Unit 1

Question	Option A	Option B	Option C	Option D	Answer
Put option	buy an ass	buy an ass	buy but no	sell but not an obliga	buy but not an obligation
the coll op	the strikin	the strikin	the option	the option period is l	the option period is shorter
the option	Stock pric	Striking p	Stock Pric	There is a high prem	Stock Price= Striking price
the put po	in the bul	in the bea	in the stab	when the price is low	in the bearish market
Spot trans	involve im	may only	take place	unimportant in finan	involve immediate settlement.
Forward t	common s	corporate	governme	agricultural and othe	agricultural and other commodities
Forward t	provide su	entail sma	provide ri	provide reduced tax	provide risk sharing
Forward c	are highly	entail sma	provide lit	are subject to default	are subject to default risk.
The most	futures an	common s	corporate	government bonds	futures and options contracts.
The price	market pri	equilibriu	strike pric	fixed price	strike price.
In an optio	market pri	exercise p	equilibriu	fixed price.	exercise price.
The fee ch	market pr	option pre	futures fee	call price.	option premium
As an opti	zero	infinity.	its intrinsi	Varied amount	its intrinsic value.
A stock op	the strike	stock pric	strike pric	stock price exceeds t	strike price exceeds the stock price
strike pric	face-to-fac	on exchan	over-the-	on the floor of the Y	on exchanges by commodity brokers.
An agreem	futures an	Call optio	put option	swap	swap
An interes	swaption	swap optio	forward sw	plain vanilla.	plain vanilla.
The value	Value of a	securities	Bank of C	risk free rate of retur	Value of an underlying asset
Financial	stocks	bonds	futures	shares	futures
Type of co	future con	present co	spot contr	spot contract	future contract
Consider l	Liquidity	Loss will l	Profit will	profit will be lower	Profit will be higher
What is a	An option	An option	An option	An option to buy sto	An option to buy stock at a specified price
The value	depends o	can only c	is unrelate	is worthless today	depends on the value of the related primitive security
One advan	are less co	are less co	are more l	have better accounti	are less costly than rearranging balance sheets.
The most	the plain v	the basic s	the swapti	the notional swap.	the plain vanilla swap
A swap th	interest ra	currency s	swaptions	national swap.	interest rate swap.
A swap th	interest ra	currency s	swaptions	national swap.	currency swap.
A financia	hedge.	call optior	put option	swap.	swap.
A tool for	futures co	forward co	swap.	micro hedge.	swap.
Hedging b	limits gair	limits loss	limits gair	has no limit on optio	limits losses.
If a bank	buy put op	buy call op	sell put op	sell call options on fi	buy put options on financial futures.
The main	to reduce	to preserv	to limit los	remove the possibilit	to preserve the possibility for gains.
The main	interest ra	interest ra	interest ra	interest rate risk is no	interest rate risk is controlled while preserving the possibility of gains.
An option	put option	put option	swap.	forward contract.	put option
A put opti	the right to	the obliga	the right to	the obligation to buy	the obligation to buy the underlying security.
A put opti	the right to	the obliga	the right to	the obligation to buy	the right to sell the underlying security.
An option	call optior	put option	American	European option.	put option.
An option	put option	call optior	swap.	premium.	call option
A call opt	the right to	the obliga	the right to	the obligation to buy	the obligation to sell the underlying security.
A call opt	the right to	the obliga	the right to	the obligation to buy	the right to buy the underlying security.
An option	call optior	put option	American	European option.	call option.
Options or	stock optio	futures op	American	individual options.	futures options.
Options or	stock optio	futures op	American	individual options.	stock options.
An option	swap.	stock optio	European	American option.	European option.
An option	swap.	stock optio	European	American option.	American option.
The amou	strike pric	premium.	discount	commission.	premium.
The seller	obligated;	right; obli	obligated;	right; right	obligated; righ
The seller	right to bu	the obliga	ability to r	right to exchange on	the obligation to buy or sell the underlying asset.
The price	premium.	call.	strike pric	put.	strike price
Options ar	option to l	the obliga	the right to	the right to switch pa	option to buy or sell an underlying asset.
Futures di	used to he	used to he	used in bo	marked to market da	marked to market daily.
The numb	liquidity.	volume.	float	open interest.	open interest.
Eliminatio	hedging.	arbitrage.	speculatio	underwriting.	arbitrage.
The price	equals the	equals the	equals the	equals the value of tl	equals the price of the underlying asset.
On the exp	always eq	always eq	always eq	always equals the pri	always equals the price of the underlying asset.
Parties wh	sell; short	buy; short	sell; long	buy; long	sell; short
Parties wh	sell; short	buy; short	sell; long	buy; long	buy; long
Futures m	are standa	have High	are not liq	cannot ne determine	are standardized.
The advan	are standa	have lowe	are more f	are diluted	are more flexible.
To say tha	forward contracts us		it may be	forward contracts ca	it may be difficult to make the transaction.

Unit II

Question	Option A	Option B	Option C	Option D	Answer
_______T	unsystema	market ris	current yi	systematic	systematic
_____Risl	unsystema	market ris	current yi	systematic	unsystematic risk
Risk is	certainity	uncertaini	appreciabl	not appreciable	uncertainity
External F	external e	internal er	organisati	management	external environment
Primary m	an issue m	a new issu	a profitabl	security	a new issue market
A growth	an industr	an industr	a capital i	an industry whose av	an industry whose average growth is higher than the growth of economy
An analys	macro ana	micro ana	general an	particular analysis	macro analysis
GDP refle	economy	industry	company	fundamental	economy
A ______	fundamen	technical a	economic	industrial analysis	fundamental analysis
The invest	dividend	interest	appreciati	depreciation	dividend
Return on	market va	intrinsic v	extrinsic v	depreciable value	intrinsic value
Earning pe	dividend	each share	interest	market price	each share
Profitabili	liquidity	interest	profitabili	all the above	profitability
Expenses	expenses a	expenses a	liquidity p	financial position	expenses and sales
Profitabili	assests or	assets or r	liability or	all the above	assests or investment
Fundamer	one	two	three	four	three
the financ	profitabili	stability	employee	policy of the compar	profitability
Financial	dividend	liquidity	stability	financial position	financial position
Financial	soundness	identify th	identify the accounts departmer		identify the weakest area
Ratio anal	market va	financial	liquidity	solvency	financial position
A study of	profitabili	current	liquidity	solvency	profitability
The _____	working c	capital str	short term	long term profit	capital structure
The profit	income sta	expenditu	operation	cost statement	income statement
Financial	historical	present	future	convention	historical
The prepa	accountin	product	purchase	sales	accounting
Annual re	fiancial in	economic	market inf	sales information	fiancial information
Daily secu	stock exch	leading da	investmen	government report	stock exchnage
The _____	technical	economic	industry	company	technical
Identify th	Labour Pr	Increase i	cut in subs	Technological Obsol	Cut in Subsidy
Gross don	inflation o	The marke	The status	The condition of the	The status of the Economy
In fundam	first step	second ste	third step	fourth step	second step

The Last s	Economic	industry a	company a	Technical analysis	company
Which of	P/E ratioP	P/M/Ratio	P/B ration	P/S ratio	P/M/Ratio
Which of	Cash	Stockhold	Marketabl	Fixed assets	Fixed assets
Which of	Current A	Property a	Current Li	Share holders equity	Current Assets
Financial	studying f	managing	financing	reading financial boo	managing the risks of investing
Most inve	they will a	they will a	they will a	they avoid the stock	they will always invest in the investment with the lowest possible risk.
Which of	Gold.	Equity in a	High-grad	Treasury bills.	Gold.
The rise o	greatly inc	significant	led to few	led to large amounts	greatly increased the cost of security trading.
Total retu	capital gai	yield + inc	capital gai	yield + price change.	capital gain + price change.
Investors	if the term	if there are	if the expe	if they are true specu	if they are true speculators.
Financial	the use of	the use of	Equity inv	Debt investments hel	the use of debt financing by corporations.
In order to	arithmetic	geometric	calculus m	arithmetic median.	arithmetic mean.
The last st	economic	industry a	company a	technical analysis.	technical analysis.
In which c	Current as	Property,	Current lia	Shareholders' Equity	Current assets.
The key it	sales.	gross prof	operating	after-tax net income.	after-tax net income.
Which of	return on a	sustainabl	adjusted E	return on equity.	sustainable growth rate.
The growt	rise in sha	increase in	increase in	growth in reserves.	growth in reserves.
A growth	an industr	an industr	an industr	an industry with aver	an industry with average growth higher than the growth of the economy.
Gross don	Inflation c	The market value of		The condition of the	The status of the economy
A commo	Is directly	Can be ze	Measures	Indicates the future c	Can be zero for a growth firm.
The price	The growt	The marke	The earnin	The dividend paid ou	The market mood for the companys stock
In the bull	The stock	Each peak	Each botto	The stock prices are	Each peak is higher than the previous peak.
The oldest	fundamen	technical a	random w	value analysis	technical analysis
Technical	equity	bonds	shares	return	return
An Decrea	selling	buying	sell and bu	investigate	selling
An increa	selling	buying	sell and bu	investigate	selling
The techn	company c	industry d	economic	market data	market data
When the	bullrun	bearphase	correction	movements	bullrun
When the	low purch	high purch	midium pu	average purchase	high purchase

Unit III

Question	Option A	Option B	Option C	Option D	Answer
________	price earn	current yi	interest ra	dividend	price earning ratio
Moving a	survey	chart	records	others	chart
Moving a	running a	recordical	mode aver	samples	running average
Charts hel	difficult	complecat	different	effectively	effectively
Price earn	the growtl	the marke	the earing	the dividend paid ou	the market mood for the company's stock
The ____	dividend c	risk free r	fisher mo	Capital asset pricing	Capital asset pricing model
The Price/	market pri	market pri	market ca	market price and fac	market price and earning per share
Under the	EPS and I	P/E ratio a	EPS and r	P/E ratio and require	P/E ratio and EPS.
Book valu	the same a	a more ac	the accour	the same as liquidati	a more accurate valuation technique than the dividend models.
The price	high-tech	banks.	utilities.	service companies.	service companies.
The broke	Gross exp	Special m	Mark to m	Concentration ratio r	Mark to market margin
Cost of re	Cost of eq	Cost of de	Cost of te	Cost of bank loan.	Cost of term loans.
The most	the cost o	the cost o	the cost o	the cost of equity an	the cost of preferred capital.
Earnings I	Profit bef	Profit afte	Profit afte	Profit after tax less e	Profit after tax/Amount of equity share capital.
Operating	earnings b	income of	stock vari	share equity	earnings before interest
Operating	Earnings p	Earnings b	Profit before tax.	Dividend	Profit before tax.
While calc	Retained e	Cost of iss	Weights a	Equity shares are giv	Equity shares are given more weights.
Cost of re	Cost of eq	Cost of in	Rate of di	Present rate of divid	Cost of internal equity.
Which of	Net profit	Earning p	Earnings p	Capitalization rate	Earnings per share.
. _______	Sharehold	Profit max	Stakehold	EPS maximization.	Profit maximization
The divid	the divide	dividends	dividends	dividends per share c	dividends per share divided by earnings per share
High P/E r	grow quic	grow at th	grow slow	not grow	grow quickly
_______ i	Book valu	Liquidatio	Market va	Tobin's Q	Book value per share
_______ a	Credit ana	Fundamen	System an	Technical analyst	Fundamental Analyst
The _____	dividend p	intrinsic v	market ca	plowback ratio	intrinsic value
_______ i	Book valu	Liquidatio	Market va	Tobin's Q	Liquidation value per share
A_____ is	bond	debenture	proxy	preferred stock	preferred stock
The rate a	current	total	dividend	capital gains	capital gains
Next year'	yield to m	total yield	Dividend	capital gains yield	Dividend yield
________	Share hol	balance sh	utilities sh	ratio analysis	Share holding pattern
share hold	Stock excl	SEBI	RBI	UTI	Stock exchanges

________	Promotors	individual	governme	mutual funds	Promotors
Share holc	Public	private	governme	group	Public
companies	0.25%	0.50%	0.75%	1%	1%
Investors	institution	non institu	foreign	domestic	non institutional
FII stands	Foreign in	forests in	foreign ex	financial institutions	Foreign institutional investors
FDI stand	Foreign D	finance de	foreign ex	fisheries developmer	Foreign Direct investment
_____ is u	P/E ratio	PEG ratio	Earnings p	Technical analysis	P/E ratio
current sto	P/E ratio	PEG ratio	Earnings p	Technical analysis	P/E ratio
Price earn	two quarte	three quar	four quart	five quarters	four quarters
Ratios of	technical	financial	growth	trend	trend
____are g	Charts	drawings	circles	squares	Charts
Range of	Time scale	Price scale	periodic s	point scale	Time scale
Day trade	intraday	interday	same day	noday	intraday
Long term	interday	monthly	intraday	noday	monthly
_____app	price scale	periodic s	point scale	Time scale	price scale
_____ cha	Line chart	bar chart	candle stic	linear chart	Line chart
______ ch	Line chart	bar chart	candle stic	linear chart	bar chart
In the bar	Opening p	closing pr	market pri	skimming price	Opening price
In the bar	Opening p	closing pr	market pri	skimming price	closing price
candle stic	India	Japan	Italy	China	Japan
______ ch	Line chart	bar chart	candle stic	linear chart	candle stick chart
_______ c	Point and	bar chart	candle stic	linear chart	Point and figure charts
________	Point and	bar chart	candle stic	linear chart	Point and figure charts
sum of all	simple mc	exponenti	linear mov	weighted moving av	simple moving average
sum of all	simple mc	exponenti	linear wei	weighted moving av	linear weighted average
Giving hig	simple mc	exponenti	linear wei	weighted moving av	exponential moving average
Buying an	fluctuatio	increase	decrease	no change	fluctuation
______ ar	Domestic	Foreign in	mutual fu	NBFC	Domestic Institutional investors
P/E ratio i	capital str	infrastruct	growth str	financial structure	capital structure

Unit IV

Question	Option A	Option B	Option C	Option D	Answer
The open-	open on a	open for a	having a f	interest earning sche	open on a continuous basis
CRISIL is	credit ratin	credit real	customer r	Chit funds	credit rating and information services of india Ltd
After UTI	Private sec	Public sec	Financial I	Non-banking Financ	Public sector banks
Mutual fu	Portfolio c	Risk reduc	Large vol	Very low trade volur	Large volume of trades
A close er	NAV	Fund Size	Rate of Re	Number of Distribut	Fund Size
The Mut	A trust	A private	a. An a	a. A trustee comp	A trust
Bank owr	SEBI	RBI	Jointly by	AMFI	Jointly by SEBI & RBI
The first l	Board of	Company	SEBI	RBI	Board of Trustees
A compar	Economy	Cyclical S	Value Sto	Growth stocks	Cyclical Stocks
The most	NAV Cha	Total Retu	Total Retu	NAV return	Total Return with reinvestment
The Board	RBI	LIC	IDBI	The Bombay Stock E	The Bombay Stock Exchange (BSE)
A gilt fund	In very hig	In instrum	In short-te	In government secur	In government securities only
The privat	1992	1993	1998	1995	1993
A close-er	The mar	Investors	The asse	None of the above	Investors perceive that the fund will be unable to maintain the NAV
Transfer A	Issuing a	Updating	Preparing	Investing the funds i	Investing the funds in securities markets
Who is th	The AM	The Tru	The Reg	The custodians	The custodians
Along wit	Investme	Offer docu	Key info	None of the above	Key information memorandum
Offer Doc	Require	Required	Require	Not mandatory as p	Required as per SEBI regulations
Agents are	Through	Through c	Through	Not in cash but in ki	Through commissions
For a clos	NAV	95% of N	93% of I	97% of NAV	95% of NAV
A growth	High cur	Undervalu	Above av	None of the above	Above average earnings growth
Dividend	Dividend p	Dividend p	Dividend p	Divident given	Dividend per share to current market price
ertificates	Regional I	Corporate	Scheduled	mutual funds	Scheduled commercial banks
The value	Net asset value		open-end	close-end value	Net asset value
Centralize	Secondary	Central ma	Traded ma	Agents market	Secondary market
The NAV	is always c	keeps goin	fluctuates	cannot go down at al	fluctuates with market price movements
Mutual fu	The Govt.	SEBI	all its inve	AMFI	all its investors
The greate	debt funds	gilt funds	growth fu	balanced funds	growth funds
The legal	SEBI	The AMC	AMFI	Company law board	The AMC
Net Asset	asset minu	assets per	assets min	assets plus liabilities	assets minus liabilites per unit
In a mutua	equity ana	fund mana	seurity dea	trustees	fund managers

Investmen	The fund	The AMC	The Mark	the investors	The AMC company
Mutual fu	loans	securities	physical a	fixed deposits	The AMC company
A mutual	at current	not at all	at cost pri	at a fixed premium o	at current market rate
A high tur	high trans	greater eff	high retur	a rising market	high transactin cost
Which of	Higher liq	Lower tan	Greater cc	Guaranteed returns	Guaranteed returns
Compared	narrow	higher	same	nil	narrow
SEBI regu	1992	1992	1994	1995	1994
UTI was t	1984-88	1963-88	1954-88	1952-88	1963-88
SEBI stan	Securities	Securities	securities	Securities & exchang	securities & exchange board of India
The larges	mutual fu	insurance	pension fu	commercial banks.	mutual funds.
It is not in	investors l	investors t	investors s	banks will cash their	banks will cash their shares as long as they have accounts at the bank.
A group o	fund synd	fund cong	fund famil	fund complexes.	fund families.
Net asset	both realiz	only realiz	only unrea	neither realized nor	both realized and unrealized capital gains.
If NAV >	is selling	is selling	is an inde	is an exchange trade	is selling at a premium.
Mutual fu	the underv	the underv	there is no	there is no risk to the	the underwriter has an exclusive right to distribute shares.
Mutual fu	In any cor	In privatel	Up to 40%	Should not exceed 1	Should not exceed 10% of the funds in securities of a single company
Of the foll	Balanced	Gilt Funds	Equity Gr	Debt Funds	
In case of	Open end	Both open	Close end	other funds	Close ended funds
The first l	Board of T	Company	SEBI	RBI	Board of Trustees
An offer d	1 fiscal ye	2 fiscal ye	3 fiscal ye	Six months	3 fiscal year
SEBI does	Details of	Descriptio	Investors'	Performance of other	Performance of other mutual funds
An aggrie	The AMC	The truste	The spons	The brokers	The trustees
When inte	Also rise	Fall	Are not af	Fluctuate either up o	Fall
Liabilities	In the forr	Strictly sh	Combinati	Not allowed as per r	Strictly short term in Nature
Which of	Asset Allc	Selection	Studying t	over looking	Asset Allocation
Compoun	Balanced	Growth fu	Value fun	Income fund	Growth fund
Listing of	Guarantee	Long term capital ap		Low risk	High liquidity
A fund wi	Gives higl	Is less risk	Gives low	Is more risky	Is less risky
A mutual	A portfoli	A compan	A pool of	A collective investm	A company that manages investment portfolios

Unit V

Question	Option A	Option B	Option C	Option D	Answer
Put option	buy an ass	buy an ass	buy but nc	sell but not an obliga	buy but not an obligation
the coll op	the strikin	the strikin	the option	the option period is l	the option period is shorter
the option	Stock pric	Striking p	Stock Pric	There is a high prem	Stock Price= Striking price
the put po	in the bul	in the bea	in the stab	when the price is low	in the bearish market
Spot trans	involve in	may only	take place	unimportant in finan	involve immediate settlement.
Forward t	common s	corporate	governme	agricultural and othe	agricultural and other commodities
Forward t	provide su	entail sma	provide ri	provide reduced tax	provide risk sharing
Forward c	are highly	entail sma	provide lit	are subject to default	are subject to default risk.
The most	futures an	common s	corporate	government bonds	futures and options contracts.
The price	market pri	equilibriu	strike pric	fixed price	strike price.
In an optic	market pri	exercise p	equilibriu	fixed price.	exercise price.
The fee ch	market pr	option pre	futures fee	call price.	option premium
As an opti	zero	infinity.	its intrinsi	Varied amount	its intrinsic value.
A stock op	the strike	stock pric	strike pric	stock price exceeds t	strike price exceeds the stock price
strike pric	face-to-fac	on exchan	over-the-	on the floor of the Y	on exchanges by commodity brokers.
An agreem	futures an	Call optio	put option	swap	swap
An interes	swaption	swap optic	forward sv	plain vanilla.	plain vanilla.
The value	Value of a	securities	Bank of C	risk free rate of retur	Value of an underlying asset
Financial	stocks	bonds	futures	shares	futures
Type of cc	future con	present co	spot contr	spot contract	future contract
Consider l	Liquidity	Loss will l	Profit will	profit will be lower	Profit will be higher
What is a	An option	An option	An option	An option to buy sto	An option to buy stock at a specified price
The value	depends o	can only c	is unrelate	is worthless today	depends on the value of the related primitive security
One advar	are less cc	are less cc	are more l	have better accounti	are less costly than rearranging balance sheets.
The most	the plain v	the basic s	the swapti	the notional swap.	the plain vanilla swap
A swap th	interest ra	currency s	swaptions	national swap.	interest rate swap.
A swap th	interest ra	currency s	swaptions	national swap.	currency swap.
A financia	hedge.	call optior	put option	swap.	swap.
A tool for	futures co	forward cc	swap.	micro hedge.	swap.
Hedging b	limits gair	limits loss	limits gair	has no limit on optio	limits losses.
If a bank r	buy put op	buy call o	sell put op	sell call options on fi	buy put options on financial futures.

The main	to reduce t	to preserv	to limit lo	remove the possibilit	to preserve the possibility for gains.
The main	interest ra	interest ra	interest ra	interest rate risk is n	interest rate risk is controlled while preserving the possibility of gains.
An option	put option	put option	swap.	forward contract.	put option
A put opti	the right t	the obliga	the right t	the obligation to buy	the obligation to buy the underlying security.
A put opti	the right t	the obliga	the right t	the obligation to buy	the right to sell the underlying security.
An option	call optior	put option	American	European option.	put option.
An option	put option	call optior	swap.	premium.	call option
A call opt	the right t	the obliga	the right t	the obligation to buy	the obligation to sell the underlying security.
A call opt	the right t	the obliga	the right t	the obligation to buy	the right to buy the underlying security.
An option	call optior	put option	American	European option.	call option.
Options o	stock opti	futures op	American	individual options.	futures options.
Options o	stock opti	futures op	American	individual options.	stock options.
An option	swap.	stock opti	European	American option.	European option.
An option	swap.	stock opti	European	American option.	American option.
The amou	strike pric	premium.	discount	commission.	premium.
The seller	obligated;	right; obli	obligated;	right; right	obligated; righ
The seller	right to bu	the obliga	ability to r	right to exchange on	the obligation to buy or sell the underlying asset.
The price	premium.	call.	strike pric	put.	strike price
Options a	option to b	the obliga	the right t	the right to switch pa	option to buy or sell an underlying asset.
Futures di	used to he	used to he	used in bo	marked to market da	marked to market daily.
The numb	liquidity.	volume.	float	open interest.	open interest.
Eliminatic	hedging.	arbitrage.	speculatio	underwriting.	arbitrage.
The price	equals the	equals the	equals the	equals the value of th	equals the price of the underlying asset.
On the ex	always eq	always eq	always eq	always equals the pri	always equals the price of the underlying asset.
Parties wh	sell; short	buy; short	sell; long	buy; long	sell; short
Parties wh	sell; short	buy; short	sell; long	buy; long	buy; long
Futures m	are standa	have High	are not liq	cannot ne determine	are standardized.
The advar	are standa	have lowe	are more f	are diluted	are more flexible.
To say tha	forward contracts us	it may be	forward contracts ca	it may be difficult to make the transaction.

