**8th Edition**

# Income Tax Law & Practice

## (Assessment Year 2026-27)

Prof. Preeti Rani Mittal
Dr. Anshika Bansal


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# Income Tax

## Law & Practice

(Assessment Year 2026-27)

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# INCOME TAX

## LAW AND PRACTICE
## (Assessment Year 2026-27)

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# Preface

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## PREFACE TO THE EIGHTH EDITION

It is with great pleasure that we present the Eighth Edition of *Income Tax Law & Practice*, thoroughly revised and updated for the Assessment Year 2026–27. Since the publication of the previous edition, there have been significant developments in income-tax law and practice. Every effort has, therefore, been made to incorporate these changes accurately and present them in a clear, systematic and student-friendly manner. Income Tax is a subject that combines legal provisions with practical application. Keeping this in mind, the book has been written with the objective of making the subject simple without compromising its technical accuracy. Each chapter has been carefully organised so that readers can understand the law step by step and develop confidence in solving practical problems.

A special feature of this edition is the extensive use of tables, figures, comparative tables and figures and step-wise illustrations, which make even complex provisions easy to understand. Particular emphasis has also been given to the comparative study of the Old Tax Regime and the New Tax Regime, enabling students to appreciate their practical differences while preparing for university and professional examinations. This edition contains a large number of updated solved illustrations, practical problems, objective questions and examination-oriented exercises, prepared strictly in accordance with the provisions applicable for the Assessment Year 2026–27. Important amendments have been incorporated at appropriate places, and every chapter has been revised with the objective of providing a balanced understanding of both the conceptual and computational aspects of Income Tax.

While revising this edition, our constant endeavour has been to maintain the simplicity and clarity that readers appreciated in the earlier editions. We sincerely hope that this book will continue to serve as a reliable companion for students, teachers and all those who wish to acquire a sound understanding of Income Tax Law and Practice.

We express our heartfelt gratitude to our parents and family members for their constant love, encouragement and support. We are also deeply thankful to Mr. Vikas Mittal and Mr. Dipesh Mittal for their valuable suggestions and assistance during the preparation of this edition. Our sincere thanks are due to Sultan Chand & Sons for their continued faith in our work and for publishing this edition with their usual care and excellence.

Suggestions and constructive criticism from readers and teachers will always be welcome and shall be gratefully acknowledged, as they will help us improve future editions.

**Prof. Preeti Rani Mittal**
**Dr. Anshika Bansal**

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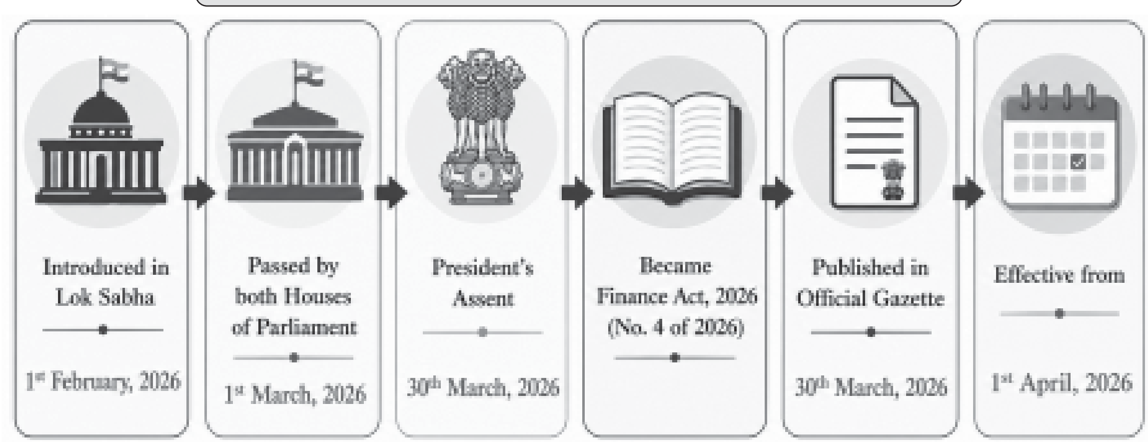
| | **Total** | 924 | 109 | 57 | 374 | 170 | 209 | 268 | 179 | 187 | 292 |

# Salient Features of Finance Act, 2026

S

The Finance Bill, 2026 was introduced in the Lok Sabha on 1st February, 2026 to give effect to the financial proposals of the Central Government for the Financial Year 2026–27. The Bill was passed by both the Houses of Parliament and received the assent of the President of India on 30th March, 2026. Thereafter, it became the Finance Act, 2026 (No. 4 of 2026) and was published in the Official Gazette on the same day. Unless otherwise provided, the provisions of the Finance Act, 2026 came into force from 1st April, 2026.

