CASE 13.4

Shri Nikhil Deshpande

Mumbai · Below 60 years · salary, allowances, two houses and Chapter VIII

THE SOLUTIONS

SOLUTION 1

TAX YEAR 2026-27

NEW REGIME

1 April 2026 to 31 March 2027 · Income-tax Act, 2025
Case 13.4 · Shri Nikhil Deshpande · Mumbai

The regime, the Act and the dates

The answer at (A20) is No. The option under section 202(4) has not been exercised, so income-tax is computed under section 202(1). This is the DEFAULT regime, and it applies of its own force.

The return is furnished on 25 July 2027. The due date is 31 July 2027, so the return is within time and no interest and no fee follows from the date of furnishing.

INCOME FROM SALARIES		
Salary for the year, in the gross amount — basic salary, dearness allowance, every allowance and the bonus; Working note 1 [sections 15 and 16]	₹ 32,03,000	
Less: conveyance allowance — the ₹ 60,000 spent in the performance of his duties, the one allowance of this salary that the default regime keeps [Schedule III, Table Sl. No. 12; Rule 280(1)(d) and (3)]	₹ 60,000	
Less: house rent, children education, hostel and uniform allowances — not exempt under this regime [section 202(2)(a)(i) and (ii)]	₹ 0	
Net salary	₹ 31,43,000	
Less: standard deduction — ₹ 75,000, or the salary, whichever is less [section 19(1), Table Sl. No. 2]	₹ 75,000	
Less: tax on employment — ₹ 2,500 was paid, but it is not deductible under this regime [section 202(2)(a)(iv)]	₹ 0	
Income chargeable under the head "Salaries"		**₹ 30,68,000**
INCOME FROM HOUSE PROPERTY		
Property 1 — Bandra West, Mumbai — let out		
Gross rent received or receivable for the year [section 21(1)]	₹ 8,40,000	
Less: taxes paid to the local authority during the year [section 21(7)(b)]	₹ 42,000	
Annual value	₹ 7,98,000	
Less: thirty per cent of the annual value [section 22(1)(a)]	₹ 2,39,400	
Less: interest on the home loan of ₹ 45,00,000 from ICICI Bank Limited, Home Loan Account No. 602405018734, borrowed to acquire it — allowed in full, the house being let out [section 22(1)(b)]. The principal repaid is not deducted here; it is a payment under section 123	₹ 3,25,000	
Income from property 1		**₹ 2,33,600**
Property 2 — Dundahera, Ghaziabad — let out		
Gross rent received or receivable for the year [section 21(1)]	₹ 4,80,000	
Less: taxes paid to the local authority during the year [section 21(7)(b)]	₹ 24,000	
Annual value	₹ 4,56,000	

