INCOME TAX LAW & PRACTICE

Comprehensive Student Study Notes | Assessment Year 2026–27 (FY 2025–26)

> **Quick Reference Context:**
> • Previous Year (PY): 1st April 2025 to 31st March 2026 (Year of Income Generation)
> • Assessment Year (AY): 1st April 2026 to 31st March 2027 (Year of Tax Assessment)
> • Default Regime: Section 115BAC (New Tax Regime) is the statutory default regime.

1. Tax Regime: Old vs. New (Section 115BAC)

The New Tax Regime under Section 115BAC is the default taxation structure. Taxpayers retain an annual option to switch to the Old Tax Regime at the time of filing returns (for individual non-business assesses).

Income Tax Slab Rates (AY 2026–27)

Taxable Income Slab	New Tax Regime (Sec 115BAC) [Default]	Old Tax Regime (< 60 Years)
Up to ₹2,50,000	Nil	Nil
₹2,50,001 – ₹4,00,000	Nil	5%
₹4,00,001 – ₹5,00,000	5%	5%
₹5,00,001 – ₹8,00,000	5%	20% (₹5,00,001 to ₹10,00,000)
₹8,00,001 – ₹10,00,000	10%	20%
₹10,00,001 – ₹12,00,000	10%	30% (Above ₹10,00,000)
₹12,00,001 – ₹16,00,000	15%	30%
₹16,00,001 – ₹20,00,000	20%	30%
₹20,00,001 – ₹24,00,000	25%	30%
Above ₹24,00,000	30%	30%

Key Structural Comparisons & Reliefs

Key Parameter	New Tax Regime (Default)	Old Tax Regime
Standard Deduction (Salaried)	₹75,000	₹50,000
Rebate under Section 87A	Full rebate up to ₹60,000 if taxable income ≤ ₹12,00,000	Rebate up to ₹12,500 if taxable income ≤ ₹5,00,000

Zero-Tax Income Threshold (Salaried)	₹12,75,000 (₹12 Lakh slab + ₹75,000 Std. Deduction)	₹5,50,000 (₹5 Lakh slab + ₹50,000 Std. Deduction)
Allowable Deductions	Disallowed (Only 80CCD(2) employer NPS, 80CCH, 80JJAA allowed)	Fully Allowed (80C up to ₹1.5L, 80D Mediclaim, HRA, Sec 24(b) home loan interest)

2. Five Heads of Income (Section 14)

Under Section 14 of the Income-tax Act, all taxable income must be classified under five mutually exclusive heads:

- **1. Salaries (Sections 15–17):** Taxable on due or receipt basis (whichever is earlier). Requires an employer-employee relationship. Comprises basic salary, allowances, perquisites, and retirement benefits. Standard deduction under Section 16(ia) is ₹75,000 (New Regime) / ₹50,000 (Old Regime).
- **2. Income from House Property (Sections 22–27):** Taxed on the annual letting value of buildings or land appurtenant thereto owned by the assessee. Net Annual Value (NAV) is arrived at after deducting municipal taxes paid by the owner. Statutory deductions: 30% of NAV under Section 24(a) and interest on borrowed capital under Section 24(b).
- **3. Profits & Gains of Business or Profession (PGBP) (Sections 28–44DB):** Encompasses earnings derived from trade, business, manufacturing, or professional practices. Income is computed after claiming business expenses and statutory depreciation (Sec 32). Includes presumptive taxation schemes (Sec 44AD, 44ADA, 44AE).
- **4. Capital Gains (Sections 45–55A):** Profits arising from the transfer of a capital asset. Categorized into Short-Term Capital Gains (STCG) and Long-Term Capital Gains (LTCG). Listed equities/equity mutual funds: STCG taxed at 20% (Sec 111A) and LTCG taxed at 12.5% beyond ₹1.25 Lakh (Sec 112A).
- **5. Income from Other Sources (IFOS) (Sections 56–59):** The residual head of income. Covers any taxable receipts not covered under the first four heads (e.g., bank savings & fixed deposit interest, dividends, family pension, and lottery winnings taxed at 30% u/s 115BB).

3. Incomes Not Included in Total Income (Section 10 Exemptions)

Incomes eligible for complete statutory exclusion under Section 10:

- **Agricultural Income [Section 10(1)]:** Wholly exempt from central income tax. For non-corporate assessees, it is integrated with non-agricultural income for slab rate determination under the Old Regime.
- **Receipts by HUF Members [Section 10(2)]:** Any sum received by an individual out of the income/estate of a Hindu Undivided Family.
- **Share of Profit from a Firm [Section 10(2A)]:** Partner's share in the total income of a partnership firm or LLP is fully exempt, as the firm is taxed separately.

- **Allowances & Perquisites:** Exemption for HRA under Section 10(13A) (available in Old Regime) and official travel/duty allowances under Section 10(14).
- **Retirement Benefits:** Statutory exemptions subject to monetary limits for Gratuity [Sec 10(10)], Commuted Pension [Sec 10(10A)], and Leave Encashment [Sec 10(10AA)].
- **Life Insurance Proceeds [Section 10(10D)]:** Maturity amount (including bonus) is exempt subject to annual premium threshold caps.

4. Incomes of Political Parties & Electoral Trusts

Political Parties [Section 13A]

Income of a registered political party (registered under Section 29A of the Representation of the People Act, 1951) from House Property, Capital Gains, Other Sources, or Voluntary Contributions is 100% exempt from tax, provided the following statutory conditions are met:

- **1. Maintenance of Accounts:** Books of account and documents must be maintained and audited by a Chartered Accountant.
- **2. Donation Records:** Formal records including name and address must be maintained for each donation exceeding ₹20,000.
- **3. Cash Donation Restriction:** No donation exceeding ₹2,000 can be accepted in cash (must be via banking channels/digital modes).
- **4. Timely Filing:** Must submit its Return of Income (ITR-7) on or before the due date under Section 139(4B).
- **5. ECI Compliance:** The donation audit report must be submitted to the Election Commission of India (ECI) prior to the due date.

Electoral Trusts [Section 13B]

Voluntary contributions received by an approved Electoral Trust (set up by a company under the Electoral Trusts Scheme) are 100% exempt from tax, provided the trust distributes at least 95% of the aggregate contributions received during the financial year to registered political parties.

— End of Study Notes — Prepared for Quick Academic Revision & Exam Reference —