UNIT - II

61	Salary Inco	15,16 & 17	14, 15 & 16	10, 11 & 12	14, 16 & 24	15,16 & 17
62	Non – Mon	Allowances	Bonus	Commissio	Perquisites	Perquisites
63	Deduction	Sec 14	Sec 15	Sec 16	Sec 17	Sec 16
64	Interest cre	Bank intere	0.1	0.095	Whole amount	0.095
65	Education a	1 child	4 children	2 children	No limit	2 children
66	Deduction	Profession	Entertainm	Income ta	Insurance premium	Professional tax
67	Medical bil	Up to Rs. 1	Up to Rs. 1	Whole amo	Up to Rs. 20,000	Up to Rs. 15,000
68	Regular pe	Govt. empl	Private em	Govt. & pri	semi – govt. employee	Govt. & private both
69	Maximum l	3 lakhs	5 lakhs	10 lakhs	8 lakhs	10 lakhs
70	Gratuity re	Fully exem	Partly exen	Fully taxabl	Exempted up to Rs. 100000	Fully exempted
71	Salary rece	Taxable as	Exempt fro	Taxable as	Tax deducted at source	Taxable as income from other sources
72	Contributio	5 years	10 years	15 years	20 years	15 years
73	Dearness A	Govt. empl	Private em	All Employe	semi – govt. employee	All Employees
74	House Ren	Fully exem	fully taxabl	partially ta	Government pays the tax	partially taxable
75	Exempted l	50 % of sal	40 % of sal	30 % of sal	20 % of salary	50 % of salary
76	Exempted l	50 % of sal	40 % of sal	30 % of sal	20 % of salary	40 % of salary
77	Salary inclu	Wages	houseprop	interest	gambling	wages
78	------------ r	Tax free sa	Taxable sa	Exempted	business income	tax free salary
79	--------------	Allowance	Perquisites	Basic salar	medical facility	allowance
80	--------- is d	Dearness a	City compe	Medical al	uniform allowances	dearness allowance
81	----------- is	Medical al	City compe	Dearness a	lunch allowances	city compensatory allowance
82	------------- t	Wardensh	Dearness a	Medical al	non – practicing allowances	warnership allowance
83	--------- is gi	Medical al	Uniform al	Daily allow	lunch allowance	medical allowance
84	----------- is	House ren	City compe	Medical al	wardenship allowances	house rent allowance
85	House ren	fully exem	fully taxab	partially ta	none	fully exempt
86	Which of th	Payment b	Salary from	Salary rece	Leave salary	Salary received by UNO employees
87	In case of	Tax is to be	No tax is pa	Tax is to be	Govt. itself pays the tax	Tax is to be paid by employer
88	Allowances	Fully exem	fully taxabl	partially ta	Taxable by the country where pos	Fully exempted
89	Death cum	Fully exem	Partly exen	Fully taxabl	employer has to pay tax on it	Fully taxable
90	Statutory P	private	governeme	self employ	professionals	governement
91	RPF Stands	Recognised	Registered	Recognised	Representative Provident Fund	Recognised Provident Fund

92	_________	Allowances	Perquisites	Gift	Profit	Allowances
93	Perquisties	Fully exem	fully taxabl	partially ta	Taxable by the country where pos	Fully exempted
94	Bonus rece	Statutory b	Gratuitous	recognised	unrecognised bonus	satutory bonus
95	Provident	Statutory F	Unrecogni	Public prov	Recognised provident fund	Statutory profident fund
96	Tiffin allow	fully taxab	Partially al	Fully exem	not an allowances	fully taxable allowance
97	Foreign all	Fully exem	fully taxab	partially ta	rebate	fully exempt
98	Allowable	Interest or	Standard c	Joint exper	loan from house property	Interest on loan
99	Allowable	Standard c	pension	gratuity	entertainment allowance	Standard deduction
100	Perk is :	Cash paid b	Facility erp	Amount cre	Cheque given by employer	Facility erprovided by employer to employee
101	If the prope	MRV	FRV	Actual rent	Nil	Nil
102	Commuted	Govt. Empl	an employ	an employ	all employees	Govt. Employee
103	allowances	Fully taxab	Fully exem	partially ta	none	fully exempt
104	While com	fully allowe	Partially al	fully taxab	partially taxable	fully allowed
105	Death cun	Fully taxabl	partially ta	Fully exem	Government pays the tax	Fully exempted
106	Statutory li	Rs 3,00,000	Rs .5,00,00	Rs.10,00,00	Rs . 4,00,000	Rs.10,00,000
107	Commuted	An emplyee	an employe	a Govt. em	semi govt employees	a Govt. employee
108	Leave enca	Fully exem	partially ex	Fully taxabl	employers has to pay tax on it	Fully taxable
109	Dedutions	Sec,16(ii) &	Sec.18	Sec .25(A)	Sec.36(B)	Sec,16(ii) &16(iii)
110	Maximum	Rs.7,500	Rs.5,000	15% of em	25% of employee's salary	Rs.5,000
111	Statutory li	Rs.3,50,000	Rs.3,00,000	Rs.5,00,000	2,50,000	Rs.3,00,000
112	Dedutions	Rs. 50,000	Rs. 80,000	Rs.1,00,00	Rs.2,00,000	Rs.1,00,000
113	Medical al	fully taxab	fully exem	exempted	not taxable	fully taxable
114	Any compe	allowances	perquisites	profit in lie	basic pay	profit in lieu of salary
115	Reduction a	exemption	deduction	Rebate.	debate	rebate
116	While com	basic pay c	basic pay +	basic pay +	all allowances	Basic pay + DA(enters)+commission (Fixed%)
117	The value c	20% of sala	15 % of sala	7.5 % of sa	10% of the salary	15% of salary
118	15 days ave	15/24	15/26	15/30	15/28	15/26
119	While com	fully allowe	Partially al	fully taxab	partially taxable	fully allowed
120	Annual ren	Gross rent	Net annua	Fair rental	MRV	Net annual Value

Reg No ……………

[16CMU302]

KARPAGAM UNIVERSITY
(Under Section 3 of UGC Act 1956)
COIMBATORE – 641 021
(For the candidates admitted from 2016 onwards)
II B.Com
I INTERNAL EXAMINATION
INCOME TAX LAW AND PRACTICES

Time: 2 Hours **Max. Mark: 50**

PART - A (20X 1 = 20 Marks)
(Choose the correct answer)

1. Income tax is a -------
a) **direct tax** b) indirect tax c) business tax d) not a tax
2. Income tax was passed in the year -------
a) 1960 b) **1961** c) 1962 d) 1963
3. Income tax Act extends to -------
a) **Whole of India** b) Whole of India except Jammu and Kashmir c) Whole on India except Sikkim d) Whole of India except Gujarat
4. Rate of Income tax are fixed under ------
a) The income tax act b) **The finance act** c) Notification of CBDT d) Sub rules
5. An example to direct tax is ---------
a) **Income tax** b) Sales tax c) Customs duty d) excise duty
6. Every year the residential status of an assessee -----------
a) **may change** b) will certainly change c) will not change d) citizen
7. In which section of Income tax act exempted incomes have been mentioned?
a) Sec 2 b) **Sec 10** c) Sec 80 d) sec82
8. The current assessment year is ------------
a) 2014-15 b) 2016-17 c) **2017- 2018** d) 2015-16
9. The sum of five heads of income is called ---------
a) **Gross total income** b) net total income c) exempted income
10. Any person who is liable to pay any tax or any other money under Income tax act is ________.
a) **Assessee** b) resident c) Citizen d) NRI
11. Among the five heads of gross total income ------------- income is the first one.
a) **Salary** b) House property c) Business or profession d) capital gain
12. Sec -------------- of Income tax act 1961 deals with salary income.
a) 13-15 b) **15-17** c) 17-19 d) 19-21
13. Salary includes---------
a) **Wages** b) house property c) interest d) gambling

14. If the employee has completed service of 16 years 6 months and 5 days the number of completed year shall be taken as ---------
a) **16 years** b) 17 years c) 18 years d) 22 years

15. Employers contribution to statutory provident fund shall be --------------
a) **fully exempt** b) exempt upto 12% of salary c) Exempt upto 10% of the salary
d) exempted upto 15% of salary
16. Salary due on last day of every month means ----------
a) **Last day of the respective month** b) first day of the month c) every 15th of the month
d) every 10th of the month
17. In salary income all perquisites are given u/s--------------
a) 21(3) b) 19(4) c) **17 (2)** d) 18(3)
18. --------------- is a fixed monetary amount paid by employer to the employee for meeting some particular expenses.
a) **Allowances** b) Perquisites c) Basic salary d) medical facility
19. While computing salary income deduction are allowed u/s ---------
a) **16** b) 18 c) 19 d) 20
20. Any benefit or amenity allowed by employer to employee is -------------
a) allowance b) **Perquisites** c) Deductions d) rebate

PART-B
(Answer all the questions)

21. Define (i) Assessee,(ii) Person
22. How to compute the residential status of AOP/BOI & Company?
23. Write the rules of HRA?

PART – C (3 X 8 = 24 Marks)
All the questions carry equal marks (Either or choice)

24.(a) Write the format of residential status of individual and explain it.

(or)

(b) The following are the details of income of Shri:
1.Share of income from joint venture in India Rs.10,000
2.Dividend Rs.1,000
3.Income from agriculture in Pakistan Rs.20,000
4.Salary received in India Rs.9,800(computed) but the services for the same were rendered in Iran.
5.Income from business (controlled from India) in Pakistan Rs.10,000 and the income remitted to India.
6.Income earned and received in Pakistan from bank deposits Rs.5,000
7.Income accrued in India but received in Iran Rs.10,000
Compute Mr.Shri’s taxable income if he is (i) a resident ,(ii) a Not ordinarily resident , or (iii) a non-resident.

25.(a)Write any fifteen exempted income U/S 10 of Income tax Act.

(or)

(b) Mr.K, an Indian citizen leaves India for the first time on 31^{st} May 2012 and comes back on 15^{th} May 2015. He again leaves India on 10^{th} June 2016 to come back on 14^{th} January 2017. He is living in India since then. Determine his status for the previous year 2016-2017.

26.(a) Give the list of Allowances U/S 17(3) of the Income Tax Act 1961.

(or)

(b) Compute gross salary from the information given below for each situation separately:
(i) Salary @ Rs.3,500 p.m
(ii) D.A @ Rs.1,000 p.m
(iii) C.C.A @ Rs.200 p.m
(iv) House Rent Allowance @ Rs.1,000 p.m
(v) Commission on turnover achieved by him is Rs.6,000.
Situation (a) Living in own house
(b) Living in rented house at Delhi as D.A enters into pay for retirement benefits and rent paid is Rs.1,500p.m
(c) Living in rented house at Chandigarth and D.A does not enter into pay for retirement benefits and rent paid is Rs.1,000 p.m

Reg No ……………

[16CMU302]

KARPAGAM UNIVERSITY
(Under Section 3 of UGC Act 1956)
COIMBATORE – 641 021
(For the candidates admitted from 2016 onwards)
II B.Com
II INTERNAL EXAMINATION
INCOME TAX LAW AND PRACTICES

Time: 2 Hours **Max. Mark: 50**

PART - A (20X 1 = 20 Marks)
(Choose the correct answer)

1. ----------- is given to compensate for the high cost of living in capital city.
   (a) Medical allowance (b) **City compensatory allowance** (c) Dearness allowances. (d) Lunch allowances
2.------------- to cover the service of warden in the case of educational institutions.
   (a)**Wardenship allowance** (b) Dearness allowance (c) Medical allowance
   (d) non – practicing allowances
3.--------- is given to meet the medical expenses of the employees and his family members.
   (a)Uniform allowance (b) Daily allowance (c) **Medical allowance** (d) lunch allowance
4. ----------- is given by the employer to the employee to meet the expenses in connection With rent of the accommodation.
   (a) City compensatory allowance (b) Medical allowance. (c)Wardenship allowances
   (d) **House rent allowance**
5. Consultancy fee received by a lawyer is ---------- income
   (a)Non- taxable (b) Not a fee (c) **Taxable (**d) exempted
6. All those assets to which one rate of depreciation is applicable are known as ---------
   (a) Exempted assets (b) **Block of assets** (c) Deductable assets (d) total assets
7.The actual cost of acquisition of asset minus depreciation equal to -------
   (a)Annuity value (b) Block of assets (c) exempted assets (d) **WDV**
8. Balance amount of depreciation not deductible due to insufficiency of income during any particular year is called ------------
   (a) **Absorbed depreciation** (b) unabsorbed depreciation (c) Total depreciation
   (d) depreciation
9. Every year the residential status of an assessee -----------
   (a) **may change** (b)will certainly change (c)will not change (d) fixed
10. Salary Income of an employee is to be computed in accordance with the provisions laid down in section _______________
   (a) **15,16 & 17** (b)14, 15 & 16 (c)10, 11 & 12 (d) 14, 16 & 24
11. Non – Monetary salary includes ____________
   (a) Allowances (b)Bonus (c)Commission (d) **Perquisites**
12. Deduction from salary is allowed under ______________
   (a) Sec 14 (b)Sec 15 (c) **Sec 16** (d) Sec 17
13. Interest credited to RPF is taxable if it is more than ______________
   (a) Bank interest rate (b) 10% (c)**9.50%** (d) Whole amount
14. Expenses allowed as deduction for the purpose of computation of income from business or profession are -----------
   (a) **Admissible expenses** (b)Inadmissible expenses (c)Not an expenses

(d) admissible income

15. Expenses not allowed as deduction for the purpose of computation of income from business or profession ----------
    (a) Admissible expenses (b) **Inadmissible expenses** (c)Not an expenses
    (d) admissible income
16. Income tax wealth tax and advance income tax are ---------
    (a) **Disallowed expenses** (b) Allowed expenses (c) Deductions (d) rebate
17. In case of 'Tax free salary' ______________
    (a)**Tax is to be paid by employer** (b) No tax is payable on such salary
    (c)Tax is to be paid by the employee (d) Govt. itself pays the tax
18. Allowances received by a government employee posted abroad are __________________
    (a)**Fully exempted** (b) fully taxable (c)partially taxable
    (d) Taxable by the country where posted
19. 11.Cash payment over 20000 in a single day is______________
    (a)Fully allowed (b) Partly allowed (c) **Fully disallowed** (d) Allowed for special Persons
20. Which of following expenses allowed under business or Professions
    (a)**Past losses** (b) Provision for bad debts (c)Legal expenses
    (d) Expediture incurred for charity

PART-B (3X2=6 Marks)

(Answer all the questions)

21. Define 'Annual Value'. How is it determined?
22. Write a short note on 'Aggregation of Income'.
23. Define the term 'Capital gain'.

PART – C (3 X 8 = 24 Marks)

All the questions carry equal marks (Either or choice)

24 a). MRV of the residential house is Rs.24,000 and actual rent is Rs.2,500 p.m. During the previous year 2016-17 house was vacant for two months. The Municipal taxes are @10% of MRV.During the year owner paid Rs.30,000 as arrears of Municipal taxes. Interest on loan taken for the constraction of house payable to his employer is Rs.16,000.Compute income from house property.

(Or)

b). From the following particulars of Mr.Kannan who is working in Ram &co Delhi (population above 25 lakhs) .Computer his total income

salary	Rs3,000.p.m
Entertainment allowance	Rs25,000
Dearness allowance	Rs18,000
Employer's contribution to RPF	Rs4,000
\Employee's contribution to RPF	Rs4,000
Rent free and furnished house in Delhi provided by the employer	
House owned by employer	Rs6,000

Employer's Car 1.8 ltr is provided for personal and official use. Expenses are met by employer.

Gas, water and electricity bill paid by the employer is Rs3000

25 a). From the following statement, compute the income from profession of Dr.S.K. Kapoor if accounts are maintained on cash/receipt system:

Particulars	Amount	Particulars	Amount
To Dispensary rent	36000	By Visiting fees	45000
To Electricity and water charges	6000	By Consultation fees	125000
To Telephone expenses	6000	By Sales of medicines	72000
To Salary to nurse and compounder	36000	By Dividends	5000
To Dep. On surgical equipment	6000		
To purchase of medicines	36000		
To Depreciation on X-ray machine	4000		
To Income Tax	5500		
To Donation to Rama Krishna Mission	4000		
To Motor car expenses	9600		
To Dep. On car	4800		
To Net Income	93100		
Total	247000	**Total**	247000

Note: 1. Electricity and water charges include domestic bill of Rupees 2,500
2. Half of motor car expenses are for professional use.
3. Telephone expenses include 40% for personal use.
4. Opening stock of medicines was Rupees 6000 and closing stock was Rupees 4000.

(Or)

b). Mr. M.M. Manish & Company are chartered accountants in Delhi. They have submitted the following Income and expenditure Account for the year. Compute the income from profession.

Particulars	Amount	Particulars	Amount
To drawings	48000	By Audit fees	224000
To Office rent	42000	By Financial Consultancy Services	98000
To telephone installation charges under O.Y.T	15000	By Dividend from an Indian Company (Gross)	6000
To Electricity Bill	4200	By Dividend on units from UTI	4000
To salary of Staff	66000	By Accountancy	24000
To Charities	1200		
To Gifts given to relatives	9600		
To Car expenses	21000		
To Subscription of journals	2500		

To Institute fee	1200		
To Stipends given to trainees	12000		
To Net Income	133000		
Total	356000	Total	356000

Note: 1. Depreciation of car during the tear amounts to Rupees 5000
2. 30% of the time car is used for personal purposes.

26 a). Mr. Madhu owns a house at Chandigarh. This house property is used in following manner :
1/3rd of the house is used for own business
1/3rd of the house is used for own residence
1/3rd of the house is used by a tenant to whom it is let out @ Rs. 3,000 p.m. and it was self occupied for one month during the previous year. The municipal rental value of the house is Rs.96,000 p.a. on which municipality levies 10% tax. These taxes are paid by the occupants. Compute net annual value of the house property of the Assessment year 2017-18 if each portion is an independent unit.

(Or)

b). Explain the general format for computing the business income of an individual.

Reg No ……………

[16CMU302]

KARPAGAM UNIVERSITY
Karpagam academy of higher Education
(Established Under Section 3 of UGC Act 1956)
COIMBATORE- 641 021
(For the candidates admitted from 2016 onwards)
III INTERNAL EXAMINATION – September 2017
II B.Com – Third Semester
INCOME TAX LAW AND PRACTICE

Time: 2 Hours **Maximum : 50 Marks**
Date:

PART - A (20X 1 = 20 Marks)
Choose the best Answer

1. Cultivation expenses are ----------
   (a) disallowed expenses (b) Allowed expenses (c) Deductions (d) rebate
2. Capital gain is classified into ----------- types
   (a) Two (b)Three (c) Four (d) five
3. A capital asset held by an assessee for not more than 36 months immediately preceding the date of transfer is called as -------------
   (a) Short term capital asset (b) Long term capital asset (c) medium capital asset (d) total capital gain
4. Shares held by an assessee for less than 12 months is termed as ----------
   (a) Short term capital asset (b)Long term capital asset (c)medium capital ass (d) Total capital gain
5. Share held by an assessee for more than 12 months is termed as -----------
   (a) Short term capital asset (b) Long term capital asset (c) medium capital asset (d) total capital gain
6. Amount of gain arising from the transfer of capital asset is called as ----------------
   (a) Capital gain (b) Profit (c) Income (d) receipt
7. Transfer includes ,------------
   (a)Sale (b) Exchange (c) Sale and Exchange (d) offer
8. The price which the assessee has incurred for acquisition of capital asset is termed as--------
   (a)Cost of acquisition (b) cost of improvement (c) Cost of inflation (d) selling price
9. Speculation loss can be set-off against
   (a) salary income (b) House property (c) Speculation income (d) Another business income
10. Winnings from lotteries, card gains etc., can be used to set-off losses from
   (a) Business or profession (b) Capital losses (c) other sources d) salary income
11. Conversion of net interest into gross interest by applying specified rate of TDS is known as –
   (a)Grossing up (b)Net value (c)Total value (d)Value
12. Interest on securities after deducting the tax at source is -----------
   (a)Net interest (b)Gross interest (c)Total interest (d)Net worth
13. Interest on securities before deducting the tax at source is --------
   (a)Net interest (b)Gross interest (c)Total interest (d)Nil value
14. The securities on which interest is receivable after deduction of tax at source is ---------
   (a)Tax free securities (b)Less tax securities (c)Taxable securities (d)TDS

15. Income from other source is
    (a) Residuary head of income (b) Major head of income (c) Income from a single source
    (d) Constant and regular income
16. Which one of the following is not an 'Income from other source
    (a) Interest on fixed deposit in bank (b) Winnings from cross word puzzles
    (c) Gift in excess of Rs50,000 from an unrelated person (d) Profit on sale of building
17. which of the following income from other sources is not taxable
    (a) Dividend from co-operative society (b) dividend from foreign company
    (c) dividend from domestic company (d) winnings from lottery
18. dividends from co-operative society are
    (a) Exempted (b) Taxable (c) partially taxable (d) partially exempted
19. An acknowledgement of debt or claim in the form of debentures and bonds are called as -
    (a)Securities Market (b) Capital market (c) Money market (d) Stock market
20. Securities of a company which is registered in any one of stock exchanges in India is Termed as ----------------
    (a) Listed debentures (b) Unlisted debentures (c) Tax free debentures
    (d) Taxable debentures

PART-B (3X2=6 Marks)
Answer all the questions

21. How to set-off Speculation loss?
22. What do you understand by clubbing of Income?
23. State the meaning of regular tax income.

PART – C (3 X 8 = 24 Marks)
Answer all the questions

24 a). The following are the particulars of income and loss of an individual under different heads of income. Set-off in the assessment year 2017-18 and find out net result.

	Amount
Income from house property A.	5000
Income from house property B.	(-) 8000
Income from interest on securities	20000
Income from a cycle business	(-)20000
Profit from speculation business	20000
Loss from short term capital asset	6000
Long term capital loss	25000
Long term capital gain (Investments)	21000

(Or)

b). From the following particulars of income of assesses A,B and C, how the capital losses shall be set-off and carried forward for the previous year ending on 31-3-2017?

		Amount
(A)	(i) Business Income	15000
	(ii) Short-term capital loss	1200
	(iii) Long-term capital gain (shares)	7200
	(iv) Long-term capital gain on sale of jewellery	20000

(B)	(i) Business Income	30000
	(ii) Short term capital loss	40000
(C)	(i) Business Income	60000
	(ii) Short term capital gain	20000
	(iii) Long term capital gain (land)	17000
	(iv) Carry forward loss (short-term capital assets)	50000

25 a). a). Income of D and Mrs. D for the previous year 2016-17 is as follows:

Particulars	**Mr. D Amount**	**Mrs. D Amount**
Salary from Himalayas Ltd	215000	Nil
Capital gain:	90000	Nil
Income from other sources: Bank Interest Interest on Govt. securities	 12000 3600	 6250 2750
Total	320600	9000

D, having no qualification or experience, is employed by Himalayas Ltd. D holds 22% equity share Capital in Himalayas Ltd. From September 12, 2016. Find out the gross total income of D and Mrs. D for the assessment year 2017-18.

(Or)

b). The total income of an individual (45 years old) computed under the normal provisions of Income Tax Act is Rupees 10,00,000. However, the 'adjusted total income' of the individual [computed as per section 115JC(2)] amounted to Rupees 30,00,000. Calculate the final Tax Liability of the individual for Assessment Year 2017-18.

26 a). Calculate set off and carry forward of losses and total income.

	Pre. Year 2015-16	**Pre. Year 2016-17**
	Rs.	**Rs.**
House property income (Computed)	20,000	20,000
Salary income computed	1,80,000	1,90,000
Business profit before depreciation	40,000	1,20,000
Depreciation for the year	1,20,000	1,40,000
Capital gain – short term	10,000	nil
Income from other sources	20,000	40,000

(Or)

b). From the particulars given below compute the total income of Mr. X for the assessment year 2017-18 explaining each point clearly.

	Amount
1. Income from Profession	86000
2. Income of minor son (Singing is his profession)	12000
3. Winning from lottery: ticket purchased on the name of the Mr. X's minor daughter	6800
4. Mr. X's father gifted debentures in an Indian Company to Mr. X's minor son and company paid gross interest	6650
5. Mr. X's wife is a government servant and her income Computed under the head salaries	56000
6. Interest on debentures purchased by Mr. X but gifted to Mrs. X	18000

Reg. No.................................

[13CMU505]

KARPAGAM UNIVERSITY

Karpagam Academy of Higher Education
(Established Under Section 3 of UGC Act 1956)
COIMBATORE – 641 021
(For the candidates admitted from 2013 onwards)

B.Com., DEGREE EXAMINATION, NOVEMBER 2015

Fifth Semester

COMMERCE

TAXATION I

ı hours — Maximum : 60 marks

PART – A (20 x 1 = 20 Marks) (30 Minutes)
(Question Nos. 1 to 20 Online Examinations)

PART B (5 x 8 = 40 Marks) (2 ½ Hours)
Answer ALL the Questions

:xplain the exempted income u/s 10 of income tax Act 1961.

Or

Which of the following incomes are taxable when the residential status of Mr.Subbu is: (i) Resident, (ii) Not Ordinarily Resident, (iii) Non - Resident.

i. Profit from business in Kanpur Rs.3,500
ii. Income accrued in Assam Rs.15,000
iii. Rs.10,000 were earned in USA and Income earned in Africa but received in India Rs.12,000 earned in India but received in UK.
iv. Rs.20,000 earned and received in Pakistan from a business controlled from India.
v. House property income from Srilanka Rs.2,000.
vi. Rs.10,000 was past untaxed foreign income which was brought to India during the previous year.
vii. Profit earned from a business in Coimbatore Rs.10,000

Mr. Mahesh is a production manager of an industrial unit at chennai. The particulars of his salary income are as under.

i. Basic salary Rs. 15,000 pm
ii. DA (given as the terms of employment) Rs 5,000 pm
iii. Entertainment allowance Rs. 1,000 pm
iv. Medical allowance Rs. 500 pm

v. House rent allowance Rs. 4,000 pm
vi. Rent paid for the house Rs. 5,000 pm
vii. Car of 1.2 lt capacity provided by the employer for private and official use employer meets all expenses of car.
viii. He and his employer (each) contribute 15% of salary to RPF.
ix. Mr. M had taken interest free loan of Rs. 15,000 to purchase refrigerator.

Compute his income under the head salary for the assessment year 2015-16.

Or

b. Mr. Sivaram has given his premises on hire from 1.4.2010 to a company for its office . He submits the following particulars :

	Rs.		Rs.
MRV	1,50,000	Municipal taxes	12,000 p.a
FRV	1,66,000	Interest on loan for purchases of house	22,000
Standard rent	1,60,000		
Actual Rent	1,56,000		

As per agreement rent increases to Rs.14,000 p.m from 1.10.2014. But amount of increased rent is paid in May 2015. Compute his income for the previous year 2014-15.

23. a. The following is the profit and loss account of a merchant for the year ending 31st March 2015.

PROFIT AND LOSS ACCOUNT

To Office salary	6,500	By Gross profit	36,750
To Bad debts	1,700	By Commission	1,250
To Provision for bad debt	3,000	By Discounts	500
To Advertisement	3,800	By Sundry receipts	200
To Fire insurance (HP)	550	By Rent of building	3,600
To General expenses	2,750	By Profit on sale of Investment	3,000
To Depreciation	1,200		
To Interest on bank loan	1,300		
To Interest on capital	2,000		
To Net profit	22,500		
	45,300		45,300

Compute the taxable profits from business. The amount of depreciation is Rs.1,000 Interest on loan .was paid on 1.8.2015 Due date of filing of return is 31.7.2015.