Enactment Journey




The Finance Act, 2026 provides the rates of income-tax for the Assessment Year 2027–28. It also makes various amendments in the provisions of the Income-tax Act with a view to simplify the law, improve tax administration, promote voluntary tax compliance and reduce litigation. The important amendments introduced by the Finance Act, 2026 are discussed below.

**Income-tax Rates for Assessment Year 2027-28**

The Finance Act, 2026 prescribes the rates of income-tax applicable for the Assessment Year 2027-28 under the Income-tax Act, 1961. The rates of tax for individuals, Hindu Undivided Families (HUFs), firms, companies, co-operative societies and other assessees are specified in the First

Schedule to the Finance Act, 2026. The Act also prescribes the applicable rates of surcharge, Health and Education Cess, and provides for marginal relief wherever applicable. The Finance Act, 2026 continues to provide two alternative tax regimes for individuals and certain other eligible taxpayers, namely the old tax regime and the new tax regime. A taxpayer may opt for either regime subject to the prescribed conditions. The income-tax rates applicable under both tax regimes for the Assessment Year 2027–28 are given below.

***(A) Income-tax Rates under the New Tax Regime (Assessment Year 2027–28)***

**Income Tax Slab Rates for A.Y 2027-28**

| *S.No.* | *Total Income* | *Rate of Tax* |
|---|---|---|
| 1. | Upto ₹ 4,00,000 | Nil |
| 2. | From ₹ 4,00,001 to ₹ 8,00,000 | 5 per cent |
| 3. | From ₹ 8,00,001 to ₹ 12,00,000 | 10 per cent |
| 4. | From ₹12,00,001 to ₹ 16,00,000 | 15 per cent |
| 5. | From ₹ 16,00,001 to ₹ 20,00,000 | 20 per cent |
| 6. | From ₹ 20,00,001 to ₹ 24,00,000 | 25 per cent |
| 7. | Above ₹ 24,00,000 | 30 per cent |

***(B) Income-tax Rates under the Old Tax Regime (Assessment Year 2027-28)***

*Resident Individuals below the Age of 60 Years:* For an individual, other than those mentioned below:

**Income Tax Slab Rates for A.Y 2027-28**

| *S. No.* | *Total income* | *Rate of tax* |
|---|---|---|
| *(1)* | *(2)* | *(3)* |
| 1. | Upto ₹ 2,50,000 | Nil |
| 2. | ₹ 2,50,001 – ₹ 5,00,000 | 5% |
| 3. | ₹ 5,00,001 – ₹ 10,00,000 | 20% |
| 4. | Above ₹ 10,00,000 | 30% |

***For Resident Senior Citizen:*** For an individual resident senior citizen, who is 60 years or more at any time during the previous year but less than 80 years on the last day of the previous year:

**Income Tax Slab Rates for A.Y 2027-28**

| *S. No.* | *Total income* | *Rate of tax* |
|---|---|---|
| *(1)* | *(2)* | *(3)* |
| 1. | Upto ₹ 3,00,000 | Nil |
| 2. | ₹ 3,00,001 – ₹ 5,00,000 | 5% |
| 3. | ₹ 5,00,001 – ₹ 10,00,000 | 20% |
| 4. | Above ₹ 10,00,000 | 30% |

***For Resident Super Senior Citizen:*** For an individual resident super senior citizen, who is 80 years or more at any time during the previous year:

**Income Tax Slab Rates for A.Y 2027-28**

| *S. No.* | *Total income* | *Rate of tax* |
|---|---|---|
| *(1)* | *(2)* | *(3)* |
| 1. | Upto ₹ 5,00,000 | Nil |
| 2. | ₹ 5,00,001 – ₹ 10,00,000 | 20% |
| 3. | Above ₹ 10,00,000 | 30% |

***For Hindu Undivided Family, AOP, BOI, Artificial Judicial Person:*** For Hindu Undivided Family, Association of Persons or Body of Individuals, whether incorporated or not, or Artificial Juridical Person referred to in Section 2(31)(vii) of the Act:

**Income Tax Slab Rates for A.Y 2027-28**

| *S. No.* | *Total income* | *Rate of tax* |
|---|---|---|
| *(1)* | *(2)* | *(3)* |
| 1. | Upto ₹ 2,50,000 | Nil |
| 2. | ₹ 2,50,001 – ₹ 5,00,000 | 5% |
| 3. | ₹ 5,00,001 – ₹ 10,00,000 | 20% |
| 4. | Above ₹ 10,00,000 | 30% |

## Amendments Relating to Salary

The Finance Act, 2026 has amended certain provisions relating to the taxation of salary by empowering the Central Government to revise the prescribed monetary limits for specified perquisites and allowances through the Income-tax Rules, 2026. Accordingly, the monetary limits for certain allowances and perquisites have been revised to reflect the present economic conditions and to provide relief to salaried taxpayers. The important changes are discussed below:

*(i)* **Revision of Children's Education Allowance:** The monthly exemption for Children's Education Allowance has been increased from ₹ 100 per child to 3,000 per child. The exemption is available for a maximum of two children.

*(ii)* **Revision of Hostel Expenditure Allowance:** The exemption for Hostel Expenditure Allowance has been increased from 300 per child per month to 9,000 per child per month for a maximum of two children.

*(iii)* **Revision in Free Meal Limits:** The value of free meals provided by the employer has been revised from 50 per meal to ₹ 200 per meal.

*(iv)* **Revision in Gift Exemption:** The exemption in respect of gifts in kind provided by the employer has been increased from ₹ 5,000 to ₹ 15,000 in a financial year.

*(v)* **Revision in Motor Car Perquisite Valuation:** The perquisite value of motor cars provided by the employer for the personal or partly personal use of an employee has been revised under the Income-tax Rules, 2026. The revised monthly values are as follows:

| *Particulars* | *Earlier* | *Revised* |
|---|---|---|
| Car with engine capacity up to 1.6 litres | ₹ 1,800 | ₹ 5,000 |
| Driver provided by employer | ₹ 900 | ₹ 3,000 |
| Car with engine capacity exceeding 1.6 litres | ₹ 2,400 | ₹ 7,000 |
| Driver provided by employer | ₹ 900 | ₹ 3,000 |

## Amendments relating to House Property

The Finance Act, 2026 introduces certain amendments relating to the computation of income under the head "House Property". The important amendments introduced by the Finance Act, 2026 are discussed below:

*(i)* **Annual Value of Unsold House Property Held as Stock-in-Trade:** Section 21(5) of the Income-tax Act, 2025 provides that where a house property held as stock-in-trade is not let out wholly or partly during the tax year, its annual value shall be taken as Nil for a specified period from the end of the financial year in which the completion certificate is obtained from the competent authority.

The Finance Act, 2026 has amended this provision by substituting the words "up to two years" with "for two years". Accordingly, the annual value of such property shall remain Nil for two years from the end of the financial year in which the completion certificate is obtained.

*(ii)* **Deduction of Interest on Borrowed Capital:** Section 22 of the Income-tax Act, 2025 provides deduction in respect of interest payable on borrowed capital while computing income from house property. In the case of a self-occupied house property, the maximum deduction is restricted to 2,00,000 where the property is acquired or constructed with borrowed capital. The Finance Act, 2026 provides that the overall limit of 2,00,000 shall also include prior-period interest payable in respect of the acquisition or construction of the house property.

## Amendments relating to Profits and Gains of Business or Profession

The Finance Act, 2026 introduces certain amendments relating to the computation of income under the head "Profits and Gains of Business or Profession". The important amendments introduced by the Finance Act, 2026 are discussed below:

*(i)* **Deduction in respect of Employees' Contribution to Welfare Funds:** Section 29 of the Income-tax Act, 2025 provides deduction in respect of the employees' contribution received by an employer towards any welfare fund, provided such contribution is credited to the employee's account in the relevant fund within the prescribed due date.

The Finance Act, 2026 has amended this provision to provide that the due date for depositing the employees' contribution shall be the due date for furnishing the return of income under section 263(1).

*(ii)* **Amendment in Presumptive Taxation Provisions:** The Finance Act, 2026 has amended the provisions relating to presumptive taxation by omitting the reference to section 144 from section 58 of the Income-tax Act, 2025. Consequential amendments have also been made in sub-section (11) of the said section.

