



Prepared By:

CA. Anil Khatri

M.Com., F.C.A., Grad. CMA

Income Tax MCQs (A.Y.2026-27)

Mr. Raghav, aged 45, resident in India, is engaged in interior design consultancy. For FY 2025-26, he credited ₹32,00,000 as professional receipts. Out of total expenses of ₹12,40,000 claimed in P&L, ₹90,000 was paid in cash to a contractor in a single day for urgent site work, ₹1,50,000 paid as interest to his brother without deduction of tax at source, and ₹70,000 spent on client entertainment at a club. Depreciation charged in books was ₹2,20,000 whereas depreciation admissible under the Income-tax Act is ₹2,85,000. He also received dividend from domestic companies ₹1,20,000, interest from bank FD ₹44,000 and savings account interest ₹16,000. During the year he transferred ₹5,00,000 to his spouse without consideration; she invested in a partnership firm and earned ₹92,000 as share of profit and ₹36,000 as interest on capital. He paid life insurance premium ₹1,80,000 (sum assured ₹15 lakh) and medical insurance ₹28,000 for self and ₹46,000 for senior citizen parents.

1. The amount disallowable while computing professional income shall be

A ₹2,40,000	B ₹1,35,000	C ₹2,70,000	D ₹3,10,000
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Ans B-The disallowable expenses arise from three items: ₹90,000 paid in cash to a contractor in a single day (disallowed u/s 40A(3)), 30% of ₹1,50,000 paid as interest to his brother without deduction of tax at source (disallowed u/s 40(a)(ia)), but Entertainment expense → allowed (no evidence of personal nature)

2. Adjustment required for depreciation while computing income shall be

A Increase income by ₹65,000	B No adjustment required	C Decrease income by ₹65,000	D Increase income by ₹2,85,000
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Ans C-Depreciation charged in books was ₹2,20,000 whereas depreciation admissible under the Income-tax Act is ₹2,85,000. Since the admissible depreciation (₹2,85,000) is higher than the book depreciation (₹2,20,000), the difference of ₹65,000 needs to be considered while computing income from profession.

3. Income taxable in the hands of Mr. Raghav under clubbing provisions shall be

A ₹36,000 only	B Nil since transfer to spouse is irrevocable	C ₹92,000 only	D ₹1,28,000
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Ans A- During the year, Mr. Raghav transferred ₹5,00,000 to his spouse without consideration. She invested in a partnership firm and earned ₹92,000 as share of profit and ₹36,000 as interest on capital. Under Section 64 of the Income-tax Act, income arising to a spouse from assets transferred without adequate consideration is clubbed in the hands of the transferor. The applicability of clubbing to each type of income — share of profit vs. interest on capital — determines the correct answer.

4. Deduction available under Chapter VI-A in respect of the above payments shall be

A ₹2,20,000	B ₹2,50,000	C ₹2,34,000	D ₹2,54,000
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Ans C-Mr. Raghav paid life insurance premium ₹1,80,000 (sum assured ₹15 lakh) and medical insurance ₹28,000 for self and ₹46,000 for senior citizen parents. The deduction under Section 80C is restricted to 10% of sum assured for policies issued after 1-4-2012. Section 80D allows deduction for medical insurance premiums, with a higher limit for senior citizen parents. The combined eligible deductions under Chapter VI-A must be computed applying the relevant limits 80C restricted to ₹1.5L + 80D ₹74k allowed within limits.

5. Mr. Dev, an Indian citizen, left India on 20 September 2025 for employment abroad. He stayed in India for 182 days in FY 2024-25 and 168 days in FY 2025-26. His stay in the preceding four previous years totals 420 days. His residential status for AY 2026-27 shall be

A Deemed resident	B Non-resident	C Resident and ordinarily resident	D Resident but not ordinarily resident
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Ans B- Got it — U/s 6(1) When an Indian goes abroad for a job, the law says he will be treated as resident only if he stays in India **182 days or more** in that year. Since he stayed only **168 days**, which is less than 182, he becomes **Non-resident**.