Or

b. From the following statement, compute the income from profession of Dr.Vasanth if accounts are maintained on mercantile system:

	Rs		Rs
To dispensary rent	36,000	By Visiting fees	45,000
To Electricity and water charges	6,000	By Consultation fees	1,25,000
To telephone expenses	6,000	By sales of medicines	72,000
To salary to nurse	36,000	By dividends	5,000
To depreciation on surgical Equipments	6,000		
To purchase of medicine	36,000		
To Depreciation on X- Ray Machine	4,000		
To income Tax	5,500		
To Donation	4,000		
To Motor car expenses	9,600		
To depreciation car	4,800		
To Net Income	93,100		
	2,47,00		2,47,000

i. Electricity and water charges include domestic bill of Rs. 2,500.
ii. Half of motor car expenses are for professional use.
iii. Opening stock of medicines was Rs. 6,000 and closing stock was Rs. 4,000.

24. a. Mr. Arul sold the following assets during the previous year 2014-15 [C.I.I : 1024]

Asset	Securities listed	Silver	Jewellery	Shop
Date of acquisition	1-1-1999	1-1-1979	1-9-1995	1-3-1986
C.I.I	351	-	281	133
Date of sale	1-6-2013	1-12-2013	11-3-2014	31-3-2014
Cost on 1-4-81	Rs.1,00,000	Rs.30,000	Rs.50,000	Rs.1,30,000
FMV on 1-4-81		Rs.1,00,000		
Sale Price	2,60,000	13,00,000	6,00,000	10,00,000

He purchased a house for Rs. 20,00,000 on 1-6-2015. He did not own any other house on this date. Compute his taxable capital gain.

Or

b. Sri Mani furnishes the following particulars of the Incomes for the previous year 2014-15. Compute his Income from other sources.

	Rs.
Dividend equity (gross) [Indian company]	600
Dividend on preference shares [Indian company]	3,200
Income from letting on hire of building and machinery	17,000
Interest on bank deposits	2,500
Director's sitting fees	1,200
Ground Rent	600
Income from undisclosed source	10,000
Income from lotteries (gross)	10,000

The following deductions are claimed by him :
i. Collection charges of dividend Rs 20
ii. Allowable depreciation on buildings and machinery Rs. 4,000
iii. Fire Insurance on building and machinery Rs .100

25. a. Determine the total income from the following particulars

Particulars	Previous Year 2013-2014 Rs.	Previous Year 2014-2015 Rs.
House property Income (computed)	20,000	20,000
Salary Income (computed)	1,80,000	1,90,000
Business profit before depreciation	40,000	1,20,000
Depreciation for the year	1,20,000	1,40,000
Capital Gain – Short term	10,000	-
Income from other sources	20,000	40,000

Or

b. Explain any fifteen deductions out of gross total income u/s 80 of IT A
1961.

Semester III

L	T	P	C
5	-	-	5

16CMU302 INCOME TAX LAW AND PRACTICE

Scope

This course provides the knowledge about the provisions of income Tax Act. Basis of charge explains the residential status of an individual, HUF and all other persons. It gives the clear idea about the computation of total income such as income from salary, income from house property, profits and gains of business or profession, capital gain and income from other sources and filing of income tax returns.

Objective

To provide basic knowledge and equip students with application of principles and provisions of Income-tax Act, 1961 and the relevant Rules.

Unit I

Introduction: Basic concepts: Income, Agricultural Income, Person, Assessee, Assessment Year, Previous Year, Gross Total Income, Total Income, Maximum Marginal Rate of Tax- Permanent Account Number (PAN) - Residential status- Scope of Total Income on the basis of Residential Status - Exempted Income Under Section 10.

Unit II

Computation of Income under Different Heads-1: Income from Salaries- Income from house property

Unit III

Computation of Income under Different Heads-2: Profits and gains of business or profession- Capital gains- Income from other sources.

Unit IV

Computation of Total Income and Tax Liability: Income of other persons included in Assessee's Total income- Set-off and Carry Forward of Losses- Deductions from Gross Total Income.

Unit V

Computation of Total Income - Aggregation of Income - Assessment of Individuals - Total Income and Tax Liability of an Individual .

Suggested Readings

Text Book

1. Gaur and Narang (2016),“ *Income Tax Law and Practice*”, Kalyani Publisher Luthiana, 44th Edition.

References book:

1. Singhania, Vinod K. & Monica Singhania, (2016), *Students' Guide to Income Tax*, University Edition.Taxmann Publications Pvt. Ltd., New Delhi., 54th Edition,

2. Ahuja, Girish & Ravi Gupta, (2016), *Systematic Approach to Income Tax*. Bharat Law House, Delhi. 35thEdition.

Software

1. Vinod Kumar Singhania, e-filing of Income Tax Returns and Computation of Tax, Taxmann Publication Pvt. Ltd, New Delhi. Latest version
2. 'Excel Utility' available at incometaxindiaefiling.gov.in

UNIT I

Question	option A	option B	option C	option D			Answer
Income Tax Act was first introduced by the British rulers in ____________	1860	1880	1865	1862			1860
Income-tax Act, come into force on the _________________	1st day	ril, 1961	pril, 1962	pril, 1960			1st day of April, 1962
Sum of various heads is called _________________	le income	income	al income	ed income			Gross total income
The year in which income is earned is called __________	ious year	rrent year	ment year	next year			previous year
Rate of Income tax are fixed under ------	The income tax act	The finance act	Notification of CBDT	Sub rules			The finance act
An example to direct tax is ---------	Income tax	Sales tax	Customs duty	excise duty			Income tax
Every year the residential status of an assessee -----------	may change	will certainly change	will not change	citizen			may change
In which section of the income tax act exempted incomes have been mentioned ______________	Sec.10	Sec. 80C	13	2			Sec 10
The current previous year is -----------	2012-13	2014-15	2015-16	2015-16			2015-16
The current assessment year is ------------	2012-13	2016-17	2014-15	2015-16			2016-17
____________ is a person by whom any tax or any other sum of money is payable under the Income Tax Act 1961	assessee	in default	assessee	d assessee			assessee
Income tax is levied on _____________	thly basis	erly basis	early basis	early basis			Yearly basis
Agricultural income is _______________	le of crop	y income	Mining	Fishery			Income from sale of crop
It is exempted income _____________	Dividend from Indian company	Interest from Indian company	Dividend from foreign company	cooperative dividend			Dividend from Indian company
"Assessment year" as the period of twelve months starting from the _________ every year	of April	January	of March	December			first day of April

Basic condition will be for a person who leaves India for employment __________________	ys in India	At least 60 days in previous year & 365 days in preceding 4 years	At least 730 days in preceding 7 years	At least 729 days in preceding 7 years		At least 182 days in India
Income tax refers to tax is paid for their ______________	earnings	expenses	cost	price		earnings
________________ refers to excess of gross total income after allowing deduction under section 80	tal income	tal income	d income	bl income		Net total income
____________ income refers to any rent or revenues derived from land which is used for agricultural purposes or operations	salary	gricultural	e property	apital gain		Agricultural
____________ is a person who satisfies the basic and additional conditions under this act	Resident	Resident	n Resident	Foreigner		Resident
Deemed assessee is also known as ________________	e assessee	in default	y assessee	assessee		representative assessee
Out of Gross Total Income, Income Tax Act 1961 allows certain deductions under	Section 16	Section 24	Section 80	Section 10		Section 80
For the purpose of treatment of income for tax purposes income is divided into _________ categories	3	5	2	4		3
Total income or total taxable income of the assessee shall be rounded - off to the nearest multiple of ____________	20	10	5	15		10
Last figure of rupee five or above shall be rounded - off to __________	7	9	10	6		10
Residential Status is to be determined for each ______________	ious year	ment year	next year	rrent year		previous year
_____________ is those incomes which do not form part of the total income under income tax.	ed income	al Income	al income	bl income		Exempted income
There are ____________ exempted incomes under Income Tax Act for the Assessment Year 2015 - 2016	96	90	91	95		91
A Senior Citizen is a person, who is of the age of _____________	80 Years	85 Years	65 Years	60 Years		60 Years
A Super Senior Citizen is a person, who is of the age of ________	80 Years	85 Years	65 Years	60 Years		80 Years
Which one of the following is not a direct tax? _____	come Tax	Vealth Tax	Gift Tax	Sales Tax		Sales Tax
The taxes levied by the government is used for the benefit of the __________________	overnment	public	individual	ular sector		public

Agricultural income is fully exempted from tax___________	U/s 10 (8)	U/s 10 (5)	U/s 10 (1)	U/s 10 (2)		U/s 10 (1)
Tax on tax is called as ---------	surcharge	gross tax	net tax.	total tax		surcharge
The concession in the amount of tax liability subject to certain conditions are called-----	tax rebate	tax exemption	tax holiday	tax perquisite		tax rebate
According to Income Tax Act 1961, Person includes,	Individual	HUF	firm	all the above		all the above
person who does not fulfill the statutory obligations given under the Act is called –	ordinary assessee	Representative assessee	assessee-in-default.	deemed assessee		assessee in default
Income not earned and not accrued in India is ------ income.	Foreign income	Indian income	total income.	net income		foreign income
A person not only liable for his own income, but also for others income or loss is called --	ordinary resident	Representative assessee	Assessee – in – default.	NRI		representative assessee
Agricultural income is ------------- income	fully exempt	partially exempt	fully taxable.	not an income		fully exempt
Education cess is leviable on --------	Income tax	Income Tax + Surcharge	Surcharge	total tax		income tax + surcharge
Education cess is leviable @ -----------	3%	2%	1%	5%		2%
Residential status is to be determined for ----------	Previous year	Assessment year	Accounting year	financial year		previous year
Maximum exemption on which income tax is not chargeable for the assessment year 2016-17 is --------------	Rs. 1,00,000	Rs. 1,35,000	Rs. 1,85,000	Rs.2,50,000		Rs.2,50,000
Income tax rules was passed in the year ---------------	1961	1962	1963	1964		1962
Education cess is leviable @ -----------	3%	2%	1%	5%		2%
While determining the residential status of individual basic conditions are given u/s ----	6(1)	6(2)	6(3)	6(4)		6(1)
While determining the residential status of individual additional conditions are given u/s -	6(1)	6(2)	6(3)	6(4)		6(3)

If an individual satisfies any one condition of the basic conditions and both the conditions of the additional conditions , then he is called ------------	Non resident	Not ordinary resident	Resident	assessee		resident
If an individual does not satisfies any one condition of the basic conditions then he is said to be -----------------	Non resident	Not ordinary resident	Resident	person		non- resident
Income earned and received outside India is taxable to ------------	All assessees	Resident only	Resident and not ordinary resident.	person		resident only
Income earned and received out side India from any other sources is taxable --------	Only resident	NOR	Non resident	citizen		only resident
Gratuity received by the employees working on government service shall be -------	fully exempt	fully taxable	Partially taxable.	none		fully exempt
The full amount of scholarship granted to meet the cost of education is -----------	Taxable	Exempted	Rebate	debate		Exempted
Income earned and received outside India from a business controlled or profession set up in India is taxable to --------------	Only resident	NOR	non resident	citizen		only resident
Income earned and received outside India in the years preceding the previous year and remitted to India during the previous year is taxable to -------------	Only resident	NOR	non resident	citizen		not taxable
Rs.2,000 earned in India but received in canada is taxable to --------------	Resident	NOR	non resident	taxable to all		taxable to all
Profit earned from the business in Mumbai is taxable -----------------	All assessees	Resident only	resident and not ordinary resident	citizen		all assessees
Salary received by a member of parliament is ----------	Exempt from tax	Taxable salary income	Taxable as income from other sources.	taxable as business income		Exempt from tax

Firm is an entity which comes into existence as a result of _______________ agreement	partnershi	soletrader	legal	authorised		partnership

UNIT III

121	Any trade, commerce, manufacture or any adventure in the nature of trade commerce manufactured is defined as --------------	Business	Profession	Commerce	non-business	business
122	Profits and gains of business or profession is chargeable u/s ----------- of Income tax act.	24-28	28-44	30-48	42-50	28-44
123	------------- refers to those activities where the livelihood is earned by the person through their intellectual or manual skill.	Business	Trade.	Profession	commerce	profession
124	Profession includes,----------	doctor	business	trading	distribution	doctor
125	The accounting system under which any income which relates to the current year is taken into consideration for computing business profit is called as --------	Mercantile system	cash system	Credit system	debit system	cash system
126	The accounting system under which transactions are recorded on the basis of receipts and payments whether it is relating to current year or not is called ------	Mercantile system	cash system	Credit system	debit system	Mercantile system
127	Expenditure incurred for acquiring fixed assets is ------------	Capital expenditure	Revenue expenditure	Deferred revenue expenditure	not an expenditure	capital expenditure
128	Expenditure incurred to carry out the regular activities is ---------	Capital expenditure	Revenue expenditure	Deferred revenue expenditure	not an expenditure	Revenue expenditure
129	Expenses allowed as deduction for the purpose of computation of income from business or profession are ------------	Admissible expenses	Inadmissible expenses	Not an expenses	admissible income	admissible expenses
130	Expenses not allowed as deduction for the purpose of computation of income from business or profession ----------	Admissible expenses	Inadmissible expenses	Not an expenses	admissible income	inadmissible expenses
131	Income tax wealth tax and advance income tax are ---------	disallowed expenses	Allowed expenses	Deductions	rebate	disallowed expenses
132	Cultivation expenses are ----------	disallowed expenses	Allowed expenses	Deductions	rebate	disallowed expensed
133	Consultancy fee received by a lawyer is ---------- income	Taxable	Non-taxable	Not a fee	exempted	taxable
134	All those assets to which one rate of depreciation is applicable are known as ---------	Block of assets	Exempted assets	Deductable assets	total assets	block of assets
135	The actual cost of acquisition of asset minus depreciation equal to -------	WDV	Annuity value	Block of assets	exempted assets	WDV
136	Balance amount of depreciation not deductible due to insufficiency of income during any particular year is called ------------	Absorbed depreciation	unabsorbed depreciation	Total depreciation	depreciation	absorbed depreciation
137	In case of doctor gift from patients are -------------	Professional receipt	Business receipt	Trade receipts	not a receipt	Professional receipt
138	While computing business income , all personal expenses are --------------	allowed expenses	disallowed expenses	deduction	rebate	Disallowed expenses
139	Business Accounts should be compulsorily Audited if the turnover exceeds	Rs.10,00,(	Rs.20,00,(	Rs1 Crore	Rs80,00,000	Rs1 Crore
140	Intangible assets are	Not eligib	Eligible fo	can be ful	set off against pro	Eligible for depreciation
141	Interest on loan borrowed for acqusisition of an asset till the date of installation is	Revenue e	Capital ex	Non busin	business expenditure	Capital expenditure
142	Precommencement period expenses upto 3 years spents for research are	Ignored	Allowed a	Treated as	Disallowed	Allowed as expenses in the year of commencenment of business
143	Income from house for self-business is-	Net profit	Fair rent	ipal Value	NIL	NIL

144	An individual assessee can show maximum loss from a self-occupied residential house property-	s.30,0000	Rs.50,000	s,1,00,000	s.1,50,000		Rs.1,50,000
145	Cash payment over 20000 in a single day is-	ly allowed	ly allowed	lisallowed	al Persons		Fully disallowed
146	Which of following expenses allowed under business or Professions	Past losses	bad debts	l expenses	for charity		Past losses
147	R, a chartered accountant is employed with R Ltd., as an internal auditor and requests the employer to call the remuneration as	om Salary	er sources	n Business	Profession		Income from Profession
148	Bad deds allowed earlier and recovered latter on is:	Business i	Non busin	Exempted	Income from other sources		Business income
149	over valuation of closing stock is	deducted f	added to n	adjusted in	Assets		deducted from net profit
150	Under valuation of opening stock is:	deducted f	added to n	adjusted in	Assets		deducted from net profit
151	Deedmed profits are	Fully exen	Fully Taxe	Partially e	Treated as other income		Partially exempted
152	Which of the followingis not a revenue expense?	Revenue e	Capital ex	Illegal exp	Personal expenditure		Personal expenditure
153	Which of the followingis not a revenue expense?	Rent of off	Sales tax a	Payment m	Remuneration to promoters		Rent of office building
154	Loss due to fire of hired machinery is.	Capital los	Revenue l	Capital ex	None of the above		Capital loss
155	Share of income from firm is.	Taxable in	Exempted	Exempted	None of these		Exempted in the hands of partner
156	Share of income from firm is.	Fully taxab	Partly taxa	Fully exem	None of these		Fully taxable
157	Dividends declared by Indian company are assessable under the head.	Income fro	Fully taxab	Capital gai	Casual income		ble under the head other source
158	Annual value is determined under which section of Income Tax Act-	Business e	Revenue l	Capital ex	Capital loss		venue loss incidental to business
159	Distinction between capital and Revenue is made based on.	Separate A	Definition	Judicial pr	None of the above		Judicial precedents from courts
160	Maximum dedution of interest on Ioan borrowed prior to 1.4.99 incase of self occupied house is:	Rs.1,50,00	Rs. 30,000	Rs.50,000	Rs. 1, 75,000		Rs. 30,000
161	Maximum dedution of interest on Ioan borrowed after 1.4.99 incase of self occupied house is:	Rs. 30,000	Rs.1, 50,0	Rs.2,00,00	Rs. 3,00,000		Rs.1, 50,000
162	Income from house preperty	Income fro	Exempted	Income fro	To be ignored		Income from house preperty
163	House property includes-	Farm hous	Sub-tenan	House for	let out		let out
164	Annual value is determined under which section of Income Tax Act-	Sec 21	Sec 23	Sec 35	Sec 25		Sec 23
165	Expenses not allowed as deduction for the purpose of computation of income from business or profession ----------	Admissible expenses	Inadmissible expenses	Not an expenses	none		Admissible expenses
166	Expenses, which are debited, to profit & loss a/c, but disallowed by the Income Tax Act and either fully or partially are ------------ with net profit	Added	deduct	multiply	divide		Added
167	Wchich includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture.	Business	Profession	distribution	supplier		Business
168	The incomes not related to business are	interest	dividend	part time salary	all the above		all the above
169	The income relates to business is called ---------	Allowed expenditure	Disallowed expenditure	allowed income	disallowed income		allowed income
170	The example for inadmissbile expenses are	personal expenses	interest on capital	drawings	all the above		all the above
171	Profits and gains of business or profession is chargeable u/s ----------- of Income tax act.	24-28	28-44	30-48	42-50		28-44
172	------------- refers to those activities where the livelihood is earned by the person through their intellectual or manual skill.	Business	Trade.	Profession	none		Business
173	Household expenses under busiess income is ----	Allowed expenditure	Disallowed expenditure	allowed income	disallowed income		Disallowed expenditure
174	Personal Drawings under business income is -----	Allowed expenditure	Disallowed expenditure	allowed income	disallowed income		Disallowed expenditure
175	Fines and penalties for breach of any laws are ---------	Allowed expenditure	Disallowed expenditure	allowed income	disallowed income		Disallowed expenditure
176	disallowed expenses under business income Is ------	income tax	sales tax	excise duty	customs duty		income tax
177	Profits and Gains of any business or profession that is carried on by the assessee at any time during the ---------------	assessment year	financial year	fiscal year	previous year		previous year
178	While determining the depreciation on fixed assets ------- value is taken into consideration	Straight line	written down	annuity	sinking fund		written down
179	Income that is credited to profit & loss a/c but not taxable at all or taxable under some different head is to be---------------	Added	deduct	multiply	divide		deduct

180	In case of doctor gift from patients are -------------	Professional receipt	Business receipt	Trade receipts	not a receipt	Professional receipt

UNIT IV

181	House property held for less than 36 months is	Long term	Shorts ter	Exempted	Taxable capital assets	Shorts term capital asset
182	Shares held for 15 months are	Long term	Shorts ter	Exempted	Taxable capital assets	Long term capital asset
183	Land held for 56 m0nths is	Short term	Long term	Exempted	Taxable capital assets	Long term capital asset
184	Capital gain is classified into ----------- types	Two	Three	Four	five	Two
185	A capital asset held by an assessee for not more than 36 months immediately preceding the date of transfer is called as -------------	Short term capital asset	Long term capital asset	medium capital asset	total capital gain	Short term capital asset
186	Shares held by an assessee for less than 12 months is termed as ----------	Short term capital asset	Long term capital asset	medium capital asset	total capital gain	Short term capital asset
187	Capital asset held by an assessee for more than 36 months immediately preceding the date of its transfer ------------	Long term capital asset	Short term capital asset	Medium capital asset	total capital gain	Long term capital asset
188	Share held by an assessee for more than 12 months is termed as -----------	Short term capital asset	Long term capital asset	medium capital asset	total capital gain	Long term capital asset
189	Amount of gain arising from the transfer of capital asset is called as ----------------	Capital gain	Profit	Income	receipt	capital gain
190	Transfer includes,------------	Sale	Exchange	Both	none	Both
191	The price which the assessee has incurred for acquisition of capital asset is termed as--------------	Cost of acquisition	cost of improvement	Cost of inflation	selling price	cost of acquistion
192	Capital expenditure incurred in making any additions or alterations to the capital asset is -----------	Cost of improvement	Cost of inflation	Cost of acquisition	selling price	cost of improvement
193	Capital assets includes,	Plant and machinery	Building	Both	none	Both
194	Capital asset does not include-----------	Stock in trade	Gold bonds	both	none	Stock in trade
195	Capital gain = _______________ - cost of acquisition (indexed) + cost of improvement	Sale price	Purchase price	Transfer price	total price	sale price
196	In case of short term capital asset ------------	No indexing	to be indexed	Conversion required	none	No indexing
197	In the case of individual and HUF , capital gain arising from the compulsory acquisition of self- cultivated urban land shall be --------------	Fully taxable	Partially taxable	Fully exempted	taxable	Fully exempted
198	Tax on long term capital gain is	10%	20%	30%	25%	20%
199	Which of the following is not a self generating Assets?	Goodwill	Tenancy R	Right to p	Computers purchased for office use	Computers purchased for office use
200	Sec.45 is related to-	capital gai	income fr	income fr	income from house property	capital gain
201	Capital assets includes-	Stock in t	personal e	shares	gold deposit bonds	shares
202	Cost of improvement incurred prior to1.4.81 is	indexed se	indexed al	ignored fu	indexed fully	along with cost of acquisition
203	Cost inflation rules for the purpose of long term capital gain has been notified by central government every year statring from the financial year	1991-92	1985-86	1981-82	1975-76	1981-82
204	Short term capital gain on sale of listed shares are	Exempted	taxable	partially ta	partially exempted	taxable
205	Short term capital gain on sale of unlisted shares are	taxable	exempted	partially ta	partially exempted	taxable
206	Long term capital gain on sale of listed shares are	Exempted	taxable	partially ta	partially exempted	Exempted
207	Long term capital gain on sale of unlisted shares are	taxable	exempted	partially ta	partially exempted	taxable
208	capital Gains on complusory acquisition of urban agriculture land is	Exempted	taxable ca	partially ta	partially exempted	Exempted capital gain

209	Exemption U/S54 is allowed	on sale of	on sale of	on sale of	sale of personal effects	on sale of residential house
210	Which of the following is not a'self generating Asset'?	Goodwill	tenancy ri	Right to p	computers purchased for office use.	computers purchased for office use.
211	Exemption U/S54 is allowed for investemnt in	another re	land	shares	jewellery	another residential house
212	Exemption U/S54B is allowed for investment in	Agricultur	Residentia	shares	nonagricultural land	Agricultural land
213	Capital gain on complusory acquisition of lands and buildings are exempted from	Section54	Section72	Section81	Section93A	Section54D
214	Adjustment of any loss against any income with the previous year is called as ----------- of losses	Set off	Carry forward	Both	none	set off
215	Transfer of unadjusted loss of any previous year to succeeding years to set off against any income is called as ------------- of losses	Set off	Carry forward	Both	none	set off
216	Setting off of losses between the various years within the previous year itself is known as ------------	Interhead adjustme nt	Intra head adjustme nt	salary	capital gain	Salary
217	Loss on account of owing and maintaining the race horse can be carried forward for ------	8 years	4 years	Indefinit e period	5 years	4 years
218	Loss under the head house property ---------------	Can be carry forward for 8 years	can not be carried forward	Can be carried forward for 4 years	can be carried forward to 10 years	Can be carry forward for 8 years
219	Speculation loss can be carried forward for the maximum of -----------	8 years	10 years	4 years	5 years	4 years
220	Speculation loss can be set off from -------------	Speculati on gain	capital gain	Business income.	salary income	Speculati on gain
221	Speculation gain can be used to set off ------------	speculati on loss only	any other losses also	salary loss	business loss	any other losses also
222	Set-off of a against income from any source under the same head can be done under I.T Act 1961	section 50	section 60	section 70	section80	section70
223	Setting off olng term capital loss ganist long term capital gains is called	Intra-head	Inter-head	overall se	casual income	intra head
224	Loss under the head house property cannot be set-off against	salary inc	Business i	capital gai	casual income	casual income
225	Business loss cannot be set-off against	House pro	Business i	capital gai	salary income	salary income
226	Speculation loss can be set-off against	salry inco	House pro	Speculatio	Another business income	Speculation income
227	Winnings from lotteries, card gains etc., can be used to set-off losses from	Business	Capital lo	other sour	salary income	salary income
228	Inter head set-off or set-off against income under other heads can be done under I.T Act 1961	Section51	Section71	Section91	Section99	Section71
229	Loss from long term capital asset can be set-off against	STCG	Business i	LTCG	salary income	LTCG
230	Short term capital loss can be set off from --------------	short term and long term capital gain	Short term capital gain only	Long term capital gain	total capital gain	rm and long term capital gain
231	Long term capital loss can be set off only from -------------	Long term capital gain	short term capital gain	Business income	none	Long term capital gain
232	There can be no loss under the head ------------	house property	Salary	Capital gain	business income	Salary
233	Loss under the head house property can be carried forward for ---------	8years	4years	2 years	1 year	8years
234	Business loss can be carried forward for ------------	4 years	8 years	12 years	10 years	8 years
235	Unabsorbed depreciation can be carried forward for--------	8 years	10 years	till it is fully adjusted	15 years	till it is fully adjusted
236	Short term capital loss can be carried forward for ---------------	4 years	8 years	12 years	4 years	8 years
237	long term capital loss can be carried forward for ---------------	4 years	8 years	12 years	15 years	8 years
238	Brought forward house property loss can be set-off against	Salary inc	Business i	House pro	Income from other sources	House propertyincome
239	Brought forward business loss can be set-off against	salary inc	other sour	casual inc	Business income	Business income
240	Carry forward and set-off of losses	Can be do	Can be do	cannot be	can be done with specific perm	Can be done in agiven order