*(iii)* **Definition of Commodity Derivative:** The Finance Act, 2026 inserts the definition of "commodity derivative" in section 66 of the Income-tax Act, 2025 relating to the interpretation of certain expressions used in the provisions governing profits and gains of business or profession.

## Amendments relating to Capital Gains

The Finance Act, 2026 introduces certain amendments relating to the taxation of capital gains with the objective of rationalising the existing provisions and providing certainty in the taxation of specified transactions. The important amendments introduced by the Finance Act, 2026 are discussed below:

*(i)* **Taxation of Buy-back of Shares in the Hands of Promoters:** The Finance Act, 2026 substitutes sub-sections (2) and (3) of section 69 of the Income-tax Act, 2025. Where a

company purchases its own shares or other specified securities in accordance with section 68 of the Companies Act, 2013 and the shareholder is a promoter, the tax payable on such capital gains shall comprise:

- the income-tax payable under the normal provisions of the Income-tax Act; and
- an additional income-tax at the prescribed rates.

The additional income-tax shall be levied at the following rates:

| *Nature of Capital Gain* | *Promoter being a Domestic Company* | *Other Promoters* |
|---|---|---|
| Short-term Capital Gain | 2% | 10% |
| Long-term Capital Gain | 9.5% | 17.5% |

*(ii)* **Exemption on Redemption of Sovereign Gold Bonds:** The Finance Act, 2026 amends section 70 of the Income-tax Act, 2025 to provide that the exemption from capital gains on redemption of Sovereign Gold Bonds (SGBs) shall be available only where the bonds are:

- subscribed to by an individual at the time of original issue; and
- held continuously by such individual from the date of original issue till redemption on maturity.

### Amendments relating to Income from Other Sources

The Finance Act, 2026 introduces certain amendments relating to the taxation of income chargeable under the head "Income from Other Sources" to rationalise the existing provisions and ensure uniform tax treatment of specified incomes. The important amendments introduced by the Finance Act, 2026 are discussed below.

*(i)* **Withdrawal of Deduction for Interest Expenditure against Dividend Income:** The Finance Act, 2026 provides that no deduction shall be allowed in respect of any interest expenditure incurred for earning dividend income or income from units of a Mutual Fund. Accordingly, such income shall be taxable without allowing any deduction for interest expenditure.

### Amendments Relating to Return of Income

The Finance Act, 2026 introduces certain amendments relating to the filing of return of income with a view to simplifying the return filing process, improving voluntary tax compliance and reducing the compliance burden on taxpayers. The important amendments introduced by the Finance Act, 2026 are discussed below:

*(i)* **Extension of Due Date for Furnishing Return of Income:** The Finance Act, 2026 extends the due date for furnishing the return of income in the case of specified taxpayers who are not required to get their accounts audited. Accordingly, the due date for filing the prescribed return of income has been extended to 31st August of the relevant assessment year.

However, there is no change in the due date applicable to taxpayers filing ITR-1 and ITR-2, which continues to be 31st July. Similarly, the due date for furnishing the tax audit report remains unchanged.

*(ii)* **Extension of Time Limit for Furnishing Revised Return:** The Finance Act, 2026 extends the time limit for furnishing a revised return from 9 months to 12 months from the end of the relevant tax year. Accordingly, a revised return may now be furnished up to 31st March of the relevant assessment year, subject to the prescribed conditions and payment of the applicable late fee.

## Amendments relating to Tax Deduction at Source (TDS)

The Finance Act, 2026 introduces certain amendments relating to the provisions of Tax Deduction at Source (TDS) with a view to simplify the tax deduction procedure, reduce the compliance burden and facilitate ease of doing business. The important amendments introduced by the Finance Act, 2026 are discussed below:

*(i)* **Simplified Procedure for Deduction of Tax on Purchase of Immovable Property:** The Finance Act, 2026 simplifies the procedure for deduction of tax at source on the purchase of immovable property. A buyer purchasing an immovable property from a resident or a non-resident may deduct tax by using a PAN-based challan. Consequently, obtaining a Tax Deduction Account Number (TAN) for this purpose is no longer required. This amendment takes effect from 1st April, 2026.

*(ii)* **Introduction of New TDS Certificate:** The Finance Act, 2026, read with the Income-tax Rules, 2026, introduces **Form No. 130** as the new certificate for tax deducted at source in place of the earlier **Form No. 16**. The new certificate provides comprehensive details of income paid, tax deducted and tax deposited with the Central Government.