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Less: thirty per cent of the annual value [section 22(1)(a)]	₹ 1,36,800	
Less: interest on the home loan of ₹ 28,00,000 from Axis Bank Limited, Home Loan Account No. 920020047812365, borrowed to acquire it — allowed in full, the house being let out [section 22(1)(b)]. The principal repaid is not deducted here; it is a payment under section 123	₹ 2,10,000	
Income from property 2		**₹ 1,09,200**
Total of the two properties		₹ 3,42,800
Income chargeable under the head "Income from house property"		**₹ 3,42,800**
INCOME FROM OTHER SOURCES		
Interest credited to the savings bank accounts [section 92]	₹ 19,000	
Interest on fixed deposits, in the gross amount before the tax deducted	₹ 2,20,000	
Interest received on an income-tax refund	₹ 13,200	
Dividend on listed equity shares, in the gross amount — declared and paid on 28 May 2026, so period (i) — 1 April 2026 to 15 June 2026 [section 92(2)(a)]	₹ 1,60,000	
Sums of money received without consideration from three persons who are not relatives — ₹ 15,000, ₹ 11,000 and ₹ 25,000. Their total of ₹ 51,000 exceeds ₹ 50,000, so the whole of it is income; Working note 2 [section 92(2)(m)(i)]	₹ 51,000	
The ₹ 1,00,000 from his mother's brother — a relative, so not income [section 92(3)(a), with section 92(5)(g)(i)(D)]	Nil	
Gross income from other sources	₹ 4,63,200	
Income chargeable under the head "Income from other sources"		**₹ 4,63,200**
GROSS TOTAL INCOME [section 122(10)]		**₹ 38,74,000**
DEDUCTIONS FROM GROSS TOTAL INCOME — Chapter VIII		
Life insurance premia, provident fund, tuition fees and the principal of the two home loans repaid — ₹ 3,80,000 claimed [section 123]	₹ 0	
Health insurance premia and the parents' preventive health check-up — ₹ 77,000 claimed [section 126]	₹ 0	
Interest on the two education loans — ₹ 1,20,600 claimed [section 129]	₹ 0	
Donations — ₹ 90,000 claimed [section 133]	₹ 0	
Contributions to a political party — ₹ 50,000 claimed [section 137]	₹ 0	
Interest on savings accounts — ₹ 19,000 claimed [section 153]	₹ 0	
Nothing in this Chapter is allowed where income-tax is computed under this regime, save four provisions which these facts do not attract [section 202(2)(a)(xii)]		₹ 0
Total of the deductions allowed		**₹ 0**
TOTAL INCOME, rounded off to the nearest multiple of ten rupees [section 516]		**₹ 38,74,000**
TAX ON THE TOTAL INCOME		
On the first ₹ 4,00,000 — Nil [section 202(1)]	Nil	
On the next ₹ 4,00,000 — 5 per cent	₹ 20,000	
On the next ₹ 4,00,000 — 10 per cent	₹ 40,000	
On the next ₹ 4,00,000 — 15 per cent	₹ 60,000	
On the next ₹ 4,00,000 — 20 per cent	₹ 80,000	
On the next ₹ 4,00,000 — 25 per cent	₹ 1,00,000	

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On the balance of ₹ 14,74,000 — 30 per cent	₹ 4,42,200	
Tax payable on the total income		**₹ 7,42,200**
Less: rebate — nil, the total income being past ₹ 12,70,588 [section 156]		₹ 0
Tax after rebate		₹ 7,42,200
Add: health and education cess at four per cent [section 2 of the Finance Act, 2026]		₹ 29,688
TOTAL TAX AND CESS		**₹ 7,71,888**
INTEREST, TAXES PAID, AND THE AMOUNT PAYABLE OR REFUNDABLE		
Memorandum: assessed tax — the total tax and cess, less the credit for tax deducted at source of ₹ 5,84,800 [section 424]	₹ 1,87,088	
Memorandum: advance tax — the challans of Schedule IT deposited on or before 31 March 2027 [sections 404 to 408]	₹ 1,15,000	
Memorandum: self-assessment tax — the challan deposited after 31 March 2027. It is not advance tax and does not count towards the ninety per cent [section 266]	₹ 9,590	
Add: interest for default in the payment of advance tax — NOT COMPUTED. Interest under sections 423 to 425 is ignored in this paper [section 424]		₹ 0
Add: interest for deferment of advance tax — NOT COMPUTED. Interest under sections 423 to 425 is ignored in this paper [section 425]		₹ 0
Add: fee for a return furnished after the due date — nil, the return having been furnished on 25 July 2027, within the due date of 31 July 2027 [section 428(a)]		₹ 0
Total tax, fee and interest, rounded off [section 516]		**₹ 7,71,890**
Less: advance tax paid — Schedule IT [sections 404 to 408]	₹ 1,15,000	
Less: self-assessment tax paid — Schedule IT [section 266]	₹ 9,590	
Less: tax deducted from salary — Schedule TDS [section 392]	₹ 5,30,000	
Less: tax deducted from the interest on fixed deposits — Schedule TDS [section 393(1), Table Sl. No. 5(ii)]	₹ 22,000	
Less: tax deducted from the dividend — Schedule TDS [section 393(1), Table Sl. No. 7]	₹ 16,000	
Less: tax deducted from the rent of Property 1 by the tenant, an individual having no tax deduction account number — Schedule TDS [section 393(1), Table Sl. No. 2(i)]	₹ 16,800	
Total taxes paid		**₹ 7,09,390**
AMOUNT PAYABLE, rounded off [section 266]		**₹ 62,500**

The three figures to check

Total income ₹ 38,74,000 Total tax, fee and interest ₹ 7,71,890 Amount payable ₹ 62,500

