AHMEDABAD UNIVERSITY
AMRUT MODY SCHOOL OF MANAGEMENT
UNDERGRADUATE PROGRAMMES
2026 WINTER SEMESTER
MID SEMESTER EXAMINATION
FAC121 DIRECT TAXES

Date: 21/02/2026 Total Marks: 30
Time: 11:00 am to 1:00pm No. of printed pages: 6

1. Zenith Tech Solutions Ltd., a company incorporated in Ireland, is a non-resident under the Indian Income Tax Act. During P.Y. 2024-25, it earned the following incomes:
   a) Interest of Rs. 8,00,000 on bonds issued by the Government of India.
   b) Royalty of Rs. 10,00,000 from an Indian company for use of patented technology in a project located in Vietnam.
   c) Fees for technical services of Rs. 6,00,000 from a Japanese company for services utilised in Japan and Rs. 9,00,000 for services utilised in India.
   d) Royalty of Rs. 5,50,000 from a UK company for use of designs in India.

   Advise the company regarding the taxability of the above incomes in India under the provisions of the Income Tax Act, 1961. (2 marks)

2. Ms. Neha Verma, an Indian citizen, is employed as a flight attendant with British Airways based in London. During the Previous Year 2024-25, she visited India for 125 days. Her total income other than income from foreign sources during the same year amounted to Rs. 18,50,000. In the four previous years immediately preceding P.Y. 2024-25, her stay in India was 410 days.
   Determine her residential status for Assessment Year 2025-26 as per the provisions of the Income Tax Act, 1961. (2 Marks)

3. Ms. Ritu Mehra, aged 46 years, furnishes the following particulars of her income for the Assessment Year 2025-26:
   a) Professional fees of Rs. 7,50,000 for advisory services rendered in Australia, credited to her bank account in Australia.
   b) Income from a trading business in Qatar, the control and management of which is situated in Pune, amounting to Rs. 16,00,000, out of which Rs. 4,50,000 is received in India.
   c) Long-term capital gains of Rs. 22,00,000 on sale of debentures of an Indian company, the sale consideration being received in Singapore.
   d) Rental income of Rs. 10,50,000 from a residential property situated in New Zealand, received there.

   Compute the total income chargeable to tax in India if Ms. Ritu Mehra is:
   (a) **Resident and Ordinarily Resident**, and
   (b) **Resident but Not Ordinarily Resident**.
   (c) **Non Resident** **(2 marks)**

4. **Solve the following:** **(5 marks)**

a) Mr. Mahesh aged 50 has a total income of Rs. 2,10,00,000. Calculate the tax payable by him for P.Y. 2024-25 under the old tax regime.

b) Mrs. Ramya aged 65 and a resident in India has a total income of Rs.35,00,000 for PY 2024-25. This income is calculated after claiming deductions of Rs.2,00,000. Which regime of taxation is beneficial to Ramya?

5. **Answer the following with reference to the provisions of the Income Tax Act**

(a) Mr. and Ms. Kapoor, who are siblings, jointly own a commercial shop in Vastrapur, Ahmedabad in equal shares. The shop is sold during the Previous Year 2024-25, resulting in a capital gain. It is contended that the capital gains should be assessed in their hands in the status of a Body of Individuals (BOI). **Comment on the correctness of the statement with reasons.** **(1 mark)**

(b) Mr. Ajay Mehta earns income from salary and interest and is liable to file his return of income for P.Y. 2024-25. Due to personal reasons, he files his return after the due date prescribed under the Act. Since the tax has been fully paid (though late) and he has filed returns regularly in earlier years, it is claimed that he cannot be treated as an assessee in default for the PY 2024-25. **Comment on the validity of the claim with justification.** **(1 mark)**

c) Mr. Rahul directs his employer to transfer Rs. 25,000 per month from his salary directly to his sister as part of a family arrangement. Rahul contends that this amount should not be treated as his income since he never receives it. **Examine whether it represents diversion of income by overriding title or application of income, and comment on the taxability.** **(1 mark)**

d) Ms. Radhika, an Assistant Professor at a private university, is deputed by the university to attend a faculty development programme in Singapore. All expenses towards travel, accommodation, and programme fees are initially borne by her and later reimbursed by the university. **Examine whether the reimbursement received by Ms. Radhika is chargeable to tax as salary income, giving reasons.** **(1 mark)**

6. **Answer the following :** **(4 Marks)**

a) Mr. Nitin Mehra retired from Larsen Equipments Ltd. on 18th December 2024 after completing 31 years and 7 months of service. On retirement, he received Rs. 9,20,000 as gratuity. His salary particulars are as follows:
Basic Salary: Rs. 55,000 p.m. up to 30th June 2024
Basic Salary: Rs. 65,000 p.m. from 1st July 2024
Dearness Allowance: Rs. 6,000 p.m., of which 50% forms part of salary for retirement benefits. Mr. Mehra is not covered under the Payment of Gratuity Act, 1972.
Compute the taxable gratuity in the hands of Mr. Mehra for P.Y. 2024–25.
Will your answer be different if Mr. Mehra was a Government employee?