## Amendments relating to Tax Collection at Source (TCS)

The Finance Act, 2026 introduces certain amendments relating to the provisions of Tax Collection at Source (TCS) with the objective of rationalising the existing rates, simplifying the collection mechanism and reducing the compliance burden on taxpayers. The important amendments introduced by the Finance Act, 2026 are discussed below:

*(i)* **Rationalisation of TCS Rates:** The Finance Act, 2026 rationalises the rates of Tax Collection at Source (TCS) applicable to specified transactions. The revised rates are as follows:

| *Nature of Transaction* | *TCS Rate before 1-4-2026* | *TCS Rate from 1-4-2026* |
|---|---|---|
| Sale of alcoholic liquor for human consumption | 1% | 2% |
| Sale of tendu leaves | 5% | 2% |
| Sale of scrap | 1% | 2% |
| Sale of minerals, being coal, lignite or iron ore | 1% | 2% |

*(ii)* **Rationalisation of TCS under the Liberalised Remittance Scheme (LRS):** The Finance Act, 2026 also rationalises the TCS rates applicable to remittances made under the Liberalised Remittance Scheme (LRS). The revised rates are as follows:

| *Nature of Remittance* | *TCS Rate before 1-4-2026* | *TCS Rate from 1-4-2026* |
|---|---|---|
| Education and Medical Treatment | 5% | 2% |
| Overseas Tour Programme Package | 5% up to 10 lakh and 20% above 10 lakh | 2% (without any threshold) |

## Amendments Relating to Penalty and Prosecution

The Finance Act, 2026 introduces certain amendments relating to the provisions of penalty and prosecution with a view to simplify the existing provisions, promote voluntary tax compliance and ensure effective implementation of the Income-tax Act. The important amendments introduced by the Finance Act, 2026 are discussed below:

*(i)* **Rationalisation of Penalty Provisions:** The Finance Act, 2026 rationalises certain penalty provisions to remove procedural difficulties and to ensure uniform application of the law. The amended provisions also provide greater clarity regarding the levy of penalties in specified cases.

*(ii)* **Rationalisation of Prosecution Provisions:** The Finance Act, 2026 also amends certain provisions relating to prosecution to align them with the revised provisions of the Income-tax Act. The amendments simplify the existing framework and provide greater certainty in the initiation and application of prosecution proceedings.

### Other Important Amendments

The Finance Act, 2026 introduces certain other amendments to simplify tax administration, improve compliance and facilitate the effective implementation of the provisions of the Income-tax Act. The important amendments are discussed below:

*(i)* **Empowerment of the Central Government to Notify Monetary Limits:** The Finance Act, 2026 empowers the Central Government to prescribe or revise the monetary limits for specified allowances, perquisites and other prescribed matters by notification. This provides greater flexibility in updating such limits in accordance with changing economic conditions.

*(ii)* **Rationalisation of Certain Procedural Provisions:** The Finance Act, 2026 rationalises certain procedural provisions relating to assessment, notices, filing requirements and tax administration to ensure greater efficiency, transparency and ease of compliance.

*(iii)* **Consequential Amendments:** The Finance Act, 2026 also makes various consequential amendments to ensure consistency among different provisions of the Income-tax Act and to facilitate the smooth implementation of the amendments introduced by the Finance Act, 2026.

# INCOME TAX RATES FOR A.Y. 2027-28

- **Default Tax Regime**
  - For Individuals, HUF, AOP, BOI, and Artificial Juridical Persons under the default tax regime u/s 115BAC(1A)
    - Upto ₹ 4,00,000 = Nil
    - From ₹ 4,00,001 to ₹ 8,00,000 = 5 per cent
    - From ₹ 8,00,001 to ₹ 12,00,000 = 10 per cent
    - From ₹ 12,00,001 to ₹ 16,00,000 = 15 per cent
    - From ₹ 16,00,001 to ₹ 20,00,000 = 20 per cent
    - From ₹ 20,00,001 to ₹ 24,00,000 = 25 per cent
    - Above ₹ 24,00,000 = 30 per cent
- **Optional Tax Regime**
  - Resident Individual
    - Other than senior citizen and super senior citizen
      - Up to ₹ 2,50,000 = Nil
      - ₹ 2,50,001 to ₹ 5,00,000 = 5%
      - ₹ 5,00,001 to ₹ 10,00,000 = 20%
      - Above ₹ 10,00,001 = 30%
    - For individual resident senior citizen
      - Up to ₹ 3,00,000 = Nil
      - ₹ 3,00,001 to ₹ 5,00,000 = 5%
      - ₹ 5,00,001 to ₹ 10,00,000 = 20%
      - Above ₹ 10,00,001 = 30%
    - For individual resident super senior citizen
      - Up to ₹ 5,00,000 = Nil
      - ₹ 5,00,001 to ₹ 10,00,000 = 20%
      - Above ₹ 10,00,001 = 30%
  - HUF, AOP, BOI, Artificial Judicial Person
    - Up to ₹ 2,50,000 = Nil
    - ₹ 2,50,001 to ₹ 5,00,000 = 5%
    - ₹ 5,00,001 to ₹ 10,00,000 = 20%
    - Above ₹ 10,00,001 = 30%

