosing the optional regime because the deductions exceed the rate advantage
Substantive tax planning	Planning by shifting income from one year to another, from one person to another, or from one head to another, so that it is taxed at a lower rate or not at all	Deferring the sale of a capital asset by one month so that the holding period is completed and the gain becomes long-term; spreading an advance receipt so that section 157 relief applies

A.4 Scope by reference to the stage [formerly 3.4]

- **At the stage of setting up** — the form of organisation, the location of the undertaking, the nature of the activity, the source of finance (equity or borrowing), and the choice of the tax year of commencement.
- **During operation** — the pay package, the capital structure, the mode of acquiring assets (buy or lease), the treatment of repairs and replacements, the timing of receipts and payments.
- **At the stage of transfer or closure** — the timing of a sale, the choice between a sale and a gift, the exemptions in sections 82, 83, 85 and 86, amalgamation and succession.

A.5 The three categories [formerly 4.2]

- **Resident and ordinarily resident (ROR)** — world income taxable.
- **Resident but not ordinarily resident (RNOR)** — Indian income taxable, and foreign income only if it is from a business controlled from, or a profession set up in, India.
- **Non-resident (NR)** — Indian income only.

A.6 The basic conditions for an individual [section 6(2)] [formerly 4.3]

An individual is **resident** in India in a tax year if he satisfies **either** of the following:

Condition	The test
6(2)(a)	He is in India for **182 days or more** during the tax year
6(2)(b)	He is in India for **60 days or more** during the tax year **and** for **365 days or more** during the four years immediately preceding it

Three relaxations from the 60-day test [section 6(3)]

Who	Effect
A citizen of India who leaves India during the tax year for the purposes of employment outside India, or as a member of the crew of an Indian ship	Condition 6(2)(b) does not apply at all. He is resident only if he is in India for 182 days or more
A citizen of India or a person of Indian origin who, being outside India, comes on a visit to India, whose total income other than foreign-source income is **₹15 lakh or less**	Condition 6(2)(b) does not apply. Only the 182-day test applies
The same person, where that income **exceeds ₹15 lakh**	Condition 6(2)(b) applies, but the 60 days is read as **120 days**

The deemed resident [sections 6(7) and 6(8)]

A citizen of India whose total income other than foreign-source income exceeds ₹15 lakh, and who is **not liable to tax in any other country or territory** by reason of domicile, residence or any similar criterion, is **deemed to be resident** in India — regardless of his days of stay. By section 6(13)(c) such a person is always an **RNOR**.

Ordinarily resident or not ordinarily resident [section 6(13)]

A resident individual is **not ordinarily resident** if *any* of the following applies:

1. He has been a **non-resident in India in nine out of the ten** tax years preceding that year [6(13)(a)(i)]; **or**
2. He has been in India for **729 days or less** during the seven tax years preceding that year [6(13)(a)(ii)]; **or**
3. He is a citizen of India or a person of Indian origin, with income other than foreign-source income exceeding ₹15 lakh, who has been in India for 120 days or more but less than 182 days [6(13)(b)]; **or**
4. He is a deemed resident under section 6(7) [6(13)(c)].

A.7 Sections 97 and 98 — revocable transfers [formerly 7.4]

Income arising to any person by virtue of a **revocable transfer of assets** is chargeable as the income of the transferor [section 97(1)]. Section 98 defines the terms: "transfer" includes any settlement, trust, covenant, agreement or arrangement; and a transfer is **deemed revocable** if it contains any provision for the re-transfer of the whole or any part of the income or assets to the transferor, or if it in any way gives the transferor a right to re-assume power over them.

The exception in section 97(2). Sub-section (1) does not apply where the transfer is by way of a trust not revocable during the lifetime of the beneficiary, or, in any other case, not revocable during the lifetime of the transferee — **and** the transferor derives no direct or indirect benefit from the income. But by section 97(3), the moment the power to revoke arises, the income becomes the transferor's again.

A.8 Section 99(1)(b) — the son's wife [formerly 7.6]

Income arising to the son's wife from assets transferred, directly or indirectly, on or after **1 June 1973**, by the individual, otherwise than for adequate consideration, is clubbed with the individual's income. There is no professional-skill exception here.

A.9 Section 99(1)(d) — transfers for the benefit of the spouse or son's wife [formerly 7.8]

Where assets are transferred, otherwise than for adequate consideration, to **any person or association of persons**, the income is clubbed with the transferor's to the extent that it is for the **immediate or deferred benefit** of his or her spouse or son's wife. This closes the obvious escape of routing the gift through a trust or a friend.