	UNIT V						
241	"Transfer of capital assts " is defined under I.T Act 1961	Section 1	9 (26)	26 (3)	2 (47)		2 (47)
242	In case of movable property, title to poperty passess at the time when	Considera	Conract is	Sale is reg	Property is delivered		Consideration is paid
243	Indexation is appliacable to	Sale of sh	Sale of lo	Sale of de	Sale of long term capital assets		which are not depreciable assets
244	Full value of consideration for purpose of transfer of capital assets is governed by I.T Act 1961.	Section 2	Section 4	Sections 6	Sections 80 c		Section 48
245	Cost of long term debentures are:	Eligible fo	Not eligib	No indexi	None of these		Not eligible for indexing
246	What is the date on which"Fair Market Value" of capital assets acquired is determined?	1.4 .2001	1.4.1971	1.4.1981	1.4.1971		1.4.1981
247	FMV on 1.4.81 is applicable to assets	acquired p	Transferre	aquired af	Transferred after 1.4.81		acquired prior to 1.4.81
248	What is the date on which"cost of improvements" to capital assets is taken into account while compting capital gains?	1.4.2001	1.4.1971	1.4.1991	1.4.1981.		1.4.1981.
249	Short term capital gain on sale of listed shares are	Exempted	taxable	partially ta	partially exempted		taxable
250	Short term capital gain on sale of unlisted shares are	taxable	exempted	partially ta	partially exempted		taxable
251	Long term capital gain on sale of listed shares are	Exempted	taxable	partially ta	partially exempted		Exempted
252	Long term capital gain on sale of unlisted shares are	taxable	exempted	partially ta	partially exempted		taxable
253	capital Gains on complusory acquisition of urban agriculture land is	Exempted	taxable ca	partially ta	partially exempted		Exempted capital gain
254	Exemption U/S54 is allowed	on sale of	on sale of	on sale of	sale of personal effects		on sale of residential house
255	Which of the following is not a'self generating Asset'?	Goodwill	tenancy ri	Right to p	computers purchased for office		computers purchased for office use.
256	Exemption U/S54 is allowed for investemnt in	another re	land	shares	jewellery		another residential house
257	Exemption U/S54B is allowed for investment in	Agricultu	Residentia	shares	nonagricultural land		Agricultural land
258	Capital gain on complusory acquisition of lands and buildings are exempted from	Section54	Section72	Section81	Section93A		Section54D
259	Exemption U/S54EC is allowe3d for investment in	Bonds of	shares of	residentia	bonds issued by Govt		Bonds of NHAI and RECI
260	Tax on short-term gain on sale of listed shares is	20%	25%	30%	15%		15%
261	Tax on long term capital gain is	10%	20%	30%	25%		20%
262	Income from other source is	Residuary	Major hea	Income fr	Constant and regular income		Residuary head of income
263	Which one of the following is not an 'Income from other source	Interest o	Winnings	Gift in ex	Profit on sale of Building		Profit on sale of building
264	which of the following income from other sources is not taxable	Dividend	dividend f	dividend f	winnings from lottery		dividend from domestic company
265	dividends from co-operative society are	Exempted	Taxable	partially ta	partially exempted		Taxable
266	Interest on securities accrues	Day by da	quarterly	after a fix	halfyearly		after a fixed period mentioned
267	Grossing up of interest on securities is required when	interest is	They arec	the interes	the interest on bank deposit is		interest is received after T.D.S
268	An assessee sold a residential house and made investemnt in residential house, under which section he can claim exemption	Section54	section 54	section 54	section 54G		section 54
269	the income form sale of household furniture is	taxable in	exempted	Ccapital g	revenue gain		exempted income
270	Indexing is applicable only in relation to_______	LTCA	STCA	House pro	salary		LTCA
271	Indexing Is not application in case of	LTCA	House pro	salary	depreciable asset		depreciable asset
272	No indexing for_________	LTCA	HP	Salary	longterm debenturebonds		longterm debenturebonds
273	Capital gains on complusory acquisition of urban agricultural land is exempt from tax from the	AY05-06	AY03-04	AY02-03	AY04-05		AY05-06
274	Capital gains on complusory acquisition of land & building	Section54	Section54	Section54	Section54D		Section54D
275	LTCG on sale of unlisted equity shares is	taxable	exempted	partially ta	fully exempted		taxable
276	________ sections are allowed for exemption STCG	54B,54D,	54C,54D,	54D,54C,	54R,54A,54B		54B,54D,54G
277	_______ any profit/gain arising from transfer of a capital asset.	section45	section46	section78	section56		section45
278	The benefit of exemption under section 54ED is being with drawn from AY	2007-200	6-Jul	5-Apr	3-Mar		2007-2008
279	Computation of capital gain for transfer of specified assets by nonresident indian	115F	115C	115D	114A		115F
280	Capital assets includes,	Plant and machinery	Building	Both	none		Both
281	Capital asset does not include-----------	Stock in trade	Gold bonds	both	none		Stock in trade
282	Capital gain = ______________ - cost of acquisition (indexed) + cost of improvement	Sale price	Purchase price	Transfer price	total price		sale price

283	In case of short term capital asset ------------	No indexing	to be indexed	Conversion required	none	No indexing
284	In the case of individual and HUF , capital gain arising from the compulsory acquisition of self- cultivated urban land shall be --------------	Fully taxable	Partially taxable	Fully exempted	taxable	Fully exempted
285	Transfer of an under taking for a lump sum consideration without assigning values to individual assets and liabilities is termed as -------------	Slump sale	Transfer	Extinguishments	relinquishments	slump sale
286	The term ------------- means, aggregate value of total assets minus value of liabilities appearing in balance sheet.	Net asset	Net liability	Net worth	total worth	net asset
287	Capital gain is taxable to ----------------	all assesses	only residents	only citizens	NRI	all assessees
288	Long term capital loss can be set off from ---------------	short term capital gain	long term capital gain	both long and short term capital gain.	any income	long term capital gain
289	An acknowledgement of debt or claim in the form of debentures and bonds are called as ---------------	Securities Market	Capital market	Money market	Stock market	securities market
290	Securities of a company which is registered in any one of stock exchanges in India is termed as ----------------	Listed debentures	Unlisted debentures	Tax free debentures	Taxable debentures	Listed debentures
291	Securities of a company which is not registered in any one of stock exchanges in India is termed as ----------------	Listed debentures	unlisted debentures	Tax free debentures	taxable debentures	unlised debentures
292	The securities on which interest is receivable with out deduction of tax at source is called -------------	Tax free securities	Taxable securities	Listed securities	not an income	taxable securites
293	The securities on which interest is receivable after deduction of tax at source is ---------	Tax free securities	Less tax securities	Taxable securities	TDS	tax free securities
294	Conversion of net interest into gross interest by applying specified rate of TDS is known as ----------	Grossing up	Net value	Total value	Value	total value
295	Interest on securities after deducting the tax at source is -----------	Net interest	Gross interest	Total interest	Net worth	Net interest
296	Interest on securities before deducting the tax at source is --------	Net interest	Gross interest	Total interest	Nil value	gross interest
297	The fifth and residuary head of income as per Income Tax Act 1961 is ------------	Salary	House property	Income from other sources	Capital gain	Income from other sources
298	Remuneration for delivering lectures or writing articles is --------------	General income	Specified income	Gross income	net income	General income
299	Interest on securities is ------------	General income	Specified income	Gross income	net income	General income
300	Company formed and registered under companies Act 1956 is called --------------	Indian company	Foreign company	not a company	private company	Indian company

KARPAGAM ACADEMY OF HIGHER EDUCATION

DEPARTMENT OF COMMERCE

II B.COM – B

INCOMETAX LAW AND PRACTICE

LECTURE PLAN

UNIT I

SL. No.	Lecture Duration (Hr)	Name of the Topic	Support Materials
1	1	Income Tax Act 1961 ,History of IT act, Tax, types of tax	T: 1/3 - 1/7
2	1	Definitions – Agricultural Income, Assessee, , Definitions – Person, Income,	T: 1/8 - 1/11
3	1	Assessment and Previous year	R1: 39 - 42
4	1	Tax treatment of income	R1: 43 - 45
5	1	Residential status of an Individual ,	R1: 43 - 45
6	1	basic and additional conditions	T: 1/36 – 1/47
7	1	Determination of residential status of an individual -Introduction	T: 1/36 – 1/47
8	1	Determination of Residential status of an individual – Sums	T: 1/36 – 1/47
9	1	Residential status of a Firm,	T: 1/47 -1/54
10		Company, AOP and BOI	T: 1/47 -1/54
11	1	Scope of income or incidence to tax , general format	T: 1/47 - 1/54
12	1	Computation of total income – General format	T: 1/55 - 1/65
13	1	Exempted income u/s 10	T: 1/67 - 1/89
14	1	Recapitulation and discussion of important questions	
Total no. Hours planned for Unit - I			**14**

TEXT BOOK

T: V.P.Gaur , D.B.Narang, Puja Gaur, Rajeev Puri,, Income Tax Law and Practice ,Kalyani Publishers , Ludhiana, 42nd Revised Edition

REFERENCES

R1: Bhagawathi Prasad, Income Tax Law and Practice , Wiswaprakasam Publishers , New Delhi.

UNIT II

SL. No.	Lecture Duration (Hr)	Name of the Topic	Support Materials

1	1	Computation of income from salaries – General format, Salary features and general format	T: 2/3 – 2/4
2	1	Allowances – Fully exempted – Sums, Partially taxable allowances - provisions and sums	T: 2/18 – 2/20
3	1	Fully taxable allowances- provisions and sums	T: 2/21 – 2/25
4	1	Perquisities – Taxable and sums	T: 2/26 – 2/30
5	1	Exempted - perquisites and sums	T: 2/31 – 2/40
6	1	Profit in lieu of salary	T: 2/57 – 2/60
7	1	Gratuity, pension	T: 2/61 – 2/63
8	1	Provident fund and leave encashment	T: 2/64 – 2/69
9	1	Computation of total salary income – Sums	R2 : 161-166
10	1	Income from House Property – Annual value, different types of annual rental value	R2: 166 - 170
11	1	Computation of House property income	R2: 171 - 173
12	1	Computation of Annual Rental Value – Sums	T: 2/147 – 2-157
13	1	Let out and self occupied house property –Sums Partly let out and self occupied Deductions - Sums	T: 2/163 – 2/172
14	1	Treatment of unrealised rent , joint expenses – Sums	T: 2/177 – 2/203
15	1	Recapitulation and discussion of important questions	
Total no. Hours planned for Unit - II			**15**

TEXT BOOK

T: V.P.Gaur , D.B.Narang, Puja Gaur, Rajeev Puri,, Income Tax Law and Practice (2014), Kalyani Publishers , Ludhiana, 42nd Revised Edition

REFERENCE BOOK

R2: Dinker Pagare, Law and Practice of Income Tax , Sultan Chand & Sons , New Delhi

WEBSITES

http: \\www. Du.ac.in

UNIT III

SL. No.	Lecture Duration (Hr)	Name of the Topic	Support Materials
1	1	Business income , Meaning and definition and	T: 2/205
2	1	General format for computation of business income	T: 2/206- 2/207
3	1	Incomes/ Expenses are expressly allowed and disallowed	T: 2/14- 2/227
4	1	Computation of business income – General format, sums	T: 2/228- 2/237
5	1	Professional Income of a doctor , General format and sums	T: 2/255-2/256
6	1	Professional Income of a chartered accountant	T: 2/257-2/259
7	1	Professional Income lawyer ,General format and sums	T: 2/260-2/280
8	1	Computation of capital gain – General format	R2:329-342
9	1	Computation of capital gain – sums	T: 2/340-2/342
10	1	Scope of charge , Types of Capital assets ,	T: 2/342-2/343
11	1	Exempted capital gain	T: 2/342-2/343
12	1	Income from other sources-meaning and rules	T: 2/403 – 2/408
13	1	Expenses, deductions and Tax Deducted at Source,	T: 2/403 – 2/408
14	1	Computation of total income from other sources-Sums	T:2/410-2/418
15	1	Recapitulation and discussion of important questions	
Total no. Hours planned for Unit - III			**15**

TEXT BOOK

T: V.P.Gaur , D.B.Narang, Puja Gaur, Rajeev Puri,, Income Tax Law and Practice (2014), Kalyani Publishers , Ludhiana, 42nd Revised Edition

WEBSITE

http://www.di.ac.in\fileadmin\DU\academics\coursematerial\Tm-07.pdf

UNIT IV

SL. No.	Lecture Duration (Hr)	Name of the Topic	Support Materials
1	1	Deduction in respect of certain income u/s 80 – ,Introduction, Meaning	T: 2/528 – 2/535
2	1	Deduction u/s 80 - sums	R2: 403-409
3	1	Computation of deduction u/s -80 -sums	
4	1	Set off and losses – Meaning and provisions	T: 2/449 - 451
5	1	Set off and losses – Meaning and provisions	T: 2/449 - 451
6	1	Set off and losses - sums	T: 2/449 - 451
7	1	Set off and carry forward of losses - rules	T: 2/452 - 2/454
8	1	Carry forward of losses – Sums	T: 2/460 – 2/472
9	1	Set off and carry forward of losses – Sums	T: 2/460 – 2/472
10	1	Set off and carry forward of losses – Sums	T: 2/460 – 2/472
11	1	Income from other persons included in assessee's total income	T: 2/460 – 2/472
12	1	Income from other persons included in assessee's total income -sums	
13	1	Income from other persons included in assessee's total income -sums	
14	1	Recapitulation and discussion of important questions	
Total no. Hours planned for Unit - IV			14

TEXT BOOK

T: V.P.Gaur , D.B.Narang, Puja Gaur, Rajeev Puri,, Income Tax Law and Practice , Kalyani Publishers , Ludhiana, 42nd Revised Edition

R2: Dinker Pagare, Law and Practice of Income Tax , Sultan Chand & Sons , New Delhi

WEBSITE

http://www.wirc_icai.org\material\capital%20gains_20.ayo910.pdf

UNIT V

SL. No.	Lecture Duration (Hr)	Name of the Topic	Support Materials
1	1	Computation of total income of individuals – General format	T: 3/8 – 3/9
2	1	Rate of tax for individuals	T: 3/3 – 3/4
3	1	Computation of total income – Sums	T: 3/10- 3/22
4	1	Computation of total income – Sums	T: 3/10- 3/22
5	1	Determination of tax liability – related provisions	T: 3/10 T- 3/12
6	1	Determination of tax liability – related provisions	T: 3/13- T-3/15
7	1	Computation of total income and tax liability	T: 3/16 T-3-20
8	1	Computation of total income and tax liability –Sums	T: 3/21 T- 3/22
9	1	Aggregation of Income	T: 3/23 T-3/26
10	1	Assessment of Individuals-Introduction	T: 3/25 T-3/29
11	1	Assessment of Individuals-Sums	T: 3/27 T 3/33
12	1	Assessment of Individuals-Sums	T: 3/28 T 3/37
13	1	Assessment of Individuals-Sums	T: 3/38 T 3/40
14	1	Recapitulation and discussion of important questions	
15	1	Recapitulation and discussion of ESE questions	
16	1	Recapitulation and discussion of ESE questions	
17	1	Recapitulation and discussion of ESE questions	
Total no. Hours planned for Unit - V			17

TEXT BOOK

T: V.P.Gaur , D.B.Narang, Puja Gaur, Rajeev Puri,, Income Tax Law and Practice (2014), Kalyani Publishers , Ludhiana, 42nd Revised Edition

UNIT - II

INCOME FROM SALARIES

Salary (Section 15 – 17)

Salary is the remuneration received by or accruing to an individual, periodically, for service rendered as a result of an express or implied contract. The actual receipt of salary in the previous year is not material as far as its taxability is concerned. According to Income Tax Act there are certain conditions where all such remuneration is chargeable to income tax:

1. When due from the former employer or present employer in the previous year, whether paid or not
2. When paid or allowed in the previous year, by or on behalf of a former employer or present employer, though not due or before it becomes due.
3. When arrears of salary is paid in the previous year by or on behalf of a former employer or present employer, if not charged to tax in the period to which it relates.

Section 17(1) of the Income tax Act gives an inclusive and not exhaustive definition of "Salaries" , which includes:

(i) Wages

(ii) Annuity or pension

(iii) Gratuity

(iv) Fees, Commission, allowances perquisites or profits in lieu of salary

(v) Advance of Salary

(vi) Amount transferred from unrecognized provident fund to recognized provident fund

(vii) Contribution of employer to a Recognized Provident Fund in excess of the prescribed limit

(viii) Leave Encashment

(ix)Compensation as a result of variation in Service contract etc.

(x) Contribution made by the Central Government to the account of an employee under a notified Pension scheme.

Arrears of Salary

Salary in arrears / advance, received in lump sum, is liable to tax in the year of receipt. Relief can be obtained for salary arrears u/s 89(1) of the Income Tax Act.

Pension

Pension is a payment made by the employer after the retirement or death of employee as a reward for past service. It is normally paid as a periodical payment on monthly basis but certain employers may allow an employee to forgo a portion of pension in lieu of lump sum amount. This is known as commutation of pension.

The treatment of these two kinds of pension is as under:

Periodical pension (or uncommuted pension): It is fully taxable in the hands of all employee, whereas government or non-government.

Commuted pension

For employees of government organizations, local authorities and statutory corporations, it is fully exempted from tax, hence not included in gross salary.

For other employees, commuted value of half of the total value of pension is exempted from tax however, the employee is also receiving gratuity (another retirement benefit) along with pension, then one third of the total value of pension is exempted from tax. Amount received in excess of this is taxable, so included in gross salary.

Pension received by employee is taxable under the head "Salaries". However, family pension received by legal heirs after death of employee is taxable under 'Income from other sources' For Central Government Employees joined on or after 1-1-2004, 10% of Salary is compulsory deducted towards Pension with a matching contribution from the Govt. and is Non-Taxable u/s 80CCD. Only Terminal Benefit is charged to tax.

Gratuity

Gratuity is the payment made by the employer to an employee in appreciation of past services rendered by the employee. It is received by the employee on his retirement. Gratuity is exempted up to certain limit depending upon the category of employee. For the purpose of exemption, employees are divided into 3 categories:

(i)Government employees and employees of local authority:

In case of such employees, the entire amount of gratuity received by then is exempted from tax. Nothing will be added to gross salary.

(ii)Employees covered under Payment of Gratuity Act, 1972

In case of employees who are covered under Payment of Gratuity Act, the minimum of the following amounts are exempted from tax:

1.) Amount of gratuity actually received.

2.)15 days of salary for every completed years of service or part thereof in excess of six months. (15 / 26 x [basic salary + Dearness Allowance] x No. of years of service+1 [if fraction > 6 months]).

3.) Rs.10, 00,000 (amount specified by government).

(iii) Other employees.

In case of employees not falling in the above two categories, gratuity received from the employers is exempt to the extent of minimum of following amounts:

1. Actual amount of gratuity received.
2. Half month average salary for every completed year of service (1/2 x average salary of last 10 months x completed years of service).
3. Rs. 10, 00,000 (amount specified by government).

Salary = 10 months average salary preceeding the month of retirement. = Basic Pay + Dearness Allowance considered for retirement benefits + commission (if received as a fixed percentage on turnover).

Illustration:1

Mr. Ashikh retired in September, 2012 after having put in 42 years of service in a company.

His average salary for 10 months preceding Sept. 2012 was Rs:2500 p.m. He received a gratuity of Rs;60,000. Compute his taxable gratuity.

Solution:

Mr.Ashikh is not covered by the Payment of Gratuity Act,1972. He has put in 42 years of completed service. Here, least of the following is exempted:

½ month's salary for every completed years of service (2500x ½ x 42) = **52,500**

Actual amount of gratuity received = Rs: 60,000

Statutory limit = Rs: 10,00,000

Particulars	Rs:
Amount of gratuity received	60,000
Less: amount exempted	52,500
Taxable Gratuity	7500

Computation of taxable Amount of Gratuity

Illustration 2:

Mr. Athul, covered under the Payment of Gratuity Act, 1972, retires on 10th January, 2013 after serving the company for 16 years. At the time of retirement his basic salary was Rs:4,400 p.m. and DA Rs:800 p.m. On retirement he receives Rs:1,00,000 as gratuity. Compute the amount of gratuity exempt U/s 10(10).

Solution :

As Mr. Athul is covered by the Payment of Gratuity Act, 1972, out of the gratuity received by him, the least of the following is exempted u/s 10(10):

15 days salary for every completed years of service:

(4400+800) x 15/26 x 16 years = **48,000**

Actual amount of gratuity received = Rs:

1,00,000 Statutory limit = Rs:10,00,000

Therefore exempted amount = 48,000.

Leave Salary

Employees are entitled to various types of leave. The leave generally can be taken (casual leave/medical leave) or it lapses. Earned leave is a kind of leave which an employee is said to have earned every year after working for some time. This leave can either be availed every year, or get encashment for it. If leave is not availed or encashed, it is allowed to be carried forward. This leave keeps getting accumulated and is encashed by employee on his retirement.

The tax treatment of leave encashment is as under:

(i)**Encashment of leave while in service.** This is fully taxable and so is added to gross salary.

(ii)**Encashment of leave on retirement.** For the purpose of exemption of accumulated leave encashment, the employees are divided into two categories. They are Govt employees and Other employees.

•State or Central Government employees:

Leave encashment received by government employees is fully exempted from tax. Nothing is to be included in gross salary

Other employees:

Leave encashment of accumulated leave at the time of retirement received by other employees is exempted to the extent of minimum of following four amounts:

1. Amount specified by Central Government (3,00,000).
2. Leave encashment actually received.
3.10 months average salary (10 x average salary of 10 months preceeding retirement).
4. Cash equivalent of unavailed leave.

(Leave entitlement is calculated on the basis of maximum 30 days leave every year, cash equivalent is based on average salary of last 10 months).

Salary = Basic Pay + Dearness Allowance (forming a part of salary for retirement benefits) + Commission (if received as a fixed percentage on turnover).

Illustration:3

Mr.Afsal was employed in a company. He took voluntary retirement on 1st December, 2015 after completing 25 years of service. On 1st January, 2013 his salary was Rs: 4,000 p.m. after adding the annual increment. The total leave aviled during service is 10 months and actual amount received is Rs: 1,60,000 on encashment. Compute the amount exempt regarding encashment of earned leave.

Solution:

The exempted amount of leave encashment is least of the following:

Cash equivalent of earned leave (15 months leave x Rs:4,000)	= Rs: 60,000
Ten months average salary (10 months x Rs; 4,000)	= Rs: 40,000
Actual amount of leave salary received	= Rs: 1,60,000
Statutory Limit	= Rs: 3,00,000

Therefore, the exempted amount of leave salary is Rs: 40,000.

Illustration:4

Mr. Abhijith retired on 31st October, 2015 after serving 20 years. He received Rs: 96,000 as leave encashment for 12 months. His average salary at the time of retirement amounted to Rs: 7,400. He had 2 months leave at his credit. Find the taxable amount of leave encashment.

Solution:

Exempted amount of leave encashment is least of the following:

Cash equivalent of earned leave (2 months leave x Rs:7,400)	= **Rs: 14,800**
Ten months average salary (10 months x Rs; 7,400)	= Rs: 74,000
Actual amount of leave salary received	= Rs: 96,000
Statutory Limit	= Rs: 3,00,000

Therefore, the taxable amount of leave salary = 96,000 – 14,800 = **Rs: 81,200**

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Retrenchment Compensation 10(10B)

Retrenchment compensation is the compensation is received by a workman at the time of (i) closing down of the undertaking.(ii) transfer (irrespective of by agreement/compulsory acquisition) if the following conditions are satisfied:

1. Service of workmen interrupted by transfer
2. Terms and conditions of employment after transfer are less favourable
3. New employer is not under a legal obligation whether under the terms of transfer or otherwise to pay compensation on the basis that the employee's service has been continuous and has not been interrupted by transfer. The exemption is granted to the least of the followings:

(i) Actual amount received

(ii) Amount determined under the Industrial Disputes Act, 1947

(iii) Maximum Limit Rs 5,00,000

Illustration:5

Mr, Adithya Raveendran is employed in a company at Allahabad since 1st October,1998. He is getting a salary of Rs:12,000 p.m. and Rs:2,400 p.m. as DA since 1-1-2011. His service was terminated on account of retrenchment of employees on 1-7-2012 and he was paid Rs:96,000 as compensation. Compute taxable amount of compensation for the AY 2013-14.

Solution:

The exempted amount of retrenchment compensation is least of the following: Actual retrenchment compensation received = Rs: 96,000

15 days salary for every completed years of service= 14x ½ x 14400=Rs:1,00800. Maximum limit Rs: 5,00,000

Sum calculated as per Industrial Dispute Act, 1947 = not given

Therefore, taxable amount of retrenchment compensation= 96,000—96,000 = Nil

Voluntary Retirement Compensation 10(10c)

The following Conditions are to be met for claiming exemption:

(i) An individual, who has retired under the Voluntary Retirement scheme, should not be employed in another company of the same management.

(ii) He should not have received any other Voluntary Retirement Compensation before from any other employer and claimed exemption.

(iii) Exemption u/s 10(10C) in respect of Compensation under VRS can be availed by an Individual only once in his lifetime.

Exemption is allowed to the least of the followings:

(i) Actual amount received

(ii) Maximum Limit Rs 5,00,000

(iii) The highest of the following:

1. Last drawn salary × 3 × No. of fully completed years of service
2. Last drawn salary × Balance of no. of months of service left .