b) Mr. Aakash Verma retired from Omega Pharmaceuticals Ltd. on 31st October 2024 after rendering 18 years and 4 months of service. He received Rs. 8,40,000 as leave encashment at the time of retirement. His monthly salary structure was:
Basic Salary: Rs. 28,000
Dearness Allowance: Rs. 7,000 (50% forms part of salary for retirement benefits)
Commission (fixed): Rs. 3,000 p.m.
As per company policy, he was entitled to 24 days leave per year. During his service period, he had availed 282 days of leave.
Determine the taxable portion of leave salary received by Mr. Verma for P.Y. 2024–25.
Will your answer be different if Mr. Aakash was a Government employee?

7. Ms. Ananya Iyer is employed as a Project Lead with Nimbus Analytics LLP, a data-consulting firm headquartered in Pune. During the Previous Year 2024–25, her compensation package consisted of multiple salary components linked to performance, mobility, and family benefits.
   a) She receives a basic salary of Rs. 95,000 per month, along with a dearness allowance of Rs. 18,000 per month, which is fully considered for retirement benefits. In recognition of her leadership role, she is also paid a performance bonus of Rs. 1,20,000 during the year.
   b) Given the nature of her assignments, Ananya is paid a travelling allowance of Rs. 22,000 per month. She actually incurs Rs. 16,000 per month on official travel to client sites in Mumbai. She also receives a children education allowance of Rs. 6,000 per month per child for her two children.
   c) To meet formal dress requirements at client meetings, Nimbus Analytics grants her a uniform allowance of Rs. 18,000 per annum. During the year, she spends Rs. 10,000 on the purchase of uniforms and Rs. 600 per month on their maintenance. In addition, she is paid a transport allowance of Rs. 5,000 per month for daily commuting.
   d) Ananya lives in a rented apartment in Baner, Pune, for which she receives a house rent allowance (HRA) of Rs. 48,000 per month. Her actual rent payment amounts to Rs. 52,000 per month.
   e) Further, she is paid an entertainment allowance of Rs. 10,000 per month as part of her salary structure. During the year, she paid a professional tax of Rs. 2,400.

   Compute the taxable salary income of Ms. Ananya for the P.Y. 2024-25 under both the tax regimes. **(8 marks)**

8. Ms. Kavya Menon is employed as a Vice President – Strategy with Orion Digital Systems Ltd., a technology consulting company based in Gurugram. During the Previous Year 2024–25, her remuneration package comprised the following salary components:
   Basic Salary: Rs. 22,00,000 per annum
   Transport Allowance: Rs. 24,000 per annum
   Special Allowance: Rs. 30,000 per annum
   Conveyance Allowance: Rs15,000 per annum. She spent Rs.10,000 p.a. for commuting to client places during the year.
   In addition to the above, the company provided Ms. Kavya with a rent-free furnished apartment owned by the company in Gurugram (population exceeding 40 lakh). Furniture costing Rs.10,00,000 was also provided in the apartment.
   Determine the taxable value of the rent free furnished apartment in the hands of Ms. Kavya Menon for the P.Y. 2024–25, as per the provisions applicable under the new tax regime. **(3 marks)**

Formulas:

1. Leave Salary is exempt to the least of the following for Non- Government Employees:

1.	Period of earned leave (in number of months) × Average monthly salary
2.	10 months × Average monthly salary
3.	Max. amount specified by the Government : Rs 25,00,000
4.	Leave encashment actually received at the time of retirement.

*Earned Leave in months = {(Years of Service * Leave entitlement per year) - Leave taken during the service}/ 30*

"Average salary" is to be calculated on the basis of average salary drawn during the period of 10 months immediately preceding the date of retirement.
Salary includes basic salary, dearness allowance if included in salary for retirement benefits, and commission.

2. Gratuity

2.1 Gratuity received by Payment of Gratuity employees is exempt to the least of the following:

a. 15 days salary based on salary last drawn for each year of service = (15/26 * Salary last drawn * No of completed years of service and part thereof in excess of 6 months)
b. Rs.20,00,000
c. Gratuity actually received.

Salary means the basic salary last drawn and always includes the dearness allowance.

2.2 Gratuity received by other employees is exempt from the least of the following:

a. Half months average salary for each completed year of service (1/2 * Average Monthly Salary * No of Years of service)
b. Rs.20,00,000
c. Gratuity actually received.

