ITR SHIVIR

FY 2025-26 | AY 2026-27

By CA Devesh Thakur

EPISODE 6

ITR-2 Practical Computation

Old Tax Regime vs New Tax Regime — Complete Tax Liability Calculation | FY 2025-26 (AY 2026-27)

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FOREWORD

A Message to the Reader

In theory, understanding tax computation is straightforward — classify income, apply slabs, subtract deductions, calculate cess. In practice, real-life tax returns are far more complex. Taxpayers rarely have just one source of income.

Episode 6 of the ITR Shivir – FY 2025-26 (AY 2026-27) addresses exactly this complexity through a complete, practical ITR-2 computation. This episode covers an assessee who has income from Salary, House Property, Short-Term Capital Gains, Long-Term Capital Gains on Mutual Funds, Long-Term Capital Gains on Property (with Section 54 exemption), Virtual Digital Assets (VDA), and Other Sources including interest and dividends.

What makes this episode particularly important is the inclusion of Virtual Digital Assets under Section 115BBH — a provision that many taxpayers still overlook or misreport — and the correct application of Section 54 exemption on property sale with reinvestment through the Capital Gains Account Scheme.

The complete computation is presented under both the Old Tax Regime and the New Tax Regime, side by side, so you can clearly see how the same income leads to very different tax liabilities depending on your regime choice.

> 📌 **The Key Lesson in This Episode:**
> When income has multiple heads — especially Capital Gains and VDA — the difference between regimes is not just about deductions. It is also about how Standard Deduction, slab rates, and special rate income interact. Always compute both before filing.

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INCOME TAX SLABS & RATES — FY 2025-26 (AY 2026-27)

For quick reference, the following are the applicable Income Tax Slabs, Surcharge, and Entity-wise tax rates for FY 2025-26 (AY 2026-27) as per Finance Act 2025.

1. Rebate u/s 87A — Finance Act 2025 (Key Amendment)

Particular	Earlier	Amended (AY 2026-27 onwards)
Applicable to	Individual Resident (New Regime)	Same
Income Limit for Rebate	₹7,00,000	₹12,00,000
Maximum Rebate	₹25,000	₹60,000
Special Rate Income (111A/112 etc.)	Not eligible	Not eligible
Marginal Relief	Available	Available

Key Point:
₹12 lakh income = ZERO tax under New Regime after applying the enhanced 87A rebate. Special rate incomes (STCG u/s 111A, LTCG u/s 112A) are excluded from this rebate.

2. New Tax Regime — Section 115BAC(1A) — All Individuals (Same Slabs Irrespective of Age)

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

3. Old Tax Regime — Slabs

(A) Below 60 Years

Total Income	Rate
Up to ₹2,50,000	Nil

₹2,50,001 – ₹5,00,000	5%
₹5,00,001 – ₹10,00,000	20%
Above ₹10,00,000	30%

(B) Senior Citizens (60–80 Years)

Total Income	Rate
Up to ₹3,00,000	Nil
₹3,00,001 – ₹5,00,000	5%
₹5,00,001 – ₹10,00,000	20%
Above ₹10,00,000	30%

(C) Super Senior Citizens (80 Years & Above)

Total Income	Rate
Up to ₹5,00,000	Nil
₹5,00,001 – ₹10,00,000	20%
Above ₹10,00,000	30%

4. Surcharge — Individual / HUF / AOP / BOI

Total Income	Old Regime	New Regime
₹50L – ₹1Cr	10%	10%
₹1Cr – ₹2Cr	15%	15%
₹2Cr – ₹5Cr	25%	25%
Above ₹5Cr	37%	Capped at 25%

Note:
Under New Regime, surcharge is capped at 25%. Dividend and special rate income (111A/112/112A): surcharge capped at 15%.

5. Company Tax Rates

Category	Tax Rate
Domestic — Turnover ≤ ₹400Cr	25%
Domestic — Others	30%
Section 115BAA	22%

Section 115BAB (New Mfg Co.)	15%
Foreign Company (Finance Act 2025 — reduced from 40%)	35%

6. Other Entities

Entity	Tax Rate	Surcharge	Marginal Relief
Firm / LLP	30%	12% (if > ₹1Cr)	Yes
Local Authority	30%	12% (if > ₹1Cr)	Yes
Co-op Society (Normal)	10–30% slab	7% / 12%	Yes
115BAD (Co-op)	22%	10%	No
115BAE (Co-op — New)	15%	10%	No

Health & Education Cess = 4% on (Income Tax + Surcharge) — Applicable to ALL entities

EPISODE 6

ITR-2 Practical Computation

Old Tax Regime vs New Tax Regime — Complete Tax Liability Calculation | FY 2025-26 (AY 2026-27)

Introduction — What is ITR-2?