# Income Tax for Non-resident: Taxable Income & Deduction

# IT

The tax liability of a person in India depends upon his residential status during the relevant previous year. A resident and ordinarily resident person is generally taxable in India on income earned in India as well as income earned outside India. However, a non-resident is taxable only in respect of income received or deemed to be received in India and income which accrues, arises or is deemed to accrue or arise in India. Therefore, income earned and received outside India by a non-resident is generally not taxable in India.

## WHO IS A NON-RESIDENT?

A person is treated as a non-resident in India if he does not satisfy any of the conditions prescribed for being treated as a resident during the relevant previous year. Residential status is determined separately for each previous year. Therefore, a person may be resident in one previous year and non-resident in another previous year. Residential status is different from citizenship or nationality. An Indian citizen may be treated as a non-resident for income-tax purposes, whereas a foreign citizen may be treated as a resident in India if the prescribed conditions are satisfied.

## HOW TO DETERMINE RESIDENTIAL STATUS OF NON-RESIDENT?

Residential status of an individual is determined on the basis of the number of days an individual has physically stayed in India. Residential status has nothing to do with the nationality or domicile of an individual. It may also happen that an Indian, who is citizen of India, may be a non-resident for Income Tax purposes in a particular year and an American citizen may be resident in India for Income Tax purposes in a particular year.

## TYPES OF NON-RESIDENTS

Non-residents may broadly include the following:

- Non-resident individuals, including Non-resident Indians;
- Non-resident Hindu Undivided Families;
- Foreign companies;
- Non-resident firms;
- Associations of persons and other non-resident entities.

A **Non-resident Indian**, for the purpose of the special provisions relating to investment income, means an individual who is a citizen of India or a person of Indian origin and who is not resident in

India. A person is regarded as being of Indian origin if he, either of his parents or any of his grandparents was born in undivided India.

## SCOPE OF TOTAL INCOME OF A NON-RESIDENT

The total income of a non-resident includes only the following incomes:

1. Income received or deemed to be received in India during the relevant previous year; and
2. Income which accrues, arises or is deemed to accrue or arise in India during the relevant previous year.

Income which accrues or arises outside India and is also received outside India is generally not taxable in India in the hands of a non-resident. Merely transferring such foreign income to India at a later date does not ordinarily make it taxable again in India.

## INCOME TAXABLE IN INDIA IN THE HANDS OF A NON-RESIDENT

The following incomes may generally be taxable in India in the hands of a non-resident:

- Salary received in India;
- Salary for services rendered in India;
- Salary payable by the Government of India to an Indian citizen for services rendered outside India;
- Income from a business connection in India;
- Income from any property, asset or source of income situated in India;
- Rental income from house property situated in India;
- Capital gains arising from the transfer of a capital asset situated in India;
- Interest on taxable bank deposits and other investments in India;
- Dividend received from an Indian company;
- Royalty and fees for technical services payable by the Government, an Indian concern or any other specified person;
- Income arising from the transfer of shares or interest in a foreign entity which derives substantial value from assets situated in India.

## INTEREST ON NRE AND NRO ACCOUNTS

Interest earned on an NRO account is generally taxable in India. However, interest on an eligible NRE account is exempt from tax where the prescribed conditions are satisfied.

## SPECIAL PROVISIONS RELATING TO INVESTMENT INCOME OF NON-RESIDENT INDIANS

Special provisions are available to a Non-resident Indian in respect of investment income and long-term capital gains arising from specified foreign exchange assets acquired or purchased in convertible foreign exchange.

These provisions apply only to a Non-resident Indian and not to every non-resident person.