Average monthly salary is calculated on the basis of average salary for the ten months immediately preceding the month in which the employee has retired.
Salary includes basic salary, dearness allowance if included in salary for retirement benefits, and commission.

3. House Rent Allowance

HRA is exempt to the least of the following:

a. Actual HRA received
b. Actual rent paid – 10% of salary
c. 40% of salary (50% in case of 4 metropolitan cities)

Salary includes basic salary, dearness allowance if included in salary for retirement benefits, and commission.

4. Entertainment Allowance

In case of Government employees, the least of the three is deductible:

a. Actual entertainment allowance received.
b. 20% of Basic salary
c. Maximum Rs. 5000

5. Allowances with Fixed Exemptions

Allowances	Exemption limits
1) Children Education allowance	Rs. 100 p.m per child maximum 2 children
2) Children Hostel Expenditure Allowance	Rs. 300 p.m per child maximum 2 children
3) Tribal Area Allowance	Rs. 200 p.m
4) Transport Allowance (Cost of travel from office to residence and vice-versa)	Rs.3200 p.m for blind/ Handicapped employees

6. *Transport, Conveyance, Travelling, and Daily allowance exemptions are available to the assessee under the both the tax regimes. Exemptions for all other allowances can be claimed only under the regular/old tax regime.*

7. **Non-Government Employees:** The Value of a rent free unfurnished accommodation provided to a Non-Government employee is given below.

Population of city where Accommodation is given	Valuation when Accommodation is owned by the Employer	Valuation When Accommodation is not owned by the Employer
Exceeding 40 lakhs	10% of salary	Amount of Rent paid by employer or 10% of salary w.i.lower
Between 15-40 lakhs	7.5% of salary	Amount of Rent paid by employer or 10% of salary w.i.lower
Below 15 lakhs	5% of salary	Amount of Rent paid by employer or 10% of salary w.i.lower

For the purpose of the above valuation Salary Means:

	Salary Includes
1.	Basic Salary
2.	All Taxable Allowances
3.	Dearness Allowance(to the extent included for retirement benefits)
4.	Bonus and Commission

8. **Tax Rates for A.Y. 2024-25**

Default/ New income tax slab: For Individuals, HUF:

Income Slabs (For resident individual)	Income Tax Rate
Upto ₹ 3,00,000	NIL
₹ 3,00,000 - ₹ 7,00,000	5% {Rebate u/s 87A}*
₹ 7,00,001 - ₹ 10,00,000	10%
₹ 10,0,001 - ₹ 12,00,000	15%
₹ 12,00,001 - ₹ 15,00,000	20%
Exceeding ₹ 15,00,000	30%

U/s 87A is available for a resident individual whose income is less than Rs.7 lakh. The amount of rebate is income tax on total income or Rs. 25,000 whichever is less

Regular/ Old Tax Regime For Individuals, HUF, AOP and BOI:

Income Slabs (For individual, HUF, AOP and BOI)	Income Tax Rate
Upto Rs. 2,50,000	NIL
Rs. 2,50,000 - Rs. 5,00,000	5% {Rebate u/s 87A}*
Rs. 5,00,000 - Rs. 10,00,000	20%
Exceeding Rs. 10,00,000	30%

Income Slabs-Senior Citizens (60 years - 80 years) (Only if resident)	Income Tax Rate
Upto Rs. 3,00,000	NIL
Rs. 3,00,000 - Rs. 5,00,000	5% {Rebate u/s 87A}*
Rs. 5,00,000 - Rs. 10,00,000	20%
Exceeding Rs. 10,00,000	30%

Income Slabs - Super Senior Citizen (80 years and above) (Only if resident)	Income Tax Rate
Up to Rs. 5,00,000	NIL
Rs. 5,00,000 - Rs. 10,00,000	20%
Exceeding Rs. 10,00,000	30%

For old/ regular tax regime :*Rebate U/s 87A is available for a resident individual whose income is less than Rs.5 lakh. The amount of rebate is income tax on total income or Rs. 12,500 whichever is less

Rates of Surcharge :

(a) Surcharge of 10 % of Income Tax will be payable, if total income is above Rs 50 lakhs and less than 1 crore
(b) Surcharge of 15 % of Income Tax will be payable, if total income is above Rs 1 crore and less than 2 Crore.
(c) Surcharge of 25% of Income tax will be payable if total income is above Rs. 2 Crore and less than 5 Crore
(d) Surcharge of 37% on Income tax will be payable if total income is above Rs. 5 Crore.
(e) Under new tax regime maximum surcharge is 25%. So income is above 2 crore will have a surcharge of 25% in new tax regime
(f) Health and Education Cess of 4% on (Income Tax + Surcharge)
(g) In case of surcharge, marginal relief will be allowed.