ITR-2 is the Income Tax Return form applicable to individuals and HUFs who do not have income from business or profession. It is used when the assessee has income from:

- Salary or Pension
- Income from House Property
- Capital Gains (Short-Term or Long-Term)
- Income from Other Sources (Interest, Dividend, etc.)
- Foreign Assets or Foreign Income
- Virtual Digital Assets (VDA)

Why ITR-2 and Not ITR-1?

ITR-1 (Sahaj) cannot be used if capital gains are present or if there are more than one house property. This assessee has Capital Gains from shares, mutual funds, property sale, and VDA income — making ITR-2 mandatory.

Problem Illustration — Assessee Details

Income Details — FY 2025-26 (AY 2026-27)

Particular	Amount (₹)
Salary	₹15,00,000
Income from House Property (Rent)	₹4,50,000
Interest on Housing Loan	₹1,80,000
STCG u/s 111A — Shares (OKFL18D, 100 units)	₹85,000
LTCG u/s 112A — Canara Robeco MF (1,000 units)	₹1,60,000
Flat Sale (31/01/2026) — Sale ₹75L, Cost ₹50L, Gain ₹25L	₹25,00,000

Deduction u/s 54 — Reinvestment in Property + CGAS	₹25,00,000
Taxable LTCG from Flat	₹0
VDA Transfer u/s 115BBH — Income	₹2,00,000
Savings Bank Interest	₹18,000
FD Interest	₹72,000
Dividend — TCS ₹15,000, Infosys ₹2,100, REC ₹1,750	₹18,850

Chapter VI-A Deductions Available (Old Regime Only)

Section	Details	Amount
u/s 80C	PPF ₹5,000 + Home Loan Principal ₹1,65,000 + Tuition ₹11,250 = ₹1,81,250 → Capped at	₹1,50,000
u/s 80TTA	Savings Bank Account Interest	₹10,000
u/s 80D	Medical Insurance Premium (Own Family)	₹25,000
u/s 80E	Education Loan Interest	₹62,000
Total Deductions		**₹2,47,000**

⚠ **New Regime — No Deductions:**
Under Section 115BAC(1A), only deductions u/s 80CCD(2), 80CCH(2), and 80JJAA are allowable. None of the above deductions are available under the New Tax Regime.

📌 **Section 54 — LTCG Exemption on Flat Sale:**
Sale Consideration ₹75,00,000 | Cost of Acquisition ₹50,00,000 | Capital Gain ₹25,00,000. Reinvestment: ₹10,00,000 in new house property + ₹15,00,000 deposited in Capital Gains Account Scheme (CGAS) u/s 54. Full deduction u/s 54 = ₹25,00,000 → Taxable LTCG from flat = NIL.

🔴 **Section 115BBH — Virtual Digital Assets (VDA):**
VDA transferred 31/01/2026. Cost of Acquisition ₹50,000. Sale Consideration ₹2,50,000. Income = ₹2,00,000. Tax Rate = 30% (flat) + 4% Cess. No deduction or set-off allowed against VDA income. Tax = ₹60,000.

Computation — New Tax Regime [Section 115BAC(1A)]

STEP 1 — INCOME FROM SALARY (Chapter IV-A)	
Gross Salary	15,00,000
Less: Standard Deduction u/s 16(ia)	(75,000)
Income from Salary	**14,25,000**
STEP 2 — INCOME FROM HOUSE PROPERTY (Chapter IV-C)	
Rent Receivable — Annual Rental Value u/s 23	4,50,000
Less: Deduction u/s 24(a) @30% of NAV	(1,35,000)
Less: Interest on Housing Loan u/s 24(b)	(1,80,000)
Income from House Property	**1,35,000**
STEP 3 — INCOME FROM CAPITAL GAINS (Chapter IV-E)	
Short Term Capital Gain u/s 111A (STT paid)	85,000
Long Term Capital Gain u/s 112A (Canara Robeco MF)	1,60,000
LTCG — Flat Sale u/s 54 (Exemption = Full Gain)	0
VDA Transfer u/s 115BBH	2,00,000
Income from Capital Gains	**4,45,000**
STEP 4 — INCOME FROM OTHER SOURCES (Chapter IV-F)	
Interest from Savings Bank A/c	18,000
Interest on FDR	72,000
Dividend from Shares	18,850
Income from Other Sources	**1,08,850**
GROSS TOTAL INCOME (GTI)	**21,13,850**
STEP 5 — DEDUCTIONS UNDER CHAPTER VI-A	
Deductions u/s 80C / 80D / 80E / 80TTA — NOT available under New Regime	NIL
TOTAL INCOME (TAXABLE)	**21,13,850**
Round off u/s 288A	**21,13,850**
STEP 6 — TAX COMPUTATION (New Regime Slab Rates)	
Slab Income = Total Income - STCG - LTCG - VDA = 21,13,850 - 85,000 - 1,60,000 - 2,00,000 = 16,68,850	
₹0 – ₹4,00,000 @ Nil	0
₹4,00,001 – ₹8,00,000 @ 5%	20,000
₹8,00,001 – ₹12,00,000 @ 10%	40,000