6. During assessment unexplained money of ₹8 lakh is treated as income u/s 69A while business income declared is ₹6 lakh. The unexplained amount shall be

A Taxed at 30%	B Ignored if source later explained	C Taxed at 60% plus surcharge and cess	D Included and taxed at slab rates
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Ans C- During assessment, unexplained money of ₹8 lakh is treated as income u/s 69A while business income declared is ₹6 lakh. Section 115BBE of the Income-tax Act prescribes a special rate of tax for income referred to in Sections 68, 69, 69A, 69B, 69C, and 69D. The applicable rate 60% and the surcharge/cess implications determine the correct treatment of such unexplained money.

7. Mrs. Kavya purchased land in 2002 for ₹6 lakh; FMV on 1-4-2001 was ₹8 lakh. She sold it in January 2026 for ₹40 lakh. Cost of acquisition for capital gain computation shall be

A ₹8 lakh	B Lower of actual cost or FMV	C ₹6 lakh	D Higher of actual cost or FMV as on 1-4-2001
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Ans C- Mrs. Kavya purchased land in 2002 for ₹6 lakh; FMV on 1-4-2001 was ₹8 lakh. She sold it in January 2026 for ₹40 lakh. As per the proviso to Section 55(2)(b) of the Income-tax Act, for assets acquired before 1-4-2001, the assessee has the option to substitute the Fair Market Value as on 1-4-2001 as the cost of acquisition.

8. Exemption under section 54 shall be denied if

A Two houses purchased within ₹2 crore option	B Capital gain not deposited in CGAS before due date of return	C New house purchased within one year before transfer	D New house purchased within two years after transfer
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Ans B-Section 54 provides exemption from long-term capital gains on transfer of a residential house if the assessee purchases or constructs another residential house within the specified time limits. The conditions for availing and the grounds for denial of exemption under Section 54 — including the Capital Gains Account Scheme (CGAS) requirement and the time limits for purchase/construction — are tested here.

9. Professional fees of ₹4,00,000 were paid without deduction of TDS but tax was later deducted and deposited before filing the return. Disallowance u/s 40(a)(ia) shall be

A ₹1,20,000	B Nil	C ₹80,000	D ₹4,00,000
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Ans B- Professional fees of ₹4,00,000 were paid without deduction of TDS but tax was later deducted and deposited before filing the return. Section 40(a)(ia) disallows 30% of the expenditure if TDS has not been deducted or deposited. However, a proviso to this section provides relief where TDS is deducted and deposited before the due date of filing the return of income. The correct disallowance amount depends on the application of this proviso.

10. Loss from house property is ₹3,20,000 and business profit is ₹2,40,000. Amount of loss adjustable in the same year shall be

A ₹2,00,000	B Nil	C ₹3,20,000	D ₹2,40,000
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Ans A- Loss from house property is ₹3,20,000 and business profit is ₹2,40,000. Under Section 71 of the Income-tax Act, loss under one head of income can be set off against income under any other head in the same year. However, Section 71(3A) restricts the set-off of loss from house property to a maximum of ₹2,00,000 per year against income from other heads. The balance unabsorbed loss is carried forward as per Section 71B.

11. Deduction for LIC premium is restricted to 10% of sum assured where the policy is issued after

A 1-4-2013	B 1-4-2014	C 1-4-2012	D No such restriction
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Ans C- Section 80C provides deduction for life insurance premium paid. However, the deduction is restricted to a certain percentage of the sum assured depending on when the policy was issued. For policies issued on or after 01-04-2012, the deduction is restricted to 10% of the actual capital sum assured.

12. Interest u/s 234B becomes payable when advance tax paid is less than

A 100%	B 75%	C 90%	D 80%
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Ans C- Section 234B of the Income-tax Act levies interest for default in payment of advance tax. Interest under this section becomes payable when the advance tax paid by the assessee during the financial year is less than a 90% of the assessed tax (or tax on returned income).

13. Agricultural income of ₹1,20,000 and non-agricultural income of ₹4,60,000 shall be taxed using

A Full inclusion in total income	B Ignoring agricultural income completely	C Treating it exempt without rate effect	D Partial integration method
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Ans D- Agricultural income of ₹1,20,000 and non-agricultural income of ₹4,60,000 are both present. While agricultural income is exempt under Section 10(1), the partial integration method (also called the aggregation method) is applied when agricultural income exceeds ₹5,000 and the non-agricultural income exceeds the basic exemption limit. This method ensures that the non-agricultural income is taxed at the appropriate marginal rate by including agricultural income for rate purposes only.

14. Deduction u/s 80TTB is available to

A Resident senior citizen only	B HUF only	C Any resident individual	D All individuals including NRIs
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Ans A- Section 80TTB was introduced by the Finance Act, 2018 to provide a deduction in respect of interest income from deposits held by senior citizens. The deduction is available up to ₹50,000 on interest from savings accounts, fixed deposits, and recurring deposits with banks, co-operative societies, and post offices.

15. Mr. X receives ₹70,000 from a friend and ₹40,000 from his maternal uncle during the year. The amount taxable shall be

A ₹70,000	B Nil	C ₹1,10,000	D ₹20,000
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Ans C- Mr. X receives ₹70,000 from a friend and ₹40,000 from his maternal uncle during the year. Under Section 56(2)(x), any sum of money received without consideration is taxable as income from other sources if the aggregate exceeds ₹50,000.

16. Employer reimburses employee's personal electricity bill ₹36,000 and also pays his income tax liability of ₹80,000. Taxable perquisite value shall be

A ₹36,000	B ₹1,16,000	C Nil	D ₹80,000
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Ans B- The employer reimburses the employee's personal electricity bill of ₹36,000 and also pays his income tax liability of ₹80,000. Under Section 17(2) read with Rule 3 of the Income-tax Rules, perquisites provided by the employer are taxable in the hands of the employee. Reimbursement of personal expenses and payment of an employee's tax liability by the employer are both treated as taxable perquisites, and the total taxable perquisite value must be computed accordingly.

17. A professional has gross receipts of ₹68 lakh during the year and cash receipts constitute 8% of total. Eligibility for presumptive taxation u/s 44ADA shall be

A Eligible only if receipts do not exceed ₹50 lakh	B Fully eligible	C Not eligible because cash receipts exist	D Eligible up to ₹75 lakh since cash receipts below threshold
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Ans A- A professional has gross receipts of ₹68 lakh during the year and cash receipts constitute 8% of total. Section 44ADA provides for presumptive taxation of professionals at 50% of gross receipts. The Finance Act, 2023 enhanced the threshold limit for Section 44ADA. The enhanced limit applies subject to the condition that cash receipts do not exceed a specified percentage of total receipts. The eligibility must be determined based on the applicable threshold and the cash receipt condition.

18. MAT credit is permitted to be carried forward for a maximum period of

A Unlimited period	B 12 years	C 10 years	D 15 years
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Ans D- Minimum Alternate Tax (MAT) is levied under Section 115JB of the Income-tax Act on companies whose tax liability under normal provisions is less than 15% of book profits. The excess of MAT paid over the normal tax liability is available as MAT credit under Section 115JAA, which can be carried forward and set off against normal tax liability in subsequent years. The maximum number of years for which MAT credit can be carried forward is the subject of this question.

19. Which of the following incomes are fully exempt under the Act

A Dividend income	B Both agricultural income and PPF maturity interest	C Agricultural income	D Interest on PPF maturity only
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Ans B- The Income-tax Act provides for various exemptions under Section 10. Agricultural income is exempt under Section 10(1). Interest and maturity proceeds from Public Provident Fund (PPF) are exempt under Section 10(11). Dividend income from domestic companies was exempt under Section 10(34) up to a certain limit but is now taxable in the hands of the recipient. The question tests knowledge of which incomes are fully exempt under the current provisions of the Act.

20. Return filing becomes mandatory even if income is below exemption where assessee

A Deposits ₹1 crore in current account	B Any of the listed conditions apply	C Spends on foreign travel beyond limit	D Electricity consumption crosses prescribed threshold
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Ans: B- Under the seventh proviso to Section 139(1) of the Income-tax Act, filing of return of income is mandatory even if the total income does not exceed the basic exemption limit, if the assessee satisfies any one of the specified high-value transaction conditions. These conditions include depositing ₹1 crore or more in a current account, incurring expenditure of ₹2 lakh or more on foreign travel, incurring expenditure of ₹1 lakh or more on electricity consumption, or fulfilling any other prescribed condition. The question tests whether all or only some of these conditions trigger mandatory filing.