Taxable Value of Allowances

Allowance is a fixed monetary amount paid by the employer to the employee (over and above basic salary) for meeting certain expenses, whether personal or for the performance of his duties. These allowances are generally taxable and are to be included in gross salary unless specific exemption is provided in respect of such allowance. For the purpose of tax treatment, we divide these allowances into 3 categories:

I. Fully taxable cash allowances
II. Partially exempt cash AIlowances
III. Fully exempt cash allowances.

Fully Taxable Allowances

Dearness Allowance and
Dearness Pay City Compensatory Allowance
Tiffin / Lunch Allowance
Non practicing Allowance Warden or Proctor Allowance
Deputation Allowance
Overtime Allowance
Fixed Medical Allowance
Servant Allowance

Other allowances:- There may be several other allowances like family allowance, project allowance, marriage allowance, education allowance, and holiday allowance etc. which are not covered under specifically exempt category, so are fully taxable.

Partly Exempted Allowances

House Rent Allowance or H.R.A. [Sec. 10(13A) Rule 2A] Conditions for claiming exemption:

1.Assessee is in receipt of HRA.

2. He has to pay rent.

3.Rent paid is more than 10% of salary.

An allowance granted to a person by his employer to meet expenditure incurred on payment of rent in respect of residential accommodation occupied by him is exempt from tax to the extent of least of the following three amounts:

a)House Rent Allowance actually received by the assessee

b) Excess of rent paid by the assessee over 10% of salary due to him

c) An amount equal to 50% of salary due to assessee (If accommodation is situated in Mumbai,

Kolkata, Delhi, Chennai) 'Or' an amount equal to 40% of salary (if accommodation is situated in any other place).

Salary for this purpose includes Basic Salary, Dearness Allowance (if it forms part of salary for the purpose of retirement benefits), Commission based on fixed percentage of turnover achieved by the employee.

While claiming exemption the following points are considered :

1. The exemption shall be calculated on the basis of where the accommodation is situated.
2. If the place of employment is the same for the whole year, then exemption shall be calculated for the whole year.
3. If there is a change in place during the previous year, then it will be calculated on a monthly basis
4. Exemption should be calculated in respect of the period during which rental accommodation is occupied by the employee during the previous year.
5. Salary for the period during which rental accommodation is not occupied shall not be considered.

Illustration:6

Mr. Aswin is entitled to a basic salary of Rs 5,000 p.m. and dearness allowance of Rs 1,000p.m., 40% of which forms part of retirement benefits. He is also entitled to HRA of Rs 2,000 p.m. He actually pays Rs 2,000 p.m. as rent for a house in Delhi. Compute the taxable HRA.

Solution:

Salary for HRA = (5,000 × 12) + (40% × 1,000 × 12) = 64,800

Particulars	Rs:	Rs:
Amount received during the financial year for HRA		24,000

Less: Exemption u/s 10(13A) Rule 2A Least of the followings:		
(a) Actual amount received	24,000	
(b) 50% of Salary of Rs 64,800	32,400	
(c) Rent paid less 10% of Salary [2,000 × 12 – 10% of 64,800]	17,520	17,520
Taxable HRA		6,480

Entertainment Allowance

This allowance is first included in gross salary under allowances and then deduction is given to only central and state government employees under Section 16 (ii).

Special Allowances for meeting official expenditure

Certain allowances are given to the employees to meet expenses incurred exclusively in performance of official duties and hence are exempt to the extent actually incurred for the purpose for which it is given. These include travelling allowance, daily allowance, conveyance allowance, helper allowance, research allowance and uniform allowance.

Special Allowances to meet personal expenses:

There are certain allowances given to the employees for specific personal purposes and the amount of exemption is fixed.

i. **Children Education Allowance**: This allowance is exempt to the extent of Rs.100 per month per child for maximum of 2 children (grand children are not considered).

ii. **Children Hostel Allowance**: Any allowance granted to an employee to meet the hostel expenditure on his child is exempt to the extent of Rs.300 per month per child for maximum of 2 children.

iii. **Transport Allowance**: This allowance is generally given to government employees to compensate the cost incurred in commuting between place of residence and place of work. An amount uptoRs.800 per month paid is exempt. However, in case of blind and orthopedically handicapped persons, it is exempt up to Rs. 1600 p.m.

iv. **Running Allowance** (Out of station allowance): An allowance granted to an employee working in a transport system to meet his personal expenses in performance of his duty in the course of running of such transport from one place to another is exempt up to 70% of such allowance or Rs.10000 per month, whichever is less.

v.) Tribal area allowance: Exemption is available as Rs: 200 p.m.

vi) Under ground allowance : Exempted up to Rs:800 p.m.

Fully Exempt Allowances

(i)Foreign allowance: This allowance is usually paid by the government to its employees being Indian citizen posted out of India for rendering services abroad. It is fully exempt from tax.
(ii)Allowance to High Court and Supreme Court Judges of whatever nature are exempt from tax.
(iii) Allowances from UNO organization to its employees are fully exempt from tax.

Perquisites

Perquisites are defined as any casual emolument or benefit attached to an office or position in addition to salary or wages. . Perquisites are taxable and included in gross salary only if they are

(i) allowed by an employer to an employee, (ii) Allowed during the continuation of employment, (iii) directly dependent on service, (iv) resulting in the nature of personal advantage to the employee and (v) derived by virtue of employer's authority.

As per Section 17 (2) of the Act, perquisites include:

1.Value of rent free accommodation provided to the employee by the employer.

2. Value of concession in the matter of rent in respect of accommodation provided to the employee by his employer.

3. Value of any benefit or amenity granted free of cost or at a concessional rate in any of the

a) by a company to an employee who is a director thereof

b) by a company to an employee who has substantial interest in the company

c) by any employer to an employee who is neither a director, nor has substantial interest in the company, but his monetary emoluments under the head 'Salaries' exceeds Rs.50, 000.

4. Any sum paid by the employer towards any obligation of the employee.

5. Any sum payable by employer to effect an assurance on the life of assessee.

6. The value of any other fringe benefit given to the employee as may be prescribed

Classification of Perquisites

For tax purposes, perquisites specified under Section 17 (2) of the Act may be classified as follows:

(1) Perquisites that are taxable in case of every employee, whether specified or not

(2) Perquisites that is taxable in case of specified employees only.

(3) Perquisites that is exempt from tax for all employees

Perquisites Taxable in case of all Employees

The following perquisites are taxable in case of every employee, whether specified or not:

1. Rent free house provided by employer
2. House provided at concessional rate
3. Any obligation of employee discharged by employer e.g. payment of club or hotel bills of employee, salary to domestic servants engaged by employee, payment of school fees of employees' children etc.
4. Any sum paid by employer in respect of insurance premium on the life of employee
5. Notified fringe benefits (on which fringe benefit tax is not applicable) – it includes interest free or concessional loans to employees, use of movable assets, transfer of moveable assets.

Perquisites taxable in case of Specified Employees only

Specified Employee:

An Individual will be considered as a Specified Employee if:

• He is a director of a company, or

• He holds 20% or more of equity voting power in the company,

• Monetary salary in excess of 50,000: His income under the head salaries, (from any employer including a company) excluding non-monetary payments exceeds 50,000. For the above purpose, salary, should be arrived at after making the following deductions:

(a) Entertainment Allowance

(b) Professional Tax.

The following perquisites are taxable in case of such employees:

1. Free supply of gas, electricity or water supply for household consumption
2. Free or concessional educational facilities to the members of employees household

3. Free or concessional transport facilities
4. Sweeper, watchman, gardener and personal attendant
5. Any other benefit or amenity

Perquisites which are tax free for all the employees

This category includes perquisites which are tax free for the employees and also other perquisites on which employer has to pay a tax (called Fringe Benefit Tax) if they are given to the employees and so are not taxable for them.

The following perquisites are exempt from tax in all cases and hence not includible for the purpose of tax deduction at source under section 192 during the financial year 2008-09:

1. Provision for medical facilities subject to limit
2. Tea or snacks provided during working hours
3. Free meals provided during working hours in a remote area or an offshore installation
4. Perquisites allowed outside India by the Government to a citizen of India for rendering service outside India.
5. Sum payable by an employer through a recognized provident fund or an approved superannuation or deposit-linked insurance fund established under the Coal Mines Provident Fund or the Employees Provident Fund.
6. Employer's contribution to staff group insurance scheme.
7. Leave travel concession subject to Sec.10 (5)
8. Payment of annual premium by employer on personal accident policy effected by him on his employee
9. Free educational facility provided in an institute owned/maintained by employer to children of employee provided cost/value does not exceed ` 1,000 per month per child (no limit on no. of children)
10. Interest-free/concessional loan of an amount not exceeding 20,000
11. Computer/laptop given (not transferred) to an employee for official/personal use.
12. Transfer without consideration to an employee of a movable asset (other than computer, electronic items or car) by the employer after using it for a period of 10 years or more.
13. Traveling facility to employees of railways or airlines.

14. Rent-free furnished residence (including maintenance thereof) provided to an Official of Parliament, a Union Minister or a Leader of Opposition in Parliament.

15. Conveyance facility provided to High Court Judges u/s22B of the High Court Judges (Conditions of Service) Act, 1954 and Supreme Court Judges u/s 23A of the Supreme Court Judges (Conditions of Service) Act, 1958.

16. Conveyance facility provided to an employee to cover the journey between office and residence.

17. Accommodation provided in a remote area to an employee working at a mining site or an onshore oil exploration site, or a project execution site or an accommodation provided in an offshore site of similar nature.

18. Accommodation provided on transfer of an employee in a hotel for not exceeding 15 days in aggregate.

19. Interest free loan for medical treatment of the nature given in Rule 3A.

20. Periodicals and journals required for discharge of work.

21. Tax on perquisite paid by employer [Sec.10 (10CC)]

22. Other Exempted Payments:

i. Bonus paid to a football player after the World Cup victory to mark an exceptional event

ii. Payment made as a gift in appreciation of the personal qualities of the employee.

iii. Payment of proceeds of a benefit cricket match to a great cricket player after he retired from test match.

iv. Trust for the benefit of employee's children

Valuation of Perquisites

Medical facilities

Medical facilities provided to employee are exempt from tax.

A. Medical benefits within India which are exempt from tax include the following:

a) Medical treatment provided to an employee or any member of his family in hospital maintained by the employer.

b)Any sum paid by the employer in respect of any expenditure incurred by the employee on medical treatment of himself and members of his family :

(i) In a hospital maintained by government or local authority or approved by the government for medical treatment of its employees.

(ii) In respect of the prescribed diseases or ailments in any hospital approved by the Chief Commissioner.

(iii) Premium paid by the employer on health insurance of the employee under an approved scheme.

c) Premium on insurance of health of an employee or his family members paid by employer Limited Exemption: If the ordinary medical treatment of the employee or any member of his family is done at any private hospital, nursing home or clinic, the exemption is restricted to Rs.15, 000.

B. Medical Treatment outside India which is exempt from tax includes the following:

a)Any expenditure incurred by employer on the medical treatment of the employee or any member of his family outside India.

b)Any expenditure incurred by employer on travel and stay abroad of the patient (employee or member of his family) and one attendant who accompanies the patient in connection with such treatment, shall be exempt to the following extent :

(i)The expenditure on medical treatment and stay abroad shall be exempt to the extent permitted by the Reserve Bank of India.

(ii)The expenditure on travel shall be exempt in full provided the gross total income of the employee (including this expenditure) does not exceed Rs.2, 00,000.

Valuation of rent free accommodation

For the purpose of valuation of house, employees are divided into 2 categories:

a) Central and State Government employees: If accommodation is provided by the State or Central Government to their employees, the value of such accommodation is simply the amount fixed by the government (called the licence fees) in this regard.

b): Other Employees: The valuation of accommodation for this category of non government employees depends upon whether the accommodation given to the employee is owned by the employer or taken on lease.

1. Accommodation owned by employer

In cities having population exceeding 25 lakhs as per 2001 census

: 15% of Salary Less Rent actually paid by employee

In cities having population exceeding 10 lakhs but not exceeding 25 lakhs as per 2001 census : 10% of Salary Less Rent actually paid by employee

In other places:

7.5% of Salary Less Rent actually paid by employee

2. Accommodation is taken on lease / rent by the employer

Rent paid by the employer or 15% of Salary whichever is lower Less Rent recovered from employee

3. Accommodation in a hotel

24% of salary paid/payable or actual charges paid/payable whichever is lower Less Amount paid or payable by the employee

4. Valuation of accommodation in case of Employees on transfer:

(a) For the first 90 days of transfer: Where accommodation is provided both at existing place of work and in new place, the accommodation, which has lower value, shall be taxable.

(b) After 90 days : Both accommodations shall be taxable.

Valuation of furnished accommodation where the accommodation is furnished, 10% per annum of the original cost of furniture given to the employee shall be added to the value of unfurnished accommodation. If the furniture is taken on rent by employer, then actual hire charges are to be added to the value.

Definition of salary for rent free accommodation:

Basic Salary + Taxable cash allowances + Bonus or Commission + any other monetary payment. (It does not include dearness allowance if it is not forming part of basic salary for retirement benefit, allowances which are exempt from tax, value of perquisites specified under Section 17(2), employer's contribution to provident fund account of employees).

Sweeper, gardener or watchman provided by the employer

The value of benefit of provision of services of sweeper, watchman, gardener or personal attendant to the employee or any member of his household shall be the actual cost to the employer. The actual cost in such a case is the total amount of salary paid or payable by the employer or any other person on his behalf for such services as reduced by any amount paid by the employee for such services. If the above servants are engaged by the employer and facility of such servants are provided to the employees, it will be a perquisite for specified employees only. On the other hand, if these servants are employed by the employee and wages of such servants are paid / reimbursed by the employer, it will be taxable perquisite for all classes of employees.

Free Supply of Gas, Electricity or Water

The value of these benefits is taxable in the hands of specified employees, if the connection is taken in the name of the employer, and is determined according to the following rules:

a) If the employer provides the supply of gas, electricity, and water from its own sources, the manufacturing cost per unit incurred by the employer shall be the value of perquisite.

b) If the supply is from any other outside agency, the value of perquisite shall be the amount paid

c) Where the employee is paying any amount in respect of such services, the amount so paid shall be deducted from the value of perquisite calculated under (a) or (b).

d) Where the connection for gas, electricity, water supply is in the name of employee and the bills are paid or reimbursed by the employer, it is an obligation of the employee discharged by the employer. Such payment is taxable in case of all employees under Section 17 (2) (iv).

Free Education

a) Cost of free education to any member of employees' family provided in an educational institution owned and maintained by the employer shall be determined with reference to reasonable cost of such education in a similar institution in a nearby locality. For education facilities provided to the children of employee (excluding any other member of house hold), the value shall be nil, if the cost of such education per child does not exceed Rs.1, 000 per month.

b)Where free education facilities are allowed to any member of employees' family in any other educational institution by reason of his being in employment of that employer, the value of perquisite shall be determined as in (a).

c)In any other case: The value of benefit of providing free or concessional educational facilities for any member of the house hold (including children) of the employee shall be the amount of expenditure incurred by the employer.

d) While calculating the amount of perquisite in all in above cases, any amount paid or recovered from the employee in this connection, shall be deducted

Free Transport

The value of any benefit provided by any undertaking engaged in the carriage of passengers or goods to any employee or to any member of his household for private journey free of cost or at concessional rate in any conveyance owned or leased by it shall be taken to be the value at which such benefit is offered by such undertaking to the public as reduced by the amount, if any, paid by or recovered from the employee for such benefit. In case of employees of the Railways and airlines, the value of transport facility shall be exempt.

Use of any movable asset other than computer or laptops or other assets already mentioned

10% of Actual Cost if owned by the employer; or Actual rental charge paid/payable by the employer less Amount recovered from employee.

Leave Travel Concession (LTC)

Leave Travel Concession is a non-taxable perquisite available for salaried class. An Employee with his dependent family members can avail of this facility to travel anywhere in India / native place. Exemption is limited to the amount actually spent. The amount exempt is the value of any travel concession or assistance received or due to the assessee.

1. **Journey by Air:** Economy Class Airfare of India Airlines by the shortest route or the actual amount spent, whichever is lower.

2. **Journey by Rail:** A/C 1st Class rail fare by the shortest route or actual amount spent, whichever is lower.

   2. Where the place of destination is connected by Rail: Air-conditioned first class Rail fare by the shortest route or the actual amount spent for the journey performed by road whichever is lower.

4. Where the place of destination is NOT connected by Rail :

. *If Recognized public transport exists:* First Class or Deluxe Class fare by the shortest route or the actual amount spent whichever is lower.

2. *If No recognized public transport exists:* Air-conditioned first Class Rail fare by the shortest route or the actual amount spent whichever is lower.

These exemptions is available only for 2 journeys performed in a block of 4 calendar years. Family of an Individual means:

- Spouse and children of the individual, and
- Parents, brothers and sisters of the individual or any of them, wholly or mainly dependent on the Individual

Free meals during office hours

Actual cost to the employer in excess of Rs 50 per meal less: amount recovered from the employee. Tea or non-alcoholic beverages and snacks during working hours is not taxable.

Gifts

Value of any gift or voucher or taken other than gifts made in cash or convertible into money (e.g. gift cheques) on ceremonial occasion. In this case if the aggregate value of gift during the previous year is less than Rs 5,000, then it is not a taxable perquisite.

Profit in lieu of salary

Profit in lieu of salary means any amount received by the employee from the employer due to its employee employer relationship other than normal compensation what he receive from
employer.

The amount of any compensation due to or received by an assessee from his employer or former employer at or in connection with the termination of his employment or modification of his term of employment Any payment from Unrecognized Provident Fund(URPF) or such other fund to the extent to which it does not consist of contribution by the assessee or interest on such contribution. Any sum received undera keyman insurance policy including the sum allocated by way of bonus on such policy.

Illustraton:7

Mr. Sajad is now working in a private company at Chennai and he gets a monthly salary of Rs: 9,000. He is provided with a rent free unfurnished accommodation for which he pays a monthly rent of Rs:300. Calculate taxable perquisite.

Solution:

15% of salary: 108000 x 15/100	=16,200
Less rent paid by the employee	= 3,600
Therefore, Value of unfurnished accommodation	**= 12,600**

Provident Fund

Provident Fund Scheme is a welfare scheme for the benefit of employees. Under this scheme, certain amount is deducted by the employer from the employee's salary as his contribution to

Provident Fund every month. The employer also contributes certain percentage of the salary of the employee to the Fund. The contributions are invested outside in securities. The interest earned on it is also credited to the Provident Fund Account. At the time of retirement, the accumulated balance is given to the employee.

(i)Statutory Provident Fund

This is set up under the provisions of Provident Fund Act, 1925.

Contribution is made by Employer and Employee.

Assesse's Contribution: will get Deduction u/s

80C Employer's Contribution- Not taxable

Interest credited- Fully exempted

Withdrawal at the time of retirement/resignation/termination, etc- Exempted u/s 10(11)

(ii)Recognized Provident Fund

This is set up under the Employee's Provident Fund and Miscellaneous Provisions Act, 1952 (PF Act, 1952) and is maintained by private sector

employees. Assessee's Contribution- will get Deduction

u/s 80C

Employer's Contribution-Amount exceeding 12% of salary is taxable Interest credited-Exempted up to 9.5% p.a. Any excess is taxable.

Withdrawal at the time of retirement/ resignation/termination, etc-Exempted u/s 10(12) Subject to conditions.

(iii)Unrecognized Provident Fund

If a provident fund is not recognized by the Commissioner of Income Tax, it is known as unrecognized PF.

Assesse's Contribution: will not get Deduction u/s 80C. No Income Tax Benefit Employer's Contribution- Not taxable at the time of contribution

Interest credited- On Employee's contribution taxable under the head "Other Sources" and, on Employer's contribution not taxable at the time of credit.

Withdrawal at the time of retirement/resignation/termination, etc- Employee's contribution thereon is not taxable. Interest on employees share ias taxable under the head income from other sources.

Employer's contribution and interest thereon is taxable as Profits in lieu of Salary, under "Salaries"

iv) Public Provident Fund

The Central Government has established the Public Provident Fund for the benefits of general public to mobilize personal savings. Any member of general public (whether salaried or self employed) can participate in this fund by opening a Provident Fund Account at the State Bank of India or its subsidiaries or other nationalized banks. A salaried employee can simultaneously become member of employees provident fund (whether statutory, recognized or unrecognized) and public provident fund. Any amount may be deposited (subject to minimum oRs.500 and maximum of Rs.70, 000 per annum) under this account. The accumulated sum is repayable after 15 years.

Assesse's Contribution: will get Deduction u/s 80C

Interest credited- Fully exempted

Withdrawal at the time of retirement/resignation/termination, etc-Exempted u/s 10(11)

Deductions :

The income chargeable under the head salaries is computed after making the following deductions under Section 16:
government employees (State or Central Government) to the extent of least of following 3 amounts:
(i)Rs.5000
(ii)20% of basic salary
(iii)Amount of Entertainment Allowance actually received during the
year. 2.Professional Tax [Section 16(iii)] of the Act.
Professional tax or tax on employment levied by a State under Article 276 of the Constitution is allowed as a deduction only in the year when it is actually paid. If the professional tax is paid by the employer on behalf of the employee, it is first included in gross salary as a perquisite (since it is an obligation of employee fulfilled by employer) and then the same amount is allowed as deduction on account of professional tax from gross salary.

Illustration:8

Mr. Abhijith is getting a salary of Rs 12,000 p.m. w.e.f. 1.4.2011. He is promoted w.e.f. 31.12.2011 and got arrears of Rs75,000. Bonus for the year 2012-13 is Rs15, 000 remains outstanding but bonus of Rs 12,000 for the year 2011-12 was paid on 1st January 2013. In March 2013, he got two months salary i.e. April and May 2013 in advance. Compute the gross salary for the assessment year 2016-17

Solution:

Computation of Gross Salary for the Assessment Year 2016-17

Salary : Rs 12,000 × 12	1,44,000
Arrears of Salary	75,000
Bonus for the year 2012-13 : (Receivable)	---
Bonus for the year 2011-12 : (Received)	12,000
Advance of Salary: April & May 2013 (12,000 × 2)	24,000
Gross Salary	2,55,000

Illustration:9

Following particulars are furnished by Muhammed Labeeb, a citizen and resident in India: Basic salary after deduction of contribution to RPF Rs: 2,40,000

Own contribution to RPF Rs:20,000

Interest credited to RPF @9.5% Rs:3,600

HRA (house is at Kolar and rent paid amount to Rs:30,000) Rs: 14,400 Unit-linked insurance plan contribution paid by employer Rs: 2,000.

Compute taxable income from salary of Muhammed Labeeb for the A.Y.2016-17.

Solution:

Computation of Income from Salary for the assessment year .2016-17.

Basic salary (2,40,000+20,000)	2,60,000
HRA (14,400-4,000)	10,400
Ulip paid by employer	2,000
Gross Salary	2,72,400
Less: Deductions	Nil
Taxable Salary	2,72,400

Notes: Least of the following is exempt:

Actual HRA Rs:14,400

Excess of rent paid over 10% of salary (30000-26000) Rs:4,000

Illustration :11

Mr. Justin Kuriakose retired on 31-10-2012 after serving 20 years. He received Rs;96,000 as leave encashment for 12 months. His average salary at the time of retirement amounted to Rs:7,400. He had 2 months leave at his credit. Find out the taxable amount of Leave encashment.

Solution:

The exempted amount of leave salary is least of the following:

10 months average salary (7400 x10) Rs:74000

Actual amount of leave encashment received Rs:96,000

Amount of leave salary at his credit (7400x2) **Rs:14,800**

Maximum limit Rs:3,00,000

Computation of taxable Amount of Leave Salary

Amount of leave salary received	96,000
Less: amount exempted	14,800
Taxable amount of leave salary	81,200

Illustration:12

From the following particulars calculate the salary income of Mr. Reshin for the assessment year .2016-17.

Basic pay Rs: 5500

p.m. HRA Rs:2400

p.m.

DA Rs: 5,000 p.m.

Entertainment Allowance Rs:1,200

p.m. CCA Rs: 600 p.m.

Education allowance for 2 children (total) Rs: 800 p.m.

Reshin and his employer (a private company) contribute to RPF @ 14% of salary. He lives in a rented house at Alleppy on a monthly rent f Rs: 3000.

Solution:

Computation of income from salary of Mr. Reshin for the Assessment Year .2016-17.

Basic pay	66000
HRA (28800-26400)	2400
D A	60000
Entertainment allowance	14400

CCA	7200
Education allowance (9600-2400)	7200
Employer's contribution toRPF in excess of 12%	1320
Income from Salary	1,58,520

Illustration:13

Mr. Akhildas is employed as an engineer in Indian railways. He is getting Rs:7,000 p.m. as basic pay; Rs:2,500 p.m. as D.A.and Rs:2,500 p.m. as dearness pay. During the year 2012-13, he received the following allowances also:

Rs: 16,500 as running allowance p.m.

Rs; 200 p.m. per child as educational allowance for his 2 children

One of his son is staying in a hostel on which Akhildas is spending Rs:800 p.m. He is getting Rs:500 p.m. for his as hostel allowance for meeting their expenditure.

Rs: 250 p.m. as CCA.

Rs:400 p.m. as uniform allowance , fully spent for employment purposes.

Rs: 1250 p.m. as HRA. He pays Rs:1500 p.m. as rent to house owner. He contributes 10% of his basic pay and DA to SPF and the Indian railway contributes a similar amount.

Compute his taxable salary for the AY .2016-17.

.**Solution:**

Computation of taxable salary of Mr.Akhildas for the A Y .2016-17.

Basic pay (7500 x 12)		90,000
D A (2500 x 12)		30,000
D P (2500 x 12)		30,000
House Rent Allowance:		
HRA received (1250 x 12)	15,000	
Less: exempted	6,000	9,000
Running Allowance:		
Running allowance received	16,500	

Less: 70% of allowance or Rs:10,000 p.m, whichever is less)	10,000	6500
Education allowance (200x12x2)	4,800	
Less:exemptionfor2children (100x12x2)	2,400	2,400
Hostel allowance (500x12)	6,000	
Less: exempted (300x12)	3,600	2,400
Uniform Allowance (400x12)	4,800	
Less: exempted	4,800	....
CCA (250 x12)		3,000
Gross Salary		1,73,300
Less : Deduction u/s 80C (PF)		12,000
Income from Salaries		1,61,300

Calculation of exempted amount of HRA:

Least of the following is exempted:

HRA received (Rs:1,250 x12) = 15,000

Excess of rent paid over 10% 0f salary (18,000-12,000) = ***6,000***

40% of salary (1,20,000x40%) = 48,000

Illustration :14

Mr.Suhil is a government employee. He draws a monthly salary of Rs;20,000 and Rs: 500 p.m. as entertainment allowance. Find out the amount of deduction for the entertainment allowance.

Solution:

Least of the following is exempted:

Actual Entertainment Allowance received (500x12) = 6,000

Statutory Limit = Rs: 5,000

20% of Salary 2,40,000 x 20%) = Rs: 48,000

Therefore the amount of deduction for the entertainment allowance is Rs: 5,000.

INCOME FROM HOUSE PROPERTY

The annual value of a property, consisting of any buildings or lands appurtenant thereto, of which the assessee is the owner, is chargeable to tax under the head 'Income from house property'. However, if a house property, or any portion thereof, is occupied by the assessee, for the purpose of any business or profession, carried on by him, the profits of which are chargeable to income-tax, the value of such property is not chargeable to tax under this head.

Thus, three conditions are to be satisfied for property income to be taxable under this head:
1. The property should consist of buildings or lands appurtenant thereto.
2. The assessee should be the owner of the property.
3. The property should not be used by the owner for the purpose of any business or profession carried on by him, the profits of which are chargeable to income-tax.

Ownership of house property

It is only the owner (or deemed owner) of house property who is liable to tax on income under this head. Owner may be an individual, firm, company, co-operative society or association of persons. The property may be let out to a third party either for residential purposes or for business purposes. Annual value of property is assessed to tax in the hands of the owner even if he is not in receipt of the income. For tax purposes, the assessee is required to be the owner in the previous year only.

Deemed Owner [Section 27]

1. Owner: An Individual shall be considered as owner of a property when the document of title to the property is registered in his name.

2. Deemed Owner: Under the following circumstances, Income from House Property is taxable in the hands of the Individual, even if the property is not registered in his name —

(a) Where the Property has been transferred to spouse for inadequate consideration other than in pursuance of an agreement to live apart.

(b) Where the Property is transferred to a minor child for inadequate consideration (except a transfer to minor married daughter)

(c) Where the Individual holds an impartible estate.

(d) Where the Individual is a member of Co-operative Society, Company, or other Association and has been allotted a house property by virtue of his being a member, even though the property is registered in the name of the Society / Company / Association.

(e) Where the property has been transferred to the individual's name as part-performance of a contract u/s 53A of the Transfer of Property Act, 1882. (i.e. Possession of the Property has been transferred to Individual, but the Title Deeds have not yet been transferred).

(f) Where the Individual is a holder of a Power of Attorney enabling the right of possession or enjoyment of the property.

(g) Where the property has been constructed on a leasehold land.

(h) Where the ownership of the Property is under dispute.

(a) **Paid by Owner.** The tax shall be borne by the owner and tie same was paid by him during the previous year.

(b) **Property let out:** Municipal Tax can be claimed as a deduction only in respect of let out or deemed to be let out properties (i.e. more than one property self occupied).

(c) **Year of payment**: Municipal Tax relating to earlier previous years, but paid during the current previous year can be claimed as deduction only in the year of payment.

(d) **Advance Taxes:** Advance Municipal Tax paid shall not be allowed as deduction in the year of payment, but can be claimed in the year in which it falls due.

(e) **Borne by Tenant:** Municipal taxes met by tenant are not allowed as deduction.

Unrealized Rent

Unrealized Rent means the rent not paid by the tenant to the owner and the same shall be deducted from the Actual Rent Receivable from the property before computing income from that property, provided the following conditions are satisfied:

1. The tenancy is bonafide
2. The defaulting tenant should have vacated the property
3. The assessee has taken steps to compel the defaulting tenant to vacate the property
4. The defaulting tenant is not in occupation of any other property owned by the assessee
5. The assessee has taken all reasonable steps for recovery of unrealized rent or satisfies the Assessing Officer that such steps would be useless.

Deduction from Net Annual Value

A.Standard Deduction u/s 24(a): Standard deduction of 30% of NAV (Net Annual Value) shall be allowed to the assessee.

B. Interest on Loan u/s 24(b):

1. **Purpose of loan:** The loan shall be borrowed for the purpose of acquisition, construction,

repairs, renewal or reconstruction of the house property.

2. **Accrual basis:** The interest will be allowed as a deduction on accrual basis, even though it is not paid during the financial year.

3. **Interest on interest:** Interest on unpaid interest shall not be allowed as a deduction.

4. **Brokerage:** Any brokerage or commission paid for acquiring the loan will not be allowed as a deduction.

5. **Prior period interest:** Prior Period Interest shall be allowed in five equal installments commencing from the financial year in which the property was acquired or construction was completed.

Note: Prior period interest means the interest from the date of borrowal of the loan up to the end of the financial year immediately preceding the financial year in which acquisition was made or construction was completed.

6. **Interest on fresh loan to repay existing loan:** Interest on any fresh loan taken to repay the existing loan shall be allowed as a deduction.

7. **Inadmissible interest:** Interest payable outside India without deduction of tax at source and in respect of which no person in India is treated as an agent u/s 163 shall not be an allowable expenditure. [Section25]

8. **Certificate:** The assessee should furnish a certificate from the person from whom the amount is borrowed.

Income From Self – Occupied House Property

The annual value of one self-occupied house property is taken as ‘Nil’. From the annual value, only the interest on borrowed capital is allowed as a deduction under section 24. The amount of deduction will be:

1. Either the actual amount accrued or Rs.30,000/- whichever is less
2. When borrowal of money or acquisition of the property is after 31.3.1999 - deduction is Rs.1,50,000/- applicable to A.Y 2002-03 and onwards.

However, if the borrowed is for repairs, renewals or reconstruction, the deduction is restricted to Rs.30, 000. If the borrowal is for construction/acquisition, higher deduction as noted above is available. If a person owns more than one house property, using all of them for self-occupation, he is entitled to exercise an option in terms of which, the annual value of one house property as specified by him will be taken at Nil. The other self occupied house property/is will be deemed to be let-out and their annual value will be determined on notional basis as if they had been let out.

Annual Value of a house property which is partly self – occupied and partly let out: If a house property consists of two or more independent residential units, one of which is self – occupied and the other unit(s) are let out, the income from the different units is to be calculated separately.

Illustration:1

Compute Gross annual value: Actual rent Rs: 24,000 p.a. Fair rent Rs:28,000 p.a. Standard rent Rs: 20,000 p.a.

Solution:

Gross Annual Value = ERV or Actual Rent Received for full year, whichever is higher. Here Rent Control Act is applicable.

FRV =Rs: 28,000 ; SRV = 20,000 Therefore, ERV = 20,000.

Actual Rent = 24,000 So, GAV = 24,000.

Illustration:2

Calculate annual rental value from the following particulars for the assessment year 2013-14.Actual rent Rs: 14,000 p.m.; MRV Rs: 1,20,000 p.a.; FRV Rs:1,32,000 p.a. Standard rent Rs: 1,38,000. During the P.Y. the assessee is not able to realise two months rent.

Solution:

Expected Rental Value = 1,32,000

Actual rent for the full year (14,000x12) = 1,68,000

Therefore, GAV = 1,68,000.

Annual Value = 1,68,000 – unrealised rent

= 1,68,000 -- 28,000 = 1.40,000.

========

Illustration:3

Compute gross annual value for the AY 2013-14:

FRV Rs: 1,32,000 p.a.; Actual rent Rs:12,000 p.m.; MRV Rs:1,20,000 p.a., Standard rent Rs: 1,30,000.

Solution:

Expected Rental Value = Rs: 1,30,000

Actual rent for full year (12,000 x 12) = Rs:1,44,000

Therefore, GAV = Rs: 1,44,000.

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Illustration:4

Rinju is the owner of 2 houses. From the following, find out annual value of the houses:

	House-1	**House-2**
Municipal value	30,000	35,000
Actual rent	40,000	32,000
FRV	36,000	30,000
SRV	30,000	36,000
Municipal tax paid	4,000	3,500

Solution:

MRV or FRV (higher)	36,000	35,000
SRV	30,000	36,000
ERV (Lesser of the above 2)	30,000	35,000
Actual Rent	40,000	32,000
GAV (higher of 3 and 4)	**40,000**	**35,000**
Less : Municipal Taxes	4,000	3,500
Annual Value	36,000	31500
	======	======

Illustration:5

Mr. Abhinand constructed one house in 2010. Half of the portion is let out and the remaining half is used for his residence. The following particulars are available:

MRV Rs: 12,500; Rent received Rs:10,000 ; Municipal taxes Rs:2,500 ; Ground rent Rs;250 ;

Repairs Rs:2,000 ; Interest on loan taken for construction Rs: 2,500.

Compute income from house property of Mr. Abhinand for the AY 2013-14.

Solution:

Computation of Income from house property

Let out portion:

GAV (MRV =6250 or Rent received, whichever is higher)		: 10,000
Less : municipal rent (½)		:1,250

Net Annual Value		: 8,750
Deductions:		
30% of annual value :	2,625	
Interest on loan taken for construction :	1,250	
	----------	:3,875
Income from let out portion		4,875

Self-occupied portion:

The following information is available in respect of two houses of owned by Neeraj.

He let out the first house for a yearly rent of Rs: 11,000. He paid Rs:1,000 as interest on borrowings. He paid Rs: 100 as insurance premium. He let out his second house at a monthly rent of Rs:1,200. It is not rented out for 3 months. The unreaqlised rent for the past 5 years was Rs: 13,000. Compute the income from house property of Mr. Neeraj for the AY 2013-14.

Net Annual Value	: Nil	
Deductions:		
Interest on loan taken for construction	: 1,250	

Income from self occupied portion		--1,250

Income from House Property		**3,625**

Illustration:6

First House:				
Annual Value		:	11,000	
Less : Deductions:				
Standard deduction (30%) :	3,300			
Interest on loan :	1,000	:	4,300	6,700
Second House:				
Annual Value		:	14,400	
Less : Loss for vacancy period :	3,600			
Unrealised rent :	13,000		16,600	--2,200
Income from House Property			=	4,500.
				=====

KARPAGAM ACADEMY OF HIGHER EDUCATION
(Established Under Section 3 of UGC Act 1956)
COIMBATORE- 641 021
DEPARTMENT OF COMMERCE
INCOME TAX LAW AND PRACTICE

POSSIBLE QUESTIONS
UNIT II

1. From the following particulars find out the taxable salary of Mr.Kannan working at Madurai (Population more than 25 lakhs); Salary Rs.12,000 pm; DA Rs 1,500 pm

- Employers contribution to employees RPF 14% of basic salary
- Rent free accommodation (Unfurnished) – fair rental value is Rs. 80,000 pa
- Expenses on maintenance of garden met by employer Rs3,000
- Interest on Provident fund balance @ 13% pa Rs.3,900
- A car (1.8lt capacity) is provided with a driver. All expenses are met by employer. It is used partly for personal purposes.
- He paid professional tax of Rs.200
- He received Rs.500 pm as fixed medical allowance.

2. From the following particulars find out the taxable salary of Mrs. Asha working at Coimbatore (Population more than 25 lakhs)

a. Salary Rs.12,000 pm ; DA Rs 1,500 pm
b.Employers contribution to employees RPF 14% of basic salary
c.Rent free accommodation (Unfurnished) – fair rental value is Rs. 80,000 p.a
d.Expenses on maintenance of garden met by employer Rs3,000
e.Interest on Provident fund balance @ 13% pa Rs.3,900
f. A car(1.4 lt. Capacity) is provided by employer. All expenses are borne by employer. It is used both for performance of duties and private purposes. Car was used by employee for only 11 months during the year.
g.She paid professional tax of Rs.200
h.She received Rs.500 pm as fixed medical allowance.

i. Compute income from house property from the particulars given below for the assessment year 2015-16.

3.Mr. M is a production manager of an industrial unit at chennai. The particulars of his salary income are as under.

a. Basic salary Rs. 15,000 pm ;

b. DA (given as the terms of employment) Rs 5,000 pm ;

c. Entertainment allowance Rs. 1,000 pm ;

d. Medical allowance Rs. 500 pm ;

e. House rent allowance Rs. 4,000 pm ;

f. Rent paid for the house Rs. 5,000 pm ;

g. Car of 1.2 lt capacity provided by the employer for private and official use employer meets all expenses of car.

h. He and his employer (each) contribute 15% of salary to RPF.

i. Mr. M had taken interest free loan of Rs. 15,000 to purchase refrigerator.

Compute his income under the head salary for the assessment year 2015-16

4. Mr. G.R. returned to India after serving a British Company for 25 years. He joined service with an Indian company at Mumbai [Population more than 25 lakhs] during 2012-13. He furnishes the following particulars of his income for the year ending 31-3-2015 and asks you to compute his salary income.

a. Salary Rs.25,000 p.m.
b. City compensatory allowance Rs.500 p.m.
c. Ration Bill paid by employer Rs.14,000.
d. Fixed Medical allowance Rs.400 p.m.
e. Education allowance for his son 1,000 p.m.
f. Rent free house hired by employer. Rent paid Rs.2,000 p.m. and cost of furnishing is Rs. 1,20,000
g. He and his employer contribute Rs. 4,000 p.m. each towards RPF.

5. Explain the fully taxable and partially taxable allowances.

6. Discuss the rules regarding perquisites exempted and taxable for all employees.

7. Compute gross salary from information given below

a. Salary @ Rs. 3,500 p.m.
b. D.A @ Rs. 1,000 p.m.
c. C.C.A Q Rs 200 P.m.
d. House Rent Allowance @ Rs 1,000 p.m.
e. Commission on turnover achieved by him is Rs. 6,000.

Assessee is living in rented house at Delhi as D.A enters into pay for retirement benefits and rent paid is Rs. 1,500 p.m.

8.Mr.K.G. is working in a central Government office at Simla. His salary particulars are as follows:

a. Salary Rs 72,000
b. DA[fully enters into pay for retirement benefits] Rs. 48,000
c. Hill Compensatory allowance Rs.12,000
d. Transport Allowance Rs. 9,600
e. Provided with rent free house : annual Licene fee Rs. 7,200
f. Cost of furnising Rs. 45,000

Calculate gross salary.

9. Mr. Lalu retired on 30.11.15 from a coal mine after putting a service of 28 years and 10 months. At the time of his retirement he was getting a salary of Rs.16,000 p.m. and he use to get an increment of Rs.500 p.m. on 1st April every year. His DA was Rs.2,000 p.m.. Gratuity received Rs.3,40,000. Find out his taxable gratuity, if he is covered under Gratuity Act, 1972.

10. Mr. Rajender singh retired on 31.12.2015 and hs pension was fixed at Rs.3,600 p.m. He gets 3/4th of the pension commuted for which he received Rs.1,80,000 from his employer, a Ltd Co. find out the taxable amount of commuted value of pension if,

a. He gets gratuity and b. He does not get gratuity

11. Mr X. retires on 1st July 2015 after 18 years of service and receives Rs. 75,000 as amount of leave encashment for 15 months. His employer allows 45 days leave for every one year of service. During service he has already encashed leave for 12 months. Calculate the taxable amount of leave encashment if his salary during 1.7.2013 to 1.7.2014 was Rs.5,000 p.m.

12. Mr X. an employee of Ranchi (Population 15 lakhs) based company provides the following particulars of his salary income :

- Basic Salary 12,000 p.m.
- Profit bonus 12,000
- Commossin on turinover achieved by him 42,000
- Entertainment allowances 2,000 p.m
- Club facility 6,000
- Transport allowance 1,000 p.m.
- Free use of car of more than 16 lt capacity for both personal and employment purposes ; expenses are met by the employer.
- Rent free house provided by employer. Lease rent paid by employer Rs.6,000 p.m.
- Free education facility for three children of the employee:
  (Bills are issued in the name of the employer) Rs.22,500
- Gas, Water and electricity bills issued in the name of employee but paid by employer Rs.16,800

Compute income under the head salary for the assessment year 2014-15

13. From the following information, compute the taxable income under the head salaries of Shri Ramakant, who is working as a driver in a transport company

- Salary rs.8,000 p.m.

- Arrears if salary rs.4,000
- D A Rs.2,000 p.m
- Employer is paying insurance premium of Rs.16,000 p.a. in Ramakants life
- Bonus received Rs.15,000
- Education allowance for grand child Rs.400 p.m.
- Cash gift Rs. 10,000
- City compensatory allowance Rs.1,000 p.m.
- Medical expenses paid by employer Rs.6,000
- He contributes 15% of his salary t a recognized provident fund and his employer contributes the same
- He is given lunch allowance @ Rs.100 per day for 250 days during the previous year 2013-14
- He is provided with a mobile bill of which is paid by company Rs.6,000

14. MRV Rs. 24,000 p.a. ; Actual rent received Rs.30,000 p.a . ; Municipal taxes Rs 2,400 p.a.Date of completion 31.3.2007 ; Date of letting 1.4.2007 ; Fire insurance premium (Due) Rs 400 p.a. ; Ground rent (due) 600 p.a. Interest on loan taken to construct the house 2007 -08 to 2012-13@ Rs.15,000 p.a. and 2013-14 Rs,10,000 ; Interest on delayed payment of interest Rs. 1,000.

15.Find out Mr.Swamys income from House Property from the following information.

Municipal Valuation Rs.96,000.	Fair Rent Rs.88,000.
Standard Rent Rs.90,000.	Actual Rent Received Rs.9,000 p.m.
Self Occupied 1-4-10 to 30-11-10.	Let Out 1-12-10 to 31-3-11.
Municipal Taxes Due Rs. 6,000.	Municipal Taxes Paid Rs. 3,000.
Interest on brrowed Money Rs. 10,000.	

16. Mr. X owns a house at Chandigarh. This house property is used in following manner :

1/3rd of the house is used for own business

1/3rd of the house is used for own residence

1/3rd of the house is used by a tenant to whom it is let out @ Rs. 3,000 p.m. and it was self occupied for one month during the previous year. The municipal rental value of the house is Rs.96,000 p.a. on which municipality levies 10% tax. These taxes are paid by the occupants. Compute net annual value of the house property of the previous year 2014-15 if each portion is an independent unit.

17. Mr.G has given his premises on hire from 1.4.2010 to a company for its office . He submits the following particulars :

	Rs.		Rs.
MRV	1,50,000	Municipal taxes	12,000 p.a
FRV	1,66,000	Interest on loan for purchases of house	22,000
Standard rent	1,60,000		
Actual Rent	1,56,000		

As per agreement rent increases to Rs.14,000 p.m from 1.10.2013. But amount of increased rent is paid in May 2013. Compute his income for the previous year 2014-15.

18. Mr. B. owns a house property at Cochin. It consists of 3 independent unites and information about the property is given below.

Unit 1 : own residence

Unit 2 : let out

Unit 3 : own business

MRV Rs. 1,20,000 p.a. FRV Rs. 1,32,000 p.a. Standard rent Rs 1,08,000 p.a. Rent Rs. 3,500 p.m. Unrealized rent for 3 months, repairs Rs. 10,000 ; insurance Rs. 2,000 ;Interest on money borrowed for the construction of the house Rs. 96,000, Municipal taxes Rs14,400 Date of completion 1.11.2009

19. A is the owner of 4 houses. One house is let to a tenant for Rs.3,000 p.a. The second house , the municipal valuation of which is Rs.4,5000 p.a. is in his own occupation. The third house remained vacant throughout the whole year at is was not in rentable condition. The fourth house, the municipal valuation of which is Rs.6,000 is used by A for his business.

His expenses in respect of these houses are as follows :

Interest on loan taken to repair the residential house Rs 400

Fire insurance premium for 1^{st}, 2^{nd} and fourth house Rs 1,410

Collection charges Rs. 350

Ground rent in respect of 2^{nd} house Rs.200

The first house, which if let remained vacant for two months.

Calculate A's income from house property.

PROFITS AND GAINS OF BUSINESS OR PROFESSION

Business: Sec 2 (13)

Business includes any trade, commerce, or manufacture or any adventure or concern in the nature of trade, commerce, or manufacture. Or practical purpose business means the purchase and sale or manufacture of a commodity with a view to make profit. Business includes banking, transport business or any other adventure. Profit of an isolated transaction is also taxable under this head.

The most important head of income is the head 'Profits and gains of Business or Profession'. While the provisions of Sections 28 to 44D deal with the method of computing income under head "Profits and Gains of Business or Profession".

The meaning of the expression 'Business, has been defined in Section 2(13) of the Income-tax Act. According to this definition, business includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture. The concept of business presupposes the carrying on of any activity for profit, the definition of business given in the Act does not make it essential for any taxpayer to carry on his activities constituting business for a considerable length of time.

In other words, for even a single or isolated transaction entered into with the idea of making profit would be a business within the meaning of the definition given in Section 2(13). The concept of business presupposes the existence of the assessee's intention to make a profit out of his transactions.

The object to make profit must be inherent in the transaction although the ultimate result of the transaction may be such that the assessee had to incur loss. Thus, the assessability of profits and gains from business under this head does not in any way depend upon the ultimate outcome of the venture or transaction yielding income or loss.

Profession

A profession is a vocation founded upon specialized educational training, the purpose of which is to supply objective counsel and service to others, for a direct and definite compensation, wholly apart from expectation of other business gain. For example the work of lawyer, doctor auditor engineer and so on. Vocation means activities which are performed in order to earn livelihood. For example brokerage, music, dancing etc.

The following items are chargeable under the head income from business or profession.

(section28)

The profits and gains of any business or profession, which was carried on by the assessee at any time during the previous year;

Any compensation or other payment, due or received by the following:-

- Any person, by whatever name called, managing the whole or substantially the whole of the affairs of an Indian company, at or in connection with the termination of his management or the modification of the terms and conditions relating thereto;
- Any person, by whatever name called, managing the whole or substantially the whole of the affairs in India of any other company, at or in connection with the termination of his office or the modification of the terms and conditions relating thereto;
- Any person, by whatever name called, holding an agency in India for any part of the activities relating to the business of any other person, at or in connection with the termination of any agency or the modification of the terms and conditions relating thereto;
- Any person, for or in connection with the vesting in the Government, or in any corporation owned or controlled by the Government, under any law for the time being in force, of the management of any property or business;

Income, derived by a trade, professional or similar association from specific services performed for its members;

- Profits on sale of a license granted under the Imports (Control) Order, 1955, made underthe
- Imports and Exports (Control) Act, 1947;
- Cash assistance (by whatever name called), received or receivable by any person against exports under any scheme of the Government of India;
- Any duty of customs or excise repaid or repayable as drawback to any person against exports under the Customs and Central Excise Duties Drawback Rules, 1971;
- The value of any benefit or perquisite, whether convertible into money or not, arising from business or the exercise of a profession;
- Any interest, salary, bonus, commission or remuneration, by whatever name called,

due to, or income from speculative transactions.

Any sum received under a key man insurance policy including bonus.

Any sum whether received or receivable in cash or in kind , under an agreement for :

(a) Not carrying out any activity in relation to nay business or

(b) Not sharing any know how, patent, copyright, trade mark, licence franchise or any likely to assist in the manufacture or processing of goods or provision of services.

Any sum whether received or receivable in cash or kind, on account of any capital asset (other than land or goodwill or financial instrument) being demolished , discarded or transferred , if the whole of the expenditure on such capital asset has been allowed as deduction under section 35AD.

However, it is provided that where any interest, salary, bonus, commission or remuneration, by whatever name called, or any part thereof has not been allowed to be deducted under Clause (b) of section 40, the income under this clause shall be adjusted to the extent of the amount not so allowed to be deducted.

In the following cases, income from trading or business is not taxable under the head "profits and gains of business or profession":-

- Rent of house property is taxable under the head “Income from house property". Even if the property constitutes stock in trade of recipient of rent or the recipient of rent is engaged in the business of letting properties on rent.
- It is not the ownership of business which is important, but it is the person carrying on a business or profession, who is chargeable to tax.
- Income from business or profession is chargeable to tax under this head only if the business or profession is carried on by the assessee at any time during the previous year. This income is taxable during the following assessment year.

- Profits and gains of different business or profession carried on by the assessee are not separately chargeable to tax i.e. tax incidence arises on aggregate income from all businesses or professions carried on by the assessee. But, profits and loss of a speculative business are kept separately.

- It is not only the legal ownership but also the beneficial ownership that has to be considered.

- Profits made by an assessee in winding up of a business or profession are not taxable, as no business is carried on in that case. However, such profits may be taxable as capital gains or as business income, if the process of winding up is such as to involve the carrying on of a trade.

- Taxable profit is the profit accrued or arising in the accounting year. Anticipated or potential profits or losses, which may occur in future, are not considered for arriving at taxable income. Also, the profits, which are taxable, are the real profits and not notional profits. Real profits from the commercial point of view mean a gain to the person carrying on the business and not profits from narrow, technical or legalistic point of view.

The yield of income by a commercial asset is the profit of the business irrespective of the manner in which that asset is exploited by the owner of the business.

Any sum recovered by the assessee during the previous year, in respect of an amount or expenditure which was earlier allowed as deduction, is taxable as business income of the year in which it is recovered.

Modes of book entries are generally not determinative of the question whether the assessee has earned any profit or loss. The Income tax act is not concerned with the legality or illegality of business or profession. Hence, income of illegal business or profession is not exempt from tax.

Profits and losses of speculation business carried on by an assessee are kept separate. Profits made in winding up of a business by the sale of assets in one lot are nottable as business profit but as capital gain. The profit on the sale of stock in trade will be taxable as business profit, because the sale of goods under any circumstances is a transaction in the nature of trader and hence its profit is taxable as business profit. Tax is levied on the actual profit of the previous year and not on the anticipated profit.

Speculative Transactions and Taxability of Speculation Business

Speculative Transaction [Section 43(5)]: “Speculative Business” means a transaction in which a contract for purchase/sale of any commodity/stocks/ shares is settled otherwise than by the actual delivery or transfer of the commodity or scrips. Transactions not regarded as speculative transaction.

Deduction In Respect Of Losses Incidental to Business

A loss (other than capital loss), which is incidental to the trade, is allowable in computing the business profits on ordinary principles of commercial trading. Such trading losses can be claimed as deduction provided the following conditions are satisfied:

(a) Loss should be real in nature and not notional or fictitious;

(b) It should be a revenue loss and not capital;

c) Loss should have resulted directly from carrying on of business i.e. it should be incidental to business;

(d) Losses should have actually occurred during the previous year;

(e) There should be no direct or indirect restriction under the Act against the deductibility of such loss. E.g. Loss of stock-in-trade on account of fire, embezzlement/theft of cash in course of business, or loss on account of advances/guarantees granted during course of business, are admissible in the computation of taxable income on the basis of common principles of accounting and commercial expediency.

Amounts expressively allowed as deduction [U/s 30 to 37]

Deduction In Respect Of Rent, Rates, Taxes, Repairs and Insurance, etc. for Buildings, Plant and Machinery and Furniture [Section 30 And 31]

The following are allowable as deduction in computing the income under the head ‘Profits and Gains of Business or Profession’ –

1.Rent of the premises is allowed ad deduction. However, notional rent paid by proprietor is not allowed as deduction. But rent paid by him to its partner for using his premises is allowed as deduction.

2. Current repairs if the assessee bears the cost of repairs are allowed as deduction. However, Capital repairs incurred by the assessee are never allowed as deduction whether premises is

occupied as a tenant or as an owner. Instead the capital repairs incurred shall be deemed to be a building and depreciation shall be claimed.

3.Any sum on account of Land Revenue, Local Taxes or Municipal Taxes subject to section 43B.

4. Insurance charges against the risk of damage or destruction of building is allowed as deduction.

5. In respect of repairs and insurance of machinery, plant & furniture used for the purpose of business or profession the following deductions are allowable:

i. Amount of expenditure incurred on current repairs of machinery, plant or furniture used in the business is deductible.

ii. The amount paid for current repairs shall not include any expenditure in the nature of capital expenditure.

Depreciation [Section 32]:

In respect of depreciation of-

(i) buildings, machinery, plant or furniture, being tangible assets;

(ii) know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature, being intangible assets acquired on or after the 1st day of April, 1998, owned, wholly or partly, by the assessee and used for the purposes of the business or profession

Tea Development account, coffee development account and rubber development account (section 33AB)

Certain deduction is allowed to assessee growing and manufacturing tea or coffee or rubber in India.

For this purpose, the assessee is required to

i. Deposit in a special account with the national bank for Agriculture and rural development in accordance with the scheme approved by the tea board or the coffee board or rubber board or deposit any amount in on an account opened by the assessee (known as deposit account) in accordance with the deposit scheme framed by the tea Board or the Coffee Board or the rubber board as the case may be, with the previous approval of the central government.

ii. The deposit should be made within a period of six months from the end of the previous year or before furnishing the return of income whichever is earlier.

iii. In computing taxable profits from the above business the following deduction will be allowed in respect of the above deposit:

(a) A sum equal to the amount so deposited or

(b) 40% of the profits from such business (before making deduction under this section and before setting off brought forward business losses) whichever is less.

iv. This deduction shall be allowed only if the accounts of such business from the previous year concerned have been audited by a chartered accountant and the audit report is furnished along with the return of income.

Deduction in respect of prospecting for or extraction or production of petroleum or natural gas or both India (Section 33ABA)

(1) Where an assessee is carrying on business consisting of the prospecting for, or extraction or

Government has entered into an agreement with such assessee for such business, has before the end of the previous year—

(a) deposited with the State Bank of India any amount or amounts in an account (hereafter in this section referred to as the special account) maintained by the assessee with that Bank in accordance with, and for the purposes specified in, a scheme (hereafter in this section referred to as the scheme) approved in this behalf by the Government of India in the Ministry of Petroleum and Natural Gas; or

(b) deposited any amount in an account (hereafter in this section referred to as the Site Restoration Account) opened by the assessee.

Expenditure on scientific research (section 35)

The word 'Scientific Research' has been defined as 'an activity for the extension of knowledge in the fields of natural or applied sciences including agriculture, animal husbandry or fisheries'. Such an activity may result in an improved efficiency and thereby increases the productivity of the process. So, in order to encourage people to enhance the productivity, government has provided certain tax incentives under this section for expenditure incurred in respect of Scientific Research. Such Scientific research may be carried out for the purpose of

(a) Extension of business;
(b) Providing medical facilities to the employees. Deduction under this section is allowed in two ways
(A) When assessee takes up scientific research on his own
(B) When assessee contributes amount for scientific research to an approved body. The provisions of both are given below.
(A) When assessee takes up scientific research on his own:

When assessee carries on any scientific research, the expenditure incurred by him for such may be
(a) Revenue expenditure or
(b) Capital expenditure.
The treatment of above is as follows.

(a) Revenue expenditure:

Any revenue expenditure incurred by the assessee in respect of scientific research within **3 years** immediately preceding the year of commencement of business shall be allowed deduction in the year of commencement. Such revenue expenditure may be in respect of salaries (excluding any perquisites) payable to the staff involved in the research; for acquiring the inputs required to carry out the research or any such eligible expenditure.

(b) Capital expenditure:

Any Capital expenditure incurred by the assessee is deductible **100%** in the year it is incurred. (4) Amount contributed to National Laboratory [Section 35(2AA)]:
Any amount contributed by the assessee to a National laboratory* or University or IIT or to a specified person (approved by prescribed authority) with a specific direction that the amount shall be used for the purpose of scientific research, shall be given a weighted deduction of **2 times**.
Any laboratory functioning at national level under the aegis of

(1) Indian Council of Agricultural Research

(2) Indian Council of Medical Research

(3) Council of Scientific and Industrial Research

(4) Defence Research and Development Organisation

(5) Department of Electronics

(6) Department of Bio-technology

(7) Department of Atomic Energy

In all the above cases, deduction shall not be denied on the ground that subsequent to such contribution by the assessee, approval granted to the donee has been withdrawn by the prescribed authorities.Conditions to be fulfilled in order to claim depreciation under section 32.In order to claim depreciation under Section 32, the following conditions are required to be fulfilled: (1)Depreciation is available on 'assets' and 'block of assets': The assets may be tangible(Buildings, Machinery, Plant and Furniture) or intangible (know-how, patents, copyrights, trademarks, licences, franchises, etc.) in nature.

'Block of Assets' means group of assets comprising of tangible or intangible assets in respect of which the same rate of depreciation is prescribed.

CHART SHOWING COMPUTATION OF PROFITS AND GAINS OF BUSINESS OR PROFESSION

Computation of business profits

For computation of business profits, the profit and loss account serves as the basis. The profit and loss account shows certain expenses and losses which are either fully or partly disallowed under the provisions of income tax Act. On the credited side there are certain incomes which are either tax free or are not taxable under this head. The following table can help a person to compute the business income of an assessee:

Balance as per profit and loss account	**xxxxx**
Add : Expenses claimed but not allowed under the Act	xxxx

Less: Any expenditure which is allowable under the Act , but has

not been debited to P and L A/c	xxxx
Less: Any income which is either exempt or not taxable under this head	xxxx
Taxable business income	**xxxx**

Balance as per profit and loss account	**xxxxx**
Add : Expenses claimed but not allowed under the Act	xxxxx

- All provisions and reserves
- All taxes
- Rent paid to self
- All capital expenses except on scientific research
- All capital loss
- All charities and donation
- All expenses relating to other head of income
- Cultivation expenses
- Any interest on capital unless the amount is borrowed
- All personal expenses
- Any depreciation if wrongly debited
- Gifts and presents (Non-advertisement)
- Any type of fine or penalty
- Any payment to a partner (In case of firms only by way of salary, interest , bonus , commission or remuneration excess over prescribed limits)
- Any salary or interest payable outside India unless tax is deducted at source it is paid according to the law
- Past losses
- Any other expenditure which is not incurred according to the provisions of law
- Salary paid to self or any other member of family for casual help
- Personal life insurance premiums
- Any amount invested in savings such as NSS , NSC, PPF,
- Rent for residential portion

- Speculation loss
- Bad debt still recoverable
- Legal expenses on criminal case or a personal case of employee
- Legal expenses on curing title of asset
- Loss by theft from residence
- Expense on illegal business
- Employer contribution URPR
- Differences in trial balance
- Difference due to under crediting of stock
- Cost of patents rights being capital expenditure
- Cost of technical know- how being capital expenditure
- Preliminary expense being capital expenditure

Less: Any expenditure which is allowable under the Act , but has not been debited to P and L A/c **xxxx**

- Actual bad debt
- Depreciation
- Any other expenditure incurred according to provision of law
- Differences due to under debiting of stock

Less: Any income which is either exempt or not taxable under this head **xxxx**

a. Income exempted from tax

- Post office savings bank interest
- Agricultural receipts
- Gifts from relatives
- Income tax refund
- Bad debt recovered – disallowed earlier
- Life insurance maturity amount
- Any capital receipt
- Withdrawal from PPF

b. Incomes taxable under other heads

- Part time salary

- Interest on securities
- Rent form house property let
- Capital gain
- Dividend
- Bank interest
- Winning from lotteries
- Race course

Taxable business income **xxxx**

COMPUTAION OF PROFESSIONAL INCOME

To compute the professional income , it is easier to take professional receipt of the previous year and deduct out these the professional expenses incurred during that year.

In case of doctor or medical practitioners

Professional receipts

- Consultation fees
- Operation fees
- Visiting fees
- Sale of medicines
- Goft from patients
- Value of any perquisites received by such person
- Examiners fees
- Nursing home fee
- Any other professional receipt

Less: Professional expenses:

- Dispensary expenses
- Cost of medicines
  - If accounts are maintained on cash basis :
  - Cost of actual medicines purchased during the previous year
  - If account are maintained on mercantile basis:

- Opening stock + New purchases - closing stock

- Depreciation on surgical equipment and X- ray machines at prescribed rates
- Cost of books for professional purposes
- Motor car expenses : Depreciation relating to professionl work
- Nursing home expenses
- Any other expense incurred during the year

Professional income

In case of chartered accountant

Professional receipt

- Audit fees
- Income from accountancy work
- Institute fee
- Examiner fee
- Gifts from clients
- Consultancy services
- Any another receipt

Total professional receipt

Less: Professional expenses

- Office expenses
- Institute expenses
- Cost of books
- Motor car expenses relating to professional work
- Membership fees
- Depreciation on office equipment, car etc
- Any other expenditure incurred to increase professional knowledge
- Stipend to trainees
- Subscriptions

Total professional expenses

Professional income

Income of lawyer or an advocate

Professional receipts

- Practicing fees
- Legal fees
- Sepecial commission
- Presents from clients
- Examiners fees
- Any other receipt

Total professional receipts

Less: Professional expenses

- Office expenses
- Salary of staff
- Cost fo books for professional purpose
- Depreciation of office equipment
- Expenditure incurred to increase professional knowledge
- Subscription
- Purchase of stamp paper and court fee
- Travelling expenses
- Total professional expenses

Professional gain

Rates of Depreciation In Case Of Block of Assets

Tangible Assets Rate

(I) Building:

(1)Residential Buildings except hotel and boarding houses .5%

(2)Non-residential Buildings [office, factory, godown, hotels, ..10%

boarding houses but other than (1) above and (3)(i)below]

(3) (i) Buildings for installing Plant and Machinery forming part of water supply or water

treatment system for infrastructure business u/s 80-India IA (4)(i). (ii) Purely temporary erections such as wooden structures ……………………………….100%

(II) Furniture And Fittings:

(4) Furniture and Fittings including electrical fitting s (“Electrical Fittings” include electrical wiring, switches, sockets, other fittings and fans, etc. …………………………..10 %

(III) Plant And Machinery

(5) Motor Cars not used in business of running them on hire; and Plant & Machinery other than those covered in other Blocks ………………..15%

(6) Ships and vessels ………………….20%

(7) Motor buses, Lorries and taxis used in business of running on hire; Moulds used in rubber and

plastic goods factories; Plant & Machinery used in semi-conductor industry including circuits;

….30%

(9) Glass and Plastic containers used as refills ………………..50%

(10) (i) Computer including computer software (ii) Books (iii) Gas Cylinders including valves and regulators (iv) Glass Manufacture – Melting Furnaces, Mineral Oil Concerns; ……….60%

(11) Flour Mills-Rollers, Rolling Mill rolls in Iron and Steel Industry; Energy renewal and energy saving devices; Rollers in Sugar Works …………..80%

(12) (i) (a) Books (annual publications) owned by assessee carrying on profession; and (b) Books owned by assessee carrying on business in running lending libraries (ii) Plant and Machinery in water supply and treatment system for infrastructure u/s 80IA(4)(i); Wooden part in artificial silk

manufacturing Plant & Machinery; Cinematograph films-Bulbs of studio lights; Wooden Match frames in Match factories; Mines and Quarries-rubs, ropes, lamps, pipes; Salt works – Clay and

salt pans, etc.; Air-pollution, Water-pollution, Solid waste control equipments and Solid waste recycling system. ……….100%

Intangible Assets

(13) Know-how, patents, copyrights, trademarks, licences, franchises, or any other business or commercial rights of similar nature …………25%

Concept of "Written Down Value" (WDV) [Section 43(6)]

WDV in general: In case of assets acquired in previous year, WDV= Actual cost to the assessee. In case of assets acquired before previous year, WDV = Actual cost to assessee less depreciation actually allowed (including unabsorbed depreciation, if any) to the assessee.

WDV in case of Block of Assets:

Written down Value of the block of assets as on 1st day of previous year

Add: Actual Cost of asset falling within the block, acquired during previous year

Less : Moneys payable (including scrap) for asset falling within block which is sold, discarded, demolished, destroyed during the previous year to the extent of (A) + (B) above

WDV of block of assets eligible for depreciation

Carry Forward and Set-Off Of Unabsorbed Depreciation [Section 32(2)]

(1) Amount of depreciation remaining unabsorbed shall be allowed to be carried forward whether or not the business/asset to which it relates exists. It shall be treated as part of current year depreciation.

(2)Return of loss is not required to be submitted to carry forward unabsorbed depreciation.

(3)Brought forward business losses (speculative or non-speculative) under Section 72(2) and 73(3) shall be given priority of set off over unabsorbed depreciation.

(4)While allowing unabsorbed depreciation, the expression 'Profit and Gains Chargeable to Tax'

llustration: 1 The net profit of business of Mr. Baveesh as disclosed by its P&L account was Rs:3,25,000 after charging the following:

Municipal taxes on house property let out Rs:3,000 Bad debt written off Rs:15,000

Provision for bad and doubtful debts Rs: 16,000

Provision for taxation Rs: 15,000

Depreciation Rs: 25,000

Depreciation allowance as per rule is Rs:20,000.

Compute taxable business profit.

Solution:

Computation of income from busines

Particulars	Rs	Rs
Net profit		3,25,000
Add: Municipal taxes	30000	
Provision for bad debts	16000	
Provision for taxation	15000	
Excess epreciation	5000	39,000
Business Profit		3,64,000

Illustration:2

From the following P&L account, compute income from business:

PROFIT AND LOSS ACCOUNT

To Salaries	14,600	By G/p	1,35,000
To household expense	2000		
To income tax	900		
To Gifts	900		
To business expense	2,200		
To LIC premium	2,100		
To bad debt reserve	800		
To N/P	1,11,500		
	1,35,000		**1,35,000**

Solution:

Computation of income from business for the A Y 2015-2016

Net Profit as pe P&L Account : 1,11,500

Add : Expenses Disallowed:

Household expenses 2,000

Income tax	900	
Gift	900	
LIC Premium	2,100	
Bad debt reserve	800	6,700
Incomefrombusiness		1,18,200

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Illustration:3

Dr. Biju is a medical practitioner in Mahe. From the following, calculate his income from profession for the AY 2016-17:

Gross receipt from dispensary	2,35,000
Gross receipt from consultation	1,65,000
Operation fee	2,50,000
Visiting fee	50,000
Gifts from patients	30,000
Medicines purchased	1,25,000
Closing stock of medicines	35,000
Salaries paid to employees	1,50,000
Surgical equipments purchased	48,000
Dr. Biju wanted to attend a medical seminar in Australia to update the knowledge and spent an amount of	25,000
Medical books purchased	20,000
He owns a house whose MRV is Rs:50,000. Half portion of the house is used for profession. Expenses paid on house are municipal tax=30% of MRV ; Repairs Rs:10,000 ; and renovation expenses Rs:30,000.	

Solution:

Computation of income from profession for the AY 2016-17

Gross receipts from dispensary	2,35,000	
Gross receipts from consultation	1,65,000	
Operation fee	2,50,000	
Visiting fee	50,000	
Gifts from patients	30,000	7,30,000
Less : Expenses :		
Medicines (1,25,000—35,000)	90,000	
Salaries to employees	1,50,000	
Surgical equipments (Depreciation :15%)	7,200	
Visit to Australia to attend a medical seminar	25,000	
Medical Books (Depreciation : 60%)	12,000	
Expenses on house used for profession:		
Municipal tax (50,000 x 10% x ½)	2,500	
Repairs (10,000 x ½)	5,000	
Total		2,91,700
Income from profession		4,38,300

Illustration:4

The following is the Receipts and Payments account of Mr. Akhilesh, a practicing Chartered Accountant for the year ended 31-03-2016:

Receipts	Rs:	Payments	Rs:
Audit fee	19,210	Office expenses	10,000
Consultation	10,000	Office rent	5,000
Tribunal appearance	15,000	Salaries and wages	12,050
Miscellaneous	20,000	Printing and Stationeries	1,000
Interest on Govt. security	10,000	subscription	3,000
Rent received	10,000	Purchaseofbooks(annual publication)	1,300
Presents from clients	10,000	Travelling expenses	5,800
		Interest on bank loan	3,000
		Donation to National Defence Fund	5,000

Loan from bank was taken for the construction of the house in which he lives. MRV of the house is Rs: 8,000 and the local taxes Rs: 800 p.a. One-fourth of travelling expenses are not allowable. Compute income from profession for the A Y 2016-17

Solution:

Computation of income from business for the AY 2015-16

Particulars	Rs:	Rs:
Audit Fees	19,210	
Consultation Fee	10,000	
Tribunal appearance	15,000	
Miscellaneous	20,000	
Presents from clients	10,000	74,210
Less: Allowable Expenses:		
Office expenses	10,000	

Office rent	5,000	
Salaries and wages	12,050	
Printing and stationery	1,000	
Subscription	3,000	
Purchase of books (100% depreciation)	1,300	
Travelling expenses (5,800 x ¾)	4,350	36,700
Income from Profession		37,510

Illustration:5

Calculate the amount of depreciation on the assets of a mill:

Factory building W.D.V. on 01-04-2015 Rs: 14,00,000

Additions made on 01-06-2012 Rs: 6,00,000

Rate of depreciation 10%

The part of factory building which was destroyed by fire, for which the insurance company

Solution:

Computation of Depreciation

Factory building : W.D.V on 1-4-2014 Rs: 14,00,000

Additions made on 1-6-2014 Rs: 6,00,000

Rs: 20,00,000

Less: Amount received from the insurance company Rs:60,000

Amountb received from the sale of scrap Rs:10,000 Rs: 70,000

Written Down Value of factory building for the AY 2015-16 Rs: 19,30,000

Therefore, Depreciation @ 10% **Rs: 1,93,000**

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Illustration:6

From the following figures, you are required to calculate the depreciation admissible during the previous year:

	Plant & Machinery(Rs:)	Building(Rs:)
W.D.V. at the beginning of the year	3,75,000	15,00,000
Purchased during the year	4,50,000	Nil
Sales during the year	7,75,000	3,00,000

Solution:

Computation of Depreciation

Particulars	Plant & Machinery	Building
	Rate = 15%	Rate = 10%
W.D.V at the beginning of the year	3,75,000	15,00,000
Add: Purchase	4,50,000	Nil
Total	8,25,000	15,00,000
Less: sales	7,75,000	3,00,000
W.D.V.	50,000	12,00,000
Depreciation	7,500	1,20,000

Illustration:7

From the following Profit and Loss Account of a Merchant for the year ending 31st March, 2016. Compute his income from business and his total income for assessment year 2016-17:

Profit and Loss Account

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To Trade expenses	700	By Gross Profit	35,200
To Salary	2,500	By Dividend from a	
To Rent, Rates and Taxes	2,400	Cooperative Society	3,000
To Income-tax	1,400	By Income from Property	850
To Discount and allowance	300	By Interest from Government	
To Household expenses	2,000	Securities (gross)	2,000
To Life Insurance Premium	1,000		
To Interest on Capital	500		
To Interest on loan	700		
To Advertisement	800		
To Postage and Telegram	50		

To Audit Fee	200		
To Provision for gratuity	4,000		
To Fire Insurance Premium	730		
To Provision for bad debts	2,000		
To Provision for Income-tax	1,800		
To Depreciation	4,000		
To Net Profit	15,970		
	41,050		**41,050**

Sol:

Computation of Total Income for the Assessment Year 2016-17

Income from house property:			
– Income from property	850		
Less: 30% under Section 24	(255)		
Income from house property			595
Income under the head Business or Profession			
Net Profit		15,970	
Add: Inadmissible items:			
– Income tax	1,400		
– Household Expenses	2,000		
– Life Insurance Premium	1,000		
– Interest on Capital	500		
– Provision for gratuity	4,000		
– Provision for bad debts	2,000		
– Provision for Income-tax	1,800		
Less: Income to be shown separately:			
– Dividends from a cooperative society	3,000		
– Income from property	850		
– Interest from Government Securities	2,000		
Taxable Profits from Business			22,820

Income from other sources:	
Dividends from cooperative society	3,000
Interest from Government Securities	2,000
Income from other sources	5,000
Gross Total Income:	**28,415**

Notes:

1. Provision for gratuity is not admissible. However, payment of actual gratuity is allowed.

2. It is assumed that income from property is by way of rent received and as per the provision of Section 24 of the Act, thirty percent thereof has been deducted as repair allowance.

CAPITAL GAINS

Profits or gains arising from the transfer of a capital asset made in a previous year are taxable as capital gains under the head "Capital Gains". The capital gain is chargeable to income tax if the following conditions are satisfied:

1. There is a capital asset.
2. Assessee should transfer the capital asset.
3. Transfer of capital assets should take place during the previous year.
4. There should be gain or loss on account of such transfer of capital asset.

Capital Asset: Sec. 2(14): Capital Asset means property of any kind (Fixed, Circulating, movable, immovable, tangible or intangible) whether or not connected with business or profession.

Exclusions —

a. Stock-in-trade

b. Personal effects of the assessee i.e., personal use excluding jewellery, costly stones, silver, gold

c. Agricultural land in a rural area i.e., an area with population more than 10,000.

d. 6½% Gold Bonds, 1977 or 7% Gold Bonds, 1980 or National Defence Bonds, 1980 issued by the Central Government

e. Special Bearer Bonds, 1991 issued by the Central Government.

f. Gold Deposit Bonds issued under Gold Deposit Scheme 2000

Kinds of capital assets

There are two kinds of capital assets

Short-term capital asset: Sec. 2(42A): means a capital asset held by an assessee for not more than thirty six months immediately preceding the date of its transfer. However, in the following cases, an asset, held for not more than twelve months, is treated as short-term capital asset—

a. Quoted or unquoted equity or preference shares in a company

b. Quoted Securities

c. Quoted or unquoted Units of UTI

d. Quoted or unquoted Units of Mutual Funds specified u/s. 10(23D)

e. Quoted or unquoted zero coupon bonds

Long-term capital asset: Sec. 2(29A)

It means a capital asset which is not a short-term capital asset. Under the existing law, profits and gains arising from the transfer of capital asset made in a previous year is taxable as capital gains. A capital asset is distinguished on the basis of the period of holding. A capital asset, which is held for more than three years, is categorized as a long-term capital asset. However, if the capital asset is in the nature of equity, it is categorized as a long- term capital asset if it is held for more than one year. All capital assets other than long-term

-term capital asset.

Transfer of capital asset

Transfer includes:

• Sale of asset

• Exchange of asset

• Relinquishment of asset (means surrender of asset)

• Extinguishments of any right on asset (means reducing any right on asset)

• Compulsory acquisition of asset.

The definition of transfer is inclusive, thus transfer includes only above said five ways. In other words, transfer can take place only on these five ways. If there is any other way where an asset is given to other such as by way of gift, inheritance etc. it will not be termed as transfer.

Year of chargeability to tax

Capital gains are generally charged to tax in the year in which 'transfer' takes place.

Long term capital gains

Long term Capital gains, if the assets like shares and securities, are held by the assessee for a period exceeding 12 months or 36 months in the case of other assets. Units of UTI and specified mutual funds will now be eligible for treatment as long term capital assets if they are held for a period exceeding 12 months. Long term Capital gains are computed by deducting from the full value of consideration for the transfer of a capital asset the following:

- Expenditure connected exclusively with the transfer;
- The indexed cost of acquisition of the asset, and
- The indexed cost of improvement, if any, of that asset.

The method of computing capital gains is given below:

Short-term Capital Gain	**Long-term Capital Gain**
A. Find out Full Value of Consideration	Find out Full Value of Consideration
Deduct:	Deduct:
(i) Expenditure incurred wholly and exclusively in connection with such Transfer.	(i) Expenditure incurred wholly and exclusively in connection with such Transfer.
(ii) Cost of Acquisition	(ii) Indexed Cost of Acquisition
(iii) Cost of Improvement	(iii) Indexed Cost of Improvement
(iv) Exemption provided by Ss. 54B, 54D & 54G, 54GA	(iv) Exemption provided by Ss. 54, 54B, 54D, 54EC, 54ED, 54F & 54G, 54GA
A.	

C. (A-B) is the short-term capital gain	C. (A-B) is the long-term capital gain

Differences between Long term capital gains and Short term capital gains

Long Term Capital Gain	**Short Term Capital Gain**
It arises out of transfer of long term capital assets	It arises out of transfer of short term capital assets
Tax rate is 20%	Rates applicable to all other incomes
Cost of acquisition and cost of improvement are indexed on the basis of CII.	No indexing is done.
If LTCA is acquired before 1-4-1981, then the fair market value of the asset as on 1-4-1981 is taken as the value of acquisition.	No such option is available to STCA.
Long term capital loss can be set off only against long term capital gain.	Short term capital loss can be set off against short term capital gain or long term capital gain.

Full value of consideration

Full value of consideration means and it includes the whole or complete sale price or exchange value or compensation including enhanced compensation received in respect of capital asset in transfer. The following points are important to note in relation to full value of consideration.

1. The consideration may be in cash or kind.
2. The consideration received in kind is valued at its fair market value.
3. It may be received or receivable.
4. The consideration must be actual irrespective of its adequacy.

When shares, debentures or warrants are received under employees stock option plan or scheme are transferred under a gift or an irrecoverable trust , the market value on the date of transfer shall be deemed to be the full value of consideration received or accruing as a result of transfer for computation of capital gains.

Cost of Acquisition

Cost of Acquisition (COA) means any capital expense at the time of acquiring capital asset under transfer, i.e., to include the purchase price, expenses incurred up to acquiring date in the form of registration, storage etc. expenses incurred on completing transfer. In other words, cost of acquisition of an asset is the value for which it was acquired by the assessee. Expenses of capital nature for completing or acquiring the title are included in the cost of acquisition.

Cost to the previous owner deemed to be the cost of acquisition:

If the asset is acquired by an assessee in the following circumstances the cost of acquisition of the asset shall be deemed to be the cost for which the previous owner of the property acquired it.

1. On any distribution of asset on the total or partial partition of a HUF or
2. Under gift or will
3. By succession , inheritance or devolution or
4. On any distribution of assets on the dissolution of a firm, body of individuals or other association of persons at any time before 1-04-1987. Or
5. On Any distribution of asset on the liquidation of a company or
6. Under a transfer to a revocable or an irrevocable trust or
7. On transfer by a parent company to its Indian subsidiary company which is wholly owned by a parent company or
8. On the transfer by a subsidiary company to its Indian holding company which owns whole of the share capital of the subsidiary company or
9. On the transfer of capital asset by the amalgamating company to the amalgamated company if the amalgamated company is an Indian company. Or
10. On transfer of shares of an Indian company by amalgamated foreign company to the amalgamated foreign company. Or
11. On the transfer of capital asset in a scheme of amalgamation of a banking company with a banking institution sanctioned and brought into force by the central government or
12. When any members of HUF converts his self acquired property into HUF property or

13. On transfer of capital asset by the predecessor cooperative bank to the successor cooperative bank in a business organization or

14. On transfer of shares in the predecessor cooperative bank in lieu of shares allotted in the successor cooperative bank in a business reorganization or

15. On transfer of capital asset or intangible asset by a firm to a company as a result of succession of the firm by a company or

16. On succession of a sole proprietary concern by a company.

Cost of share or security

If the share or security was acquired before 1st April 1981, the cost of acquisition will be the actual cost or fair market value on 1st April 1981 whichever is beneficial to the assessee. If it is acquired after 31st march 1981, the actual cost is the cost of acquisition.

Cost of bonus shares

The cost of bonus shares or security which is received by the assessee without any payment on the basis of his holding any financial asset will be as under

(a) Where bonus share or security was received prior to 1st April 1981, the fair market value on 1str April 1981.

(b) In any other case- nil

Cost of acquisition of goodwill

If the asset is purchased from the previous owner – purchase price In any other case – Nil

Right issue-cost of acquisition in the case of right issue is amount actually paid to acquire it.

Capital asset acquired before 1st April 1981- total cost of the asset to the assessee or the faire market value on 1st April 1981.

Capital asset acquired by the previous owner before 1st April 1981- total cost of the asset to the previous owner or the faire market value on 1st April 1981.

Cost of acquisition of shares or debentures- shares or debentures acquired in consideration of conversion of debenture, debenture stock or deposit certificate shall be deemed to be the cost of original debentures, debenture stocks or deposit certificates converted.

Cost of Improvement

Cost of improvement is the capital expenditure incurred by an assessee for making any addition or improvement in the capital asset. It also includes any expenditure incurred in protecting or curing the title. In other words, cost of improvement includes all those expenditures, which are incurred to increase the value of the capital asset.

$$\text{Indexed Cost of improvement} = \frac{\text{cost of improvement x CII for the year in which the asset is sold}}{\text{CII for the year in which the improvement To asset took place.}}$$

Any cost of improvement incurred before 1st April 1981 is not considered or it is ignored. The reason behind it is that for carrying any improvement in asset before 1st April 1981, asset should have been purchased before 1st April 1981. If asset is purchased before 1st April we consider the fair market value. The fair market value of asset on 1st April 1981 will certainly include the improvement made in the asset.

Computation of capital gains in case of slump sale: Any gain arising from the slump sale effected in the previous year shall be chargeable as long term capital gains of the previous year in which the transfer take place.

Expenditure on transfer

Expenditure incurred wholly and exclusively for transfer of capital asset is called expenditure on transfer. It is fully deductible from the full value of consideration while calculating the capital gain. Examples of expenditure on transfer are the commission or brokerage paid by seller, any fees like registration fees, and cost of stamp papers etc., travelling expenses, and litigation expenses incurred for transferring the capital assets are expenditure on transfer.

Note: Expenditure incurred by buyer at the time of buying the capital assets like brokerage, commission, registration fees, cost of stamp paper etc. are to be added in the cost of acquisition before indexation.

Exemption from Capital Gains

Capital gain arising on the transfer of property used for residence: -

The exemption u/s 54 relates to the capital gain arising out of transfer of residential house. The exemption is available to only Individual assessee. The exemption relates to the capital gains arising on the transfer of a residential house.

Conditions: Exemption is available if: -

House Property transferred was used for residential purpose.

House Property was a long term capital asset.

Assesses has purchased another house property within a period of one year before or two years after the date of transfer or has constructed another house property within three years of date of transfer i.e. the construction of the new house property should be completed within three years. The date of starting of construction is irrelevant. Where the amount of capital gain is not utilized or before the due date of furnishing the return of income in an account opened under the capital gain account scheme 1988.

Amount of Exemption will be the least of: -

1. Capital Gain
2. Cost of new house.

Withdrawal of exemption: If the newly acquired house property is transferred within three years of acquisition. Thus the earlier exempted capital gain will be charged to tax in the year in which the newly acquired house property is transferred. For that the cost of acquisition of the newly acquired house property will be reduced by the amount of exemption already availed thus the cost will reduce and thus the capital gains on the new house property will be more. Above all the new house property will be a STCA since for withdrawal of exemption it should had been sold within three years of its acquisition thus now the capital gain of the new house property will be STCG which is charged as per the normal rates which may be 30% (a higher rate as compare to the flat rate of LTCG of 20%) in the case of individuals.

Capital gain arising from the transfer of agricultural land (sec 54 B)

Any capital gain arising on the transfer of agricultural land situated in an urban area is exempt subject to the following conditions

1. The agriculture land is owned by an individual or a HUF
2. The agriculture land was , in the two years immediately preceding the date of transfer, being used either by the assessee or his parent or HUF for agriculture purposes.
3. The assessee has purchased within a period of two years from the date of transfer any other land for agricultural purposes.

The amount of deduction is the capital gain arising from the transfer of such agricultural land is exempt to the extent of the cost of the new agricultural land purchased within two years from the date of transfer. If the amount of capital gain is not utilized by the assessee for the acquisition of the new agricultural land before due date of furnishing return of income, it shall be transferred to capital gain account scheme.

The exemption is withdrawn if the assessee transfers the new land within 3 years of its purchase.

Capital gain on compulsory acquisition of land and buildings (sec 54 D)

This exemption is available to all categories of taxpayers. To get exemption the following conditions are to be satisfied.

1. The asset transferred is land or building or any right in land or building which formed part of new industrial undertaking belonging to the tax payer.

2. Asset in question is transferred by way of compulsory acquisition under any law.

3. The asset in question was used for the purpose of industrial undertaking at least for two years immediately before the date of compulsory acquisition.

4. Assessee has purchased any other land or building with in a period of three years from the date of receipt of compensation or constructed a building within such a period.

If the new asset is not acquired by the due date for furnishing the return of income for the relevant assessment year, the unutilized amount of capital gains must be deposited in a Capital Gains Deposit Account.

The cost of acquisition of the new asset is reduced by the exemption granted from LTCG for a period of 3 years from its date of acquisition.

Investment in Financial Assets (Section -54 EC)

This exemption is available to all categories of taxpayers. To get exemption the following conditions are to be satisfied.

1. The assessee should transfer a long-term capital asset during the previous year.
2. The assessee should invest the whole or part of capital gain in long term specified assets. The long term specified assets include

I. Bonds redeemable after three years II. Issued on or after 1.4.2007 and III. Issued by

a) National Highway Authority of India (NHAI). Or b) Rural Electrification Corporation Limited (RECL).

The investment made on or after 1.4.2007 in the long term specified asset by an assessee during any financial year shall not exceed fifty lakh rupees. The investment is to be made within six months from the date of transfer of the original capital asset. The bonds should not be transferred or converted into money for a period of three years from the date of acquisition. In case the bonds are transferred within 3 years from the date of their acquisition, the exemption allowed for investment earlier would be taxed in the year of such transfer as capital gains. For this purpose it would be considered as transfer even if the assessee takes any loan or advance on the security of the specified securities. For the investment in the bonds deduction under section 80C will not be available.

Investment into a residential house (Section 54F)

If an individual or a HUF having LTCG arising out of sale of capital asset other than a residential house invests in the purchase or construction of a residential house, then, he/it is eligible for exemption.

Cost of New House X Capital
Gains Amount of exemption = -----------------------------

Net
Consideration

Where net consideration = full value of consideration - cost of transfer.

The time available for investment and the method to be followed for investment after the due date for filing of return of income are the same as mentioned in the scheme in (a) above.

In this case, however, cost of the new asset is not changed. But the assessee should not own more than one residential house other than the residential house in which he has invested as on the date of transfer and also, he should not purchase/construct any other residential house for a period of 1/3 years from the date of transfer. In case he owns more than one residential house as on the date of transfer he is not eligible for this deduction.

In case he purchases/constructs a house within 1/3 years from the date of transfer after getting this deduction, the amount allowed as deduction would be taxed as capital gains in the year of such purchase/construction.

g) Transfer of fixed asset of industrial undertaking effected to shift it from urban area - 54G

This exemption is available to all categories of taxpayers. The conditions for claiming the exemption are as under:

1.The transfer is affected in the course of or inconsequence of shifting the undertaking from an urban area to any area other than an urban area.

2. Asset transferred is machinery, plant, building, land or any right in building or land used for the business of industrial undertaking in an urban area.

3.The capital gain is utilized within one year before or 3 years after the date of transfer

a) for purchasing new machinery or plant or building or land for tax payer’s business in that new area; or

b) shifting of the old undertaking and its establishment to the new area; or

c) incurring of expenditure on such other purposes as specified in the scheme notified for the purpose.

Exemption of LTCG is given to the extent of the outlay for aforesaid asset and activities. The unutilized amount of capital gain as on the date on which return of income for the relevant Assessment Year is due; must be deposited in a Capital Gains Deposit account.

The cost of acquisition of the new asset is reduced by the exemption allowed from LTCG for a period of 3 years from its date of acquisition.

h) Shifting of an industrial undertaking from urban area to any Special Economic Zone (Sec54GA) Capital gain arising out of shifting of industrial undertaking from urban area to any Special Economic Zone are exempt of the following conditions were satisfied.

1.The transfer should be a long term or short-term capital asset such as plant, machinery, building or land or right in building or land.

2. Such asset has been used for the purpose of business of industrial undertaking situated in urban area.

3. The transfer should be done in connection with shifting of industrial undertaking in SEZ.

4. The amount of capital gain must be used with in a period of one year before or three years after the date of transfer to purchase machinery or plant, to acquire land, to construct building for the purpose of business in SEZ.

The unutilized amount of capital gain as on the date on which return of income for the relevant Assessment Year is due; must be deposited in a Capital Gains Deposit account.

Exemption of long term capital gains on transfer of residential property (sec 54 GB)

This exemption is available to an individual or HUF. Capital gain arising out of transfer of a long term capital asset being a residential property (a house or a plot of land) is exempted from tax if the following conditions are satisfied.

1. The assessee utilizes the net consideration for subscription in equity shares of an eligible company before the due date of furnishing the return of income. If he invests less than the net consideration in equity shares, the proportionate capital gains shall be exempt.

2. The company utilizes the money within one year from the date of subscription in equity shares

3. If the company does not utilize the consideration, received for issue of shares to the assessee, for purchase of new plant and machinery before the due date of furnishing return of income by the assessee, the consideration not so utilized shall be deposited in specified banks or institution in notified scheme.

If the amount deposited in specified bank etc is not utilized with the mentioned period of time by the company, the proportionate capital gains shall be chargeable to tax of the assessee of the previous year in which the period of one year from the date of subscription in the equity shares by the assessee expires.

If the assessee sells or otherwise transfers the shares or the company sells or otherwise transfers the new plant or machinery within five years from the date of acquisition , the exempted capital gains shall be deemed to be the capital gains of the previous year in which the new plant and machinery is sold or transferred.

If there is a gain on transfer of shares to the assessee, it shall be chargeable to tax in his hands.

If there is a gain on transfer of plant or machinery to the company, the company shall be liable to pay tax on it.

i) Extension of time for acquiring new asset or depositing or investing amount of capital gain: (Section 54H)

Where the transfer of the original asset (residential house and land appurtenant there to (Section 54), agricultural land (Section 54 B), land and building of an industrial undertaking (Section 54D), any long term capital asset (Section 54 EC) and long term capital asset other than residential house is by way of compulsory acquisition under any law, and the amount of compensation awarded foe such acquisition is not received by the assessee the date of transfer, the period of acquiring the new asset or the period for depositing or investing the amount shall be extended in relation to the amount of compensation as is not received on the date of transfer.

Tax on capital gains on transfer of equity shares in a company or units of an equity oriented fund In the case of short term capital gains arising from transfer of equity shares in a company or units of an equity oriented fund, the tax payable by the assessee shall be @15% +surcharge of any + education cess 3% on such short term capital gains provided that such a transaction is chargeable to securities transactions tax. Notably, no deduction is available u/s 80C to 80U from above short term capital gains. In case of LTCG on transfer of equity shares or units of equity oriented mutual funds, provided the transaction has been subject to securities transaction tax, the LTCG is not chargeable to tax at all.

If the transaction has not been subjected to securities transaction tax, the LTCG will be taxed @ 10% if no indexing is claimed and @ 20% if cost of acquisition is indexed. The taxpayer has an option to choose from either of the above.

In case the shares / securities are transferred in demat' form, for computing capital gain chargeable to tax, the cost of acquisition and period of holding of any security shall be determined on First in – First - out (FIFO) basis.

Illustration:1

Mr. Vishal sold his residential house for Rs:4,50,000 in November, 2016. Indexed cost of this house was Rs: 1,80,000. He paid 3 % of sale as commission to broker. He purchased another house on 26th January, 2013 for Rs:2,00,000. Compute his capital gains for the AY 2016-17

Solution:

Computation of capital gains for the AY 2016-17

Particulars	Rs:	Rs:
Selling price of the house		4,50,000
Less: Brokerage	13,500	
Indexed cost	1,80,000	1,93,500
Long terrm capital gain		2,56,500
Less: Cost of new house		2,00,000
Taxable Capital Gain		56,500

Illustration:2

Mr. Irfan provides you the following information to the sale of residential house. Calculate his

capital gain for the AY 2015-16.

House purchased in January, 1989 Rs:4,83,000

Sold the house in August, 2015 Rs:30,00,000

Purchased another residential house in November, 2014 Rs:2,00,000

Invested in bond issued by NHAI Bonds u/s 54EC Rs:1,00,000

The Cost Inflation Index in 1988-89 was 161 and for 2016-17 was 1029.

Solution:

Computation of capital gains for the AY 2016-17

Particulars	Rs:	Rs:
Sale of asset in August,2012		30,00,000
Less: Indexed cost of acquisition(483000x 852/161)		25,56,000
Capital Gain		4,44,000

Less: Exemption u/s 54 being cost of house purchased within one year	2,00,000	
Exemption u/s 54EC	1,00,000	3,00,000
Taxable Capital Gain		1,44,000

Illustration:3

Mr. Anandamurthy showed his block of assets as on 1-4-2012 at a WDV of Rs:1,50,000. He purchased another asset within the block during the year 2012-13 for Rs:40,000.The entire block of assets is sold during the previous year for Rs:2,00,000. Calculate capital gain for the assessment year 2016-17

Solution:

Computation of capital gains for the AY 2016-17

Particulars	Rs:
W.D.V. of assets as on 01-04-2012	1,50,000
Add: Assets purchased during P.Y.	40,000
	1,90,000
Less: Selling Price	2,00,000
Short Term Capital Gain	10,000

llustration:4

Mr. Varma purchased a plot in 1986-87 for Rs: 1,40,000. It was sold on 15-1-2013 for Rs:15,80,000 and he paid Rs:1,00,000 as brokerage. He invested Rs:2,00,000 in NHAI bonds on 31-3-2013 and Rs: 3,10,000 in bonds issued by Rural Electrification Corporation Ltd. on 1-8-2013. Compute his taxable capital gain, if the CII for 1986-87 was 140 and for 2015-16 is 1029.

Solution:

Computation of capital gains for the AY 2016-17

Particulars	Rs:	Rs:
Selling price of plot		15,80,000
Less: Brokerage	1,00,000	
Indexed cost (1,40,000 x 853/140)	8,52,000	9,52,000
L T C G		6,28,000
Less: Exempt u/s 54EC : NHAI Bonds purchased within 6 months from the date of transfer of LTCA		2,00,000
Taxable Capital Gains		4,28,000

Note: *Bonds of Rural Electrification Corporation Ltd. not purchased within 6 months from the date of transfer of LTCA, hence, not entitled to exemption.*

Illustration:5

Agricultural land purchased in 1984-85 for Rs: 75,000 sold for Rs: 7,20,000 on 01-05-2012. The assessee purchased another piece of agricultural land on 01-08-2012 for Rs:80,000 and deposited Rs:50,000 in Capital Gains Account Scheme, 1988. Compute tha Capital Gain chargeable to tax for the AY 2013-14. CII in 1984-85 was 125 and in 2015-16 is 1029

Solution:

Computation of capital gains for the AY 2016-17

Particulars	Rs:	Rs:
Selling price of agri. Land		7,20,000
Less: Indexed Cost (75,000 x 852/125)		5,11,200
LTCG		2,08.800

Less: Cost of new agri. Land	80,000	
Deposit in Capital Gains Account	50,000	1,30,000
Income Tax Law and Practice Taxable Capital Gains		78,800

Illustration:6

From the following information of Narayanamurthy, compute the capital gains for the AY 2015-16

Cost of acquisition of residential house in 1983-84 Rs:3,48,000. Sale consideration on 01-07-2012 Rs: 31,00,000.

Cost of acquisition of new house prior to the date of filing the IT return Rs:8,00,000. The CII in 1983-84 and in 2012-13 was 116 and 852 respectively.

Solution:

Computation of capital gains for the AY 2016-17

Particulars	Rs:
Selling price of house	31,00,000
Less: Indexed cost (3,48,000 x 852/116)	25,56,000
LTCG	5,44,000
Less: Cost of new house	8,00,000
Taxable Capital Gains	Nil

Illustration:7

From the following particulars, calculate capital gains: Self-generated goodwill of a business sold for Rs: 14,00,000. Bonus shares in B.Ltd. (not listed) and (being STCA) sold for Rs:8,00,000. Business income Rs: 60,000. LTCl in the transfer of a building Rs: 40,000. Face value of bonus shares sold Rs:6,00,000.

Solution:

Computation of Capital Gains for the AY 2016-17

Particulars	Rs:	
Selling price of self-generated goodwill(assumed LTCA)	14,00,000	
Less: Cost	Nil	
L T C G	14,00,000	
Less: LTCL on sale of building	40,000	
L T C G		13,60,000
Selling price of bonus share	8,00,000	
Less: Cost	Nil	
S T C G		8,00,000
Taxable Capital Gain		21,60,000

INCOME FROM OTHER SOURCES

Under the Income Tax act, income of every kind which is not to be excluded from the total income shall be chargeable to income tax under the head 'Income from other sources', if it is not chargeable to income tax under any of the other heads of income. Thus, income from other sources is a residuary head of income i.e. income not chargeable under any other head is chargeable to tax under this head. All income other than income from salary, house property, business and profession or capital gains is covered under 'Income from other sources'.

The following incomes are chargeable to tax:-

1. Dividend received from any entity other than domestic company. This is because dividend received from a domestic company has been made exempt in the hands of the receiver. Accordingly dividend received from a cooperative bank or dividend received from a foreign company will be taxable as income from other sources.
2. Any pension received by the legal heirs of an employee.
3. Any winnings from lotteries, crosswords, puzzles, races including horse races, card games or other games of any sort or gambling or betting of any form or nature.
4. Income from any plant, machinery or furniture let out on hire where it is not the business of the assessee to do so.
5. Income from securities by way of interest.
6. Any sum received by the assessee from his employees as contribution to any staff welfare scheme. However when the assessee makes the payment of such contribution within the time limit under the scheme of welfare, then the payment will be allowed as a deduction and only the balance amount will be taxable.
7. Income from subletting.
8. Interest on bank deposits
9. Income received under keyman insurance policy including bonus on such policy.

10. An individual or HUF receives in any previous year from any person or persons.

1. Any sum of money, without consideration, the aggregate value of which exceeds Rs 50,000.

   Any immovable property (i) without consideration, the stamp value of which exceeds

   Rs 50,000- the stamp duty is taxable.(ii) for a consideration which is less than the stamp duty value of the property by an amount exceeding Rs 50,000- the stamp duty is taxable

2. Any property other than immovable property :

(i) Without consideration, the aggregate fair Market value of which exceeds Rs 50,000- the whole of the aggregate fair market value of such property is included under this head as income.

(ii) For a consideration which is less than the aggregate fair market value of the property by an amount exceeding Rs 50,000- the aggregate fair Market value of such property as exceeds such consideration.

Gift of Cash / Cheque / Draft:

If, through one or more transactions, gift received is up to Rs 50,000 per financial year, then nothing is taxable. If gift is Rs 50,001 or above, then it is fully taxable. For example, if gift of Rs70,000 is received in cash, then taxable amount is Rs 70,000 and not Rs 20,000.

2. Gift of immovable property : In this case, if Stamp duty value is up to Rs 50,000 then nothing is taxable. If it is above Rs 50,000, then fully taxable. It is applicable for each individual transaction.

Unlike above, if more than one transaction of Gift, below Rs 50,000, than they shall not be aggregated. Similarly, if there is consideration, may be less or say if difference between the actual selling price and Stamp duty value is more than 50,000, then the above law is not applicable. It is applicable only in case of gift i.e. when property is transferred without consideration.

3. Gift of movable property (one or more transactions): If fair market value of all movable properties gifted in one financial year is up to Rs 50,000, then nothing is taxable. But if it is more than Rs 50,000, then it is fully taxable.

4. Movable property transferred for inadequate consideration: If difference between actual consideration and fair market value is more than Rs 50,000, all transactions of one financial year combined together, then the difference is fully taxable. If difference is up to Rs 50,000, than nothing is taxable

Exempted Gifts:

1.Money / property received from a relative or by HUF from its members 2.Money / property received on the occasion of the marriage of the individual 3.Money / property received by way of will/inheritance

4.Money / property received in contemplation of death of the payer. 5.Money / property received from a local authority

6.Money / property received from any fund, foundation, university, other educational institution, hospital, medical institution, any trust, or institution referred to in the section10(23C). 7.Money / property received from a charitable institute registered u/s 12AA.

11. Interest received on compensation or on enhanced compensation shall be deemed to be the income of the previous year in which it is received.

12. With effect from 2013-14 the following shall be treated as income:

Where a closely held company issue shares to a resident person for consideration exceeding the face value of such shares, the deemed income shall be consideration received- fair market value of the shares.

Apart from the above the following incomes are also shall be chargeable under this head. 1. Income from subletting

2. Interest on bank deposits and loans and securities.

3. Agricultural income from a place outside India.

4. Rent of plot of land

5. Mining rent and royalty.

6. Casual income under a will, contract, trust deed.

7. Salary payable to a member of parliament.
8. Income from undisclosed sources.
9. Gratuity paid to a director who is not an employee of a company. 10. Any casual income exceeding Rs. 5,000.
11. Income from markets, ferries and fisheries etc.
12. Income from leasehold property
13. Remuneration received for writing articles in journals.
14. Salary of M.P, member of legislative assembly or council
15. Interest received on securities of cooperative society
16. Family pension received by the widow and heirs of deceased employees. However the following family pensions are exempt:

(i) Pension received by the widow of an employee of the U.N.O (ii) Family pension of gallantry awardee.

(iii