₹12,00,001 – ₹16,00,000 @ 15%	60,000
₹16,00,001 – ₹16,68,850 @ 20%	13,770
Tax on Slab Income	**1,33,770**
STCG u/s 111A @ 20% on ₹85,000	17,000
LTCG u/s 112A @ 12.5% on ₹35,000 (after ₹1,25,000 threshold)	4,375
VDA u/s 115BBH @ 30% on ₹2,00,000	60,000
Total Tax Before Cess	**2,15,145**
Health & Education Cess @4%	8,606
☑ **FINAL TAX — NEW REGIME**	**₹2,23,751**

Capital Gains Tax Schedule — New Regime

S.No.	Head	Income Before Adj.	Income After Adj.	Basic Exemption Adj.	Rate	Tax	Net Tax
1	STCG u/s 111A	85,000	85,000	0	20%	17,000	17,000
2	LTCG u/s 112A	1,60,000	1,60,000	0	12.5%	4,375	4,375

VDA Income — Section 115BBH

Head	Date of Acquisition	Date of Transfer	Cost	Consideration	Income	Rate	Tax
Capital Gain	01/01/2020	31/01/2026	50,000	2,50,000	2,00,000	30%	60,000

Computation — Old Tax Regime

STEP 1 — INCOME FROM SALARY (Chapter IV-A)	
Gross Salary	15,00,000
Less: Standard Deduction u/s 16(ia)	(50,000)
Income from Salary	**14,50,000**
STEP 2 — INCOME FROM HOUSE PROPERTY (Chapter IV-C)	
Rent Receivable — Annual Rental Value u/s 23	4,50,000
Less: Deduction u/s 24(a) @30% of NAV	(1,35,000)
Less: Interest on Housing Loan u/s 24(b)	(1,80,000)
Income from House Property	**1,35,000**
STEP 3 — INCOME FROM CAPITAL GAINS (Chapter IV-E)	
Short Term Capital Gain u/s 111A (STT paid)	85,000
Long Term Capital Gain u/s 112A (Canara Robeco MF)	1,60,000
LTCG — Flat Sale u/s 54 (Exemption = Full Gain)	0
VDA Transfer u/s 115BBH	2,00,000
Income from Capital Gains	**4,45,000**
STEP 4 — INCOME FROM OTHER SOURCES (Chapter IV-F)	
Interest from Savings Bank A/c	18,000
Interest on FDR	72,000
Dividend from Shares	18,850
Income from Other Sources	**1,08,850**
GROSS TOTAL INCOME (GTI)	**21,38,850**
STEP 5 — DEDUCTIONS UNDER CHAPTER VI-A	
u/s 80C — PPF ₹5,000 + Home Loan ₹1,65,000 + Tuition ₹11,250 (Capped at ₹1,50,000)	(1,50,000)
u/s 80TTA — Savings Bank Interest	(10,000)
u/s 80D — Medical Insurance Premium	(25,000)
u/s 80E — Education Loan Interest	(62,000)
Total Chapter VI-A Deductions	**(2,47,000)**
TOTAL INCOME (TAXABLE)	**18,91,850**
Round off u/s 288A	**18,91,850**
Note: Adjusted Total Income (ATI) is not more than ₹20 Lakhs — AMT not applicable	

STEP 6 — TAX COMPUTATION (Old Regime Slab Rates — Below 60 Years)	
Slab Income = Total Income – STCG – LTCG – VDA = 18,91,850 – 85,000 – 1,60,000 – 2,00,000 = 14,46,850	
₹0 – ₹2,50,000 @ Nil	0
₹2,50,001 – ₹5,00,000 @ 5%	12,500
₹5,00,001 – ₹10,00,000 @ 20%	1,00,000
₹10,00,001 – ₹14,46,850 @ 30%	1,34,055
Tax on Slab Income	**2,46,555**
STCG u/s 111A @ 20% on ₹85,000	17,000
LTCG u/s 112A @ 12.5% on ₹35,000 (after ₹1,25,000 threshold)	4,375
VDA u/s 115BBH @ 30% on ₹2,00,000	60,000
Total Tax Before Cess	**3,27,930**
Health & Education Cess @4%	13,117
FINAL TAX — OLD REGIME	**₹3,41,047**