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Working notes

Working note 1 — the salary, component by component, under both regimes

Component	Received	Exempt: new	Exempt: old	The rule
Basic salary	₹ 16,80,000	—	—	Taxable in full
Dearness allowance	₹ 3,36,000	—	—	Taxable in full; the half that enters retirement benefits is salary for Rule 279
House rent allowance	₹ 6,00,000	—	₹ 3,91,200	Schedule III, Sl. No. 11; Rule 279 — Working note 3
Children education allowance	₹ 96,000	—	₹ 72,000	Sl. No. 13; Rule 280(2), Sl. No. 7 — ₹ 3,000 a month for each of two children
Hostel expenditure allowance	₹ 1,20,000	—	₹ 1,08,000	Sl. No. 13; Rule 280(2), Sl. No. 8 — ₹ 9,000 a month for one child
Conveyance allowance	₹ 72,000	₹ 60,000	₹ 60,000	Sl. No. 12; Rule 280(1)(d) — the amount spent; it survives in both regimes [Rule 280(3)]
Uniform allowance	₹ 24,000	—	₹ 18,000	Sl. No. 12; Rule 280(1)(g) — the amount spent
Medical allowance	₹ 15,000	—	—	Taxable in full — no rule prescribes it
City compensatory allowance	₹ 36,000	—	—	Taxable in full — no rule prescribes it
Entertainment allowance	₹ 24,000	—	—	Taxable in full; section 19 gives no deduction for it
Performance bonus	₹ 2,00,000	—	—	Taxable in full
Gross salary, and the part of it exempt	**₹ 32,03,000**	**₹ 60,000**	**₹ 6,49,200**	
Net salary — the gross less the exempt part		**₹ 31,43,000**	**₹ 25,53,800**	

Section 202(2)(a)(i) and (ii) take away, under the default regime, the exemption of Schedule III, serial numbers 11 to 13, save the allowances prescribed. Rule 280(3) is the prescription; read as it must have been meant, it keeps sub-rule (1)(a) to (d) and sub-rule (2), Sl. No. 10. The conveyance allowance is (1)(d), so of these five allowances it alone survives in Solution 1.

Working note 2 — the gifts of money [section 92(2)(m)(i)]

From	Who he is	A relative?	Amount
Shri Rohan Kulkarni	A colleague	No	₹ 15,000
Shri Kedar Deshpande	His cousin, the son of his father's brother	No — a cousin is not in the list of relatives	₹ 11,000
Shri Madhav Gokhale	His mother's brother	Yes — the brother of a parent [section 92(5)(g)(i)(D)]	₹ 1,00,000
Shri Sameer Joshi	A friend	No	₹ 25,000
From persons who are not relatives — the whole is income			**₹ 51,000**

The test is the total received in the year from persons who are not relatives. It is ₹ 51,000, which exceeds ₹ 50,000, so the whole of it is income, not the excess alone. Neither a birthday nor Diwali is an occasion the Act recognises; only marriage is [section 92(3)(b)]. The same figure enters both solutions. The ₹ 1,00,000 from his uncle may be shown at C3, under exempt income, for reporting; it enters no computation.

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The two solutions of this case, side by side

What moves when (A20) moves, and nothing else does

The facts of the case do not change with the regime. What changes is what the Act allows against them: the exemption of the house rent, children education, hostel and uniform allowances [section 202(2)(a)(i) and (ii)], the standard deduction of section 19(1), the tax on employment, the whole of Chapter VIII, the slab table, and the rebate of section 156. The conveyance allowance, the two houses and the income from other sources — the gifts included — come out the same under both.

Nothing on this page is needed in order to work the case. A student sitting the practical works one regime at a time and never turns to it. It is for the revision class afterwards, and for the teacher.