A.10 Section 99(2) — the asset invested in a business [formerly 7.9]

Where an asset transferred under section 99(1)(a)(i) or (b) is invested by the spouse or son's wife in a business, or contributed as capital in a firm, the amount to be clubbed is —

> **THE FORMULA IN SECTION 99(2)**
>
> **A = B × C ÷ D**, where —
>
> **A** = the income to be included in the hands of the individual for the tax year;
>
> **B** = the income and interest, or both, arising to the spouse or son's wife from the business or the firm during the tax year;
>
> **C** = the value of the assets so invested, or contributed as capital, **as on the first day of the tax year**;
>
> **D** = the total investment or total capital contribution by the spouse or son's wife **as on the first day of the tax year**.
>
> *Both C and D are taken on the **first day of the tax year**, not on the date of investment. A candidate who takes the date of investment will get a wrong figure.*

A.11 Sections 99(3) and (4) — the Hindu undivided family [formerly 7.10]

Where an individual converts his separate property into property of the Hindu undivided family of which he is a member — by impressing it with the character of family property, by throwing it into the common stock, or by transferring it to the family — **without adequate consideration**, the income from that property is deemed to be his income. And where the property so converted is later partitioned, the income from the part received by his **spouse** on partition is deemed to arise from assets transferred indirectly to the spouse, and section 99(1)(a) applies to it.

Planning point. The device of creating an HUF by throwing self-acquired property into the common stock, and so obtaining a second basic exemption, does not work. An HUF is a genuine planning vehicle, but its corpus must come from ancestral property, from a gift by a stranger to the family, or from partition — not from the karta's own pocket.

A.12 Section 100 — recovery [formerly 7.12]

Where income of a person other than the assessee is included in the assessee's total income under Chapter V or under section 25(a), that person — in whose name the asset stands, or who is a member of the firm — is **liable to pay that portion of the tax levied on the assessee which is attributable to the income so included**, upon service of a notice of demand. Where the asset is held jointly, the holders are jointly and severally liable.

Why this matters to a planner. Clubbing is not merely a computation rule; it carries a recovery mechanism. A family that has divided assets on paper but not in substance may find the tax demanded from the nominal owner. Plan on the footing that the Department can reach the money wherever it has gone.

A.13 The whole of Chapter VIII, section by section [formerly the table in 6.3]

The guidelines confine Unit 1 to ten deductions. The Act contains many more, and the table below is the full list as it stood in the earlier printing of this booklet. It is reproduced for reference and for Unit 3, where the investment-linked deductions are worked out; it is not examinable in Unit 1.

Section	Deduction	Limit	Default regime
123	Life insurance premia, provident fund, public provident fund, tuition fees, repayment of housing loan principal, and the rest of Schedule XV	₹1,50,000 in the aggregate	No
Schedule XV, para 2	The premium, by reference to the capital sum assured	20% for a policy issued on or before 31 March 2012; 10% on or after 1 April 2012; 15% for a disabled or diseased life where the policy issued on or after 1 April 2013	—
Schedule XV, para 1(q)	Tuition fees	Any two children, full-time education, in India	—
124(1)	Employer's contribution to the notified pension scheme	14% of salary for a Government employer; 10% otherwise	**Yes**
124(2)	The same, where the assessee is taxed under section 202(1)	**14% of salary in every case**	**Yes**
124(3) and (4)	The assessee's own contribution to the notified pension scheme	₹50,000, **over and above** the ₹1,50,000	No
125	Agnipath Scheme	No ceiling	**Yes** (125(2))
126	Health insurance premia — self and family; parents	₹25,000 each; ₹50,000 where the person insured is a senior citizen. Medical expenditure ₹50,000 each. Preventive health check-up ₹5,000 in the aggregate. Side ceilings ₹50,000 each; **maximum ₹1,00,000 for an individual**	No
127	Maintenance and medical treatment of a dependant with a disability	₹75,000; ₹1,25,000 for severe disability	No
128	Medical treatment of a specified disease	₹40,000; ₹1,00,000 for a senior citizen; less any insurance or reimbursement	No
129	Interest on a loan taken for higher education	No ceiling; the initial tax year and seven more	No
130	Interest on a housing loan sanctioned in 2016-17	₹50,000; loan up to ₹35,00,000; value up to ₹50,00,000	No
131	Interest on a housing loan sanctioned 2019 to 2022	₹1,50,000; stamp duty value up to ₹45,00,000	No
132	Interest on a loan for an electric vehicle sanctioned 2019 to 2023	₹1,50,000	No
133	Donations to certain funds and charitable institutions	100% or 50%, with or without the qualifying limit of 10% of adjusted gross total income. **Nothing at all for a**	No

Section	Deduction	Limit	Default regime
		cash donation above ₹2,000 [section 133(5)]	
134	Rent paid	The least of: rent *less* 10% of total income; ₹5,000 a month; 25% of total income	No
135	Certain donations for scientific research or rural development	Nothing in cash above ₹2,000 [section 135(2)(b)]	No
136 and 137	Contributions to political parties	No ceiling; but **nothing in cash**	No
151 and 152	Royalty of an author; royalty on a patent	₹3,00,000 each	No
153	Interest on deposits	₹10,000 on a savings account; ₹50,000 on any account, including time deposits, for a senior citizen	No
154	The assessee's own disability — **resident individual only**	₹75,000; ₹1,25,000 for severe disability	No
155 and 156	Rebates	₹12,500 where total income does not exceed ₹5,00,000 [156(1)]; **₹60,000** where the total income does not exceed ₹12,00,000 and the tax is under section 202(1) [156(2)(a)], with marginal relief under 156(2)(b) up to about ₹12,70,588. **Resident individual only**	**Yes** (156(2))