## MEANING OF FOREIGN EXCHANGE ASSET

A foreign exchange asset means a specified asset acquired, purchased or subscribed to by a Non-resident Indian in convertible foreign exchange.

## SPECIFIED ASSETS

The following assets are treated as specified assets:

- Shares in an Indian company;
- Debentures issued by an Indian company which is not a private company;
- Deposits with an Indian company which is not a private company;
- Securities of the Central Government; and
- Any other asset notified by the Central Government.

## TAX RATES ON INVESTMENT INCOME

The tax rates applicable to specified income of a Non-resident Indian are as follows:

| *Nature of Income* | *Rate of Tax* |
|---|---|
| Investment income from a foreign exchange asset | 20% |
| Long-term capital gains from a specified foreign exchange asset transferred on or after 23rd July, 2024 | 12.5% |

The above rates are subject to the applicable surcharge and Health and Education Cess.

## COMPUTATION OF INVESTMENT INCOME

While computing investment income from a foreign exchange asset, no deduction is allowed in respect of any expenditure or allowance incurred for earning such income. Where the gross total income of a Non-resident Indian consists only of investment income or long-term capital gains covered by these special provisions, deductions under Chapter VI-A are not allowed from such income.

## EXEMPTION FROM FILING RETURN OF INCOME

A Non-resident Indian is not required to furnish a return of income where:

- his total income consists only of investment income, long-term capital gains arising from specified foreign exchange assets, or both; and
- tax deductible at source has been deducted from such income.

If any other taxable income is earned or the prescribed tax has not been deducted, the return-filing exemption is not available.

## DEDUCTIONS AVAILABLE TO A NON-RESIDENT INDIVIDUAL

A non-resident individual may claim certain deductions under Chapter VI-A where he opts for the old tax regime and satisfies the prescribed conditions. Under the new tax regime, most deductions under Chapter VI-A are not available, except those specifically permitted.

The important deductions are as follows:

| *Section* | *Nature of Deduction* | *Availability to Non-resident* |
|---|---|---|
| **80C** | Life insurance premium, tuition fees, principal repayment of housing loan, ULIP, ELSS and eligible investment in NSC | Available, subject to conditions |
| **80CCD(1B)** | Additional contribution to the National Pension System | Available under the old tax regime, subject to conditions |

| *Section* | *Nature of Deduction* | *Availability to Non-resident* |
|---|---|---|
| **80D** | Medical insurance premium and preventive health check-up | Available, subject to conditions |
| **80E** | Interest paid on loan taken for higher education | Available |
| **80G** | Donations made to specified funds and institutions | Available, subject to conditions |
| **80GG** | Rent paid where House Rent Allowance is not received | Available, subject to conditions |
| **80TTA** | Interest on savings bank accounts, up to ₹ 10,000 | Available to an eligible individual other than a senior citizen |
| **80DD** | Maintenance and medical treatment of a dependent person with disability | Not available, as it applies only to a resident individual or resident HUF |
| **80DDB** | Medical treatment of specified diseases | Not available, as it applies only to a resident individual or resident HUF |
| **80TTB** | Interest on deposits of a senior citizen | Not available, as it applies only to a resident senior citizen |
| **80U** | Deduction to an individual suffering from disability | Not available, as it applies only to a resident individual |

Sections 80DD, 80DDB and 80U specifically require the assessee to be resident in India. Section 80TTB is also restricted to a resident senior citizen.

## IMPORTANT POINTS RELATING TO SECTION 80C

A non-resident individual may claim deduction under Section 80C in respect of eligible payments and investments, such as:

- Life insurance premium;
- Tuition fees paid for full-time education of children in India;
- Principal repayment of an eligible housing loan;
- Investment in Equity Linked Saving Scheme;
- Investment in Unit Linked Insurance Plan; and
- Investment in National Savings Certificate, subject to the applicable eligibility rules.

An NRI is generally not permitted to open a new Public Provident Fund account after becoming a non-resident. However, an existing account opened while he was resident may be dealt with according to the applicable scheme rules.

## INCOME-TAX RATES FOR NON-RESIDENT INDIVIDUALS

A non-resident individual is not entitled to a higher basic exemption limit merely because he is a senior citizen or super senior citizen. Under the old tax regime, the same slab rates apply irrespective of his age.

**A. New Tax Regime – Assessment Year 2026-27**

| *Total Income* | *Rate of Tax* |
|---|---|
| Up to ₹ 4,00,000 | Nil |
| ₹ 4,00,001 to ₹ 8,00,000 | 5% |
| ₹ 8,00,001 to ₹ 12,00,000 | 10% |
| ₹ 12,00,001 to ₹ 16,00,000 | 15% |
| ₹ 16,00,001 to ₹ 20,00,000 | 20% |
| ₹ 20,00,001 to ₹ 24,00,000 | 25% |
| Above ₹ 24,00,000 | 30% |

**B. Old Tax Regime – Assessment Year 2026-27**

| *Total Income* | *Rate of Tax* |
|---|---|
| Up to ₹ 2,50,000 | Nil |
| ₹ 2,50,001 to ₹ 5,00,000 | 5% |
| ₹ 5,00,001 to ₹ 10,00,000 | 20% |
| Above ₹ 10,00,000 | 30% |

The above slab rates apply to income taxable at normal rates. Certain incomes, such as specified capital gains, dividends, interest, royalty, fees for technical services and income from specified investments, may be taxable at special rates. The official tax slabs for non-resident individuals for A.Y. 2026-27 provide a basic exemption limit of ₹ 4,00,000 under the new regime and ₹ 2,50,000 under the old regime.

## SURCHARGE AND HEALTH AND EDUCATION CESS

Surcharge is levied where the total income exceeds the prescribed limits. Health and Education Cess is levied at the rate of **4%** on the amount of income-tax and surcharge.

## REBATE UNDER SECTION 87A

A non-resident individual is **not entitled to rebate under Section 87A**, even where his total income does not exceed the prescribed limit. The rebate is available only to an individual who is resident in India.

## BENEFIT OF BASIC EXEMPTION LIMIT

A non-resident individual is entitled to the basic exemption limit in respect of income taxable at normal slab rates. However, the unutilised portion of the basic exemption limit cannot ordinarily be adjusted against specified capital gains taxable at special rates in the same manner as it may be adjusted by a resident individual or Hindu Undivided Family. Therefore, income taxable at special rates must be considered separately while computing the tax liability of a non-resident.

## WHEN IS A NON-RESIDENT REQUIRED TO FILE A RETURN OF INCOME?

A non-resident individual is generally required to furnish a return of income in India where his total income, computed before allowing specified deductions and exemptions, exceeds the maximum amount not chargeable to tax under the applicable tax regime.

Accordingly, the relevant basic exemption limit for A.Y. 2026–27 is:

| *Tax Regime* | *Basic Exemption Limit* |
|---|---|
| New Tax Regime | ₹ 4,00,000 |
| Old Tax Regime | ₹ 2,50,000 |

A non-resident may also be required to furnish a return of income in the following circumstances:

- Where he has taxable income in India exceeding the applicable basic exemption limit;
- Where he wishes to claim a refund of tax deducted at source;
- Where he wants to carry forward an eligible loss;
- Where he has income taxable at a special rate and return filing is required;
- Where he is required to furnish a return under any other prescribed condition.

A Non-resident Indian whose total income consists only of specified investment income, long-term capital gains from specified foreign exchange assets, or both, is not required to file a return where the full amount of tax deductible at source has been deducted.

## DOUBLE TAXATION RELIEF

Where the same income is taxable both in India and in another country, a non-resident may claim relief under the relevant Double Taxation Avoidance Agreement entered into between India and that country. Where the provisions of the Double Taxation Avoidance Agreement are more beneficial than the provisions of the Income-tax Act, the assessee may apply the more beneficial provisions, subject to fulfilment of the prescribed conditions and furnishing of the required documents, including a Tax Residency Certificate.

## About the Book

- **Updated for Assessment Year 2026–27:** Covers the latest provisions of the Income-tax Act along with all amendments, notifications and tax rates applicable for the Assessment Year 2026–27.
- **Comparative Study of Old and New Tax Regimes:** Provides clear side-by-side comparison of the New Tax Regime and the Old Tax Regime and through comparative tables and illustrations for easy understanding.
- **Presentation with Tables and Figures:** Every chapter is enriched with tables and figures to simplify complex provisions and facilitate quick revision.
- **Solved Illustrations and Practical Problems:** Includes a large number of step-by-step solved illustrations, practical problems and working notes prepared in an examination-oriented format.
- **Examination-oriented Approach:** Each chapter is supported with illustration, multiple choice questions, fill in the blanks, true/false statements and practical problems to help students prepare effectively for university and professional examinations.

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