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Particulars	Solution 1 NEW regime (A20) = No	Solution 2 OLD regime (A20) = Yes
Income from salaries	₹ 30,68,000	₹ 25,01,300
Income from house property	₹ 3,42,800	₹ 3,42,800
Income from other sources	₹ 4,63,200	₹ 4,63,200
Gross total income	₹ 38,74,000	₹ 33,07,300
Deductions allowed under Chapter VIII	—	₹ 4,08,600
TOTAL INCOME	₹ 38,74,000	₹ 28,98,700
Tax on the total income	₹ 7,42,200	₹ 6,82,110
Health and education cess	₹ 29,688	₹ 27,284
TOTAL TAX AND CESS	₹ 7,71,888	₹ 7,09,394
Interest for default in advance tax [section 424] — not computed, ignored in this paper	—	—
Total tax, fee and interest	₹ 7,71,890	₹ 7,09,390
Advance tax paid	₹ 1,15,000	₹ 1,15,000
Self-assessment tax paid	₹ 9,590	₹ 9,590
Tax deducted at source	₹ 5,84,800	₹ 5,84,800
Total taxes paid	₹ 7,09,390	₹ 7,09,390
AMOUNT PAYABLE	₹ 62,500	Nil
REFUND DUE	—	—

Which regime costs this assessee less

For Shri Nikhil Deshpande the cheaper of the two is the OLD regime — he should answer Yes at (A20) and opt out of the default regime — by ₹ 62,494 of tax and cess. It is the exemptions that win it: ₹ 5,89,200 more of his salary is exempt there, and Chapter VIII allows ₹ 4,08,600; the lower slabs of the new regime do not make up for them.

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Points this case is built to test

- A cousin is not a relative; a mother's brother is. The three gifts from persons who are not relatives come to ₹ 51,000 — past ₹ 50,000 — so all of it is income. A birthday or Diwali is no exempt occasion.
- He owns a let-out flat in Mumbai and still gets the house rent exemption, because the flat he lives in is not his; only the half of the dearness allowance that enters retirement benefits counts as salary for it.
- The default regime keeps the conveyance allowance and nothing else of the five; the old regime keeps all five, each to its own limit. Medical, city compensatory and entertainment allowances are taxable in full in both.
- Interest on a let-out house goes to section 22(1)(b) in full; the principal repaid is a section 123 payment. Boarding and lodging are not tuition fees.
- Section 126: the parents need not be dependants; being senior citizens they raise the limit to ₹ 50,000; the check-up may be paid in cash.
- Section 129 asks for a loan from a financial institution or an approved charitable institution, for the higher education of himself or a relative — the spouse, a child, or a student of whom he is the legal guardian; a brother is none of these.
- Cash kills a donation of more than ₹ 2,000 under section 133 and any contribution at all under section 137; section 133 is worked last, on the adjusted gross total income.

Working the case in the workbook

Both solutions can be checked in the ITR-1 SAHAJ workbook: fill one copy with (A20) at No and another with (A20) at Yes, from Part B of the question. Everything else is entered alike in both; these are the entries that differ.

Field or sheet	Solution 1 — (A20) No	Solution 2 — (A20) Yes
(A20) — opt out of the default regime?	No	Yes
B1(ii) — allowances exempt, from the drop-down	One line: the Schedule III, Sl. No. 12 line for the allowances the default regime keeps — conveyance ₹ 60,000	Two lines: Sl. No. 12 — ₹ 78,000 (conveyance ₹ 60,000 and uniform ₹ 18,000); Sl. No. 13 — ₹ 1,80,000 (children education ₹ 72,000 and hostel ₹ 1,08,000)
Sch-HRA — feeds the house rent allowance row of B1(ii)	Not used: no exemption under this regime	Mumbai · ₹ 6,00,000 · rent ₹ 5,76,000 · basic ₹ 16,80,000 · DA ₹ 1,68,000 — exempt ₹ 3,91,200
B1(iv)(c) — professional tax	Left at nil — not deductible under this regime	₹ 2,500
B1(v) — income under "Salaries", and column (3) of TDS1 (Form 130)	₹ 30,68,000	₹ 25,01,300
S-123, S-126, S-129-132, S-133 and S-137	Not filled: Chapter VIII is not allowed	Filled as above — eligible ₹ 1,50,000, ₹ 75,000, ₹ 78,600, ₹ 55,000 and ₹ 40,000
Part C — section 153	Not allowed	₹ 19,000 entered; ₹ 10,000 allowed
Total income · total tax, fee and interest · balance	₹ 38,74,000 · ₹ 7,71,890 · payable ₹ 62,500	₹ 28,98,700 · ₹ 7,09,390 · nil

Note. Interest under sections 423, 424 and 425 is NOT COMPUTED in this paper. The rows remain on the form, because they are on the notified return, but nothing is worked out against them. In practical life the interest is charged, and the return of a real assessee would carry it.

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