Side-by-Side Comparison — New Regime vs Old Regime

Particular	New Regime (₹)	Old Regime (₹)
SALARY INCOME		
Gross Salary	15,00,000	15,00,000
Less: Standard Deduction u/s 16(ia)	(75,000)	(50,000)
Income from Salary	**14,25,000**	**14,50,000**
HOUSE PROPERTY INCOME		
Annual Rental Value u/s 23	4,50,000	4,50,000
Less: Deduction u/s 24(a) @30%	(1,35,000)	(1,35,000)
Less: Interest on Housing Loan u/s 24(b)	(1,80,000)	(1,80,000)
Income from House Property	**1,35,000**	**1,35,000**
CAPITAL GAINS		
STCG u/s 111A (STT paid)	85,000	85,000
LTCG u/s 112A (MF)	1,60,000	1,60,000
LTCG — Flat u/s 54 (after exemption)	0	0
VDA Transfer u/s 115BBH	2,00,000	2,00,000
Income from Capital Gains	**4,45,000**	**4,45,000**
INCOME FROM OTHER SOURCES		
Savings Bank Interest	18,000	18,000
FD Interest	72,000	72,000
Dividend from Shares	18,850	18,850
Income from Other Sources	**1,08,850**	**1,08,850**
GROSS TOTAL INCOME (GTI)	**21,13,850**	**21,38,850**
CHAPTER VI-A DEDUCTIONS		
u/s 80C (PPF + Home Loan + Tuition)	NIL	(1,50,000)
u/s 80TTA (SB Interest)	NIL	(10,000)
u/s 80D (Medical Insurance)	NIL	(25,000)
u/s 80E (Education Loan Interest)	NIL	(62,000)
Total Deductions	**NIL**	**(2,47,000)**
TOTAL INCOME (TAXABLE)	**21,13,850**	**18,91,850**
TAX COMPUTATION		

Tax on Slab Income	1,33,770	2,46,555
STCG Tax @20% on ₹85,000	17,000	17,000
LTCG Tax @12.5% on ₹35,000 (after ₹1,25,000 threshold)	4,375	4,375
VDA Tax @30% u/s 115BBH	60,000	60,000
Total Tax Before Cess	**2,15,145**	**3,27,930**
Health & Education Cess @4%	8,606	13,117
☑ **FINAL TAX — NEW REGIME**	**₹2,23,751**	—
FINAL TAX — OLD REGIME	—	**₹3,41,047**

🏆 VERDICT

☑ New Regime	💰 Tax Saved	Old Regime
₹2,23,751	**₹1,17,296**	**₹3,41,047**

Despite ₹2,47,000 in Chapter VI-A deductions under the Old Regime, the New Tax Regime results in a tax saving of ₹1,17,296. The higher Standard Deduction (₹75,000 vs ₹50,000) and significantly lower slab rates under the New Regime outweigh the benefit of deductions available under the Old Regime for this assessee.

🎯 Key Insight:
This example demonstrates that when income is high and deductions are moderate, the New Tax Regime's lower slab rates provide greater tax efficiency. However, taxpayers with higher deductions (e.g., Home Loan interest on self-occupied property, NPS contributions, large 80C investments) should always compute both before deciding.

Conclusion

Episode 6 walked through a complete ITR-2 computation covering five heads of income — Salary, House Property, Capital Gains (STCG, LTCG, Property), VDA, and Other Sources. The key learnings from this episode:

- ✅ ITR-2 is mandatory when Capital Gains or multiple house property income is present
- ✅ Standard Deduction under New Regime is ₹75,000 vs ₹50,000 under Old Regime
- ✅ Section 54 exemption on property sale requires reinvestment within prescribed timelines; CGAS deposit protects the exemption

- ✅ VDA income u/s 115BBH is taxed at 30% flat — no set-off or deduction is permitted
- ✅ LTCG u/s 112A — the first ₹1,25,000 is exempt; only the balance is taxed at 12.5%
- ✅ Chapter VI-A deductions are NOT available under the New Tax Regime (except 80CCD(2), 80CCH(2), 80JJAA)
- ✅ Always compute tax under both regimes before filing your ITR

Classify Correctly ⤔ Apply Correct Rates ⤔ Compare Both Regimes ⤔ File Accurately

DISCLAIMER

Educational & General Purpose Only

This guide has been prepared purely for educational and general information purposes. The provisions, tax slabs, rates, practical computations, and illustrations presented herein are based on the Income Tax Act, 1961 (as applicable for FY 2025-26 / AY 2026-27) and Finance Act 2025 as understood at the time of preparation. They are intended to provide conceptual clarity and a ready reference for taxpayers, students, and finance professionals participating in the ITR Shivir – FY 2025-26 (AY 2026-27).

This guide does NOT constitute professional tax advice, legal opinion, or a substitute for professional consultation. Tax slabs, rates, and compliance requirements are subject to change through Finance Acts, notifications, and CBDT circulars.

- ➤ Verify rates, notifications, and CBDT instructions at the time of filing
- ➤ Compute tax under both regimes before making your final choice
- ➤ Consult a qualified Chartered Accountant for complex income or multi-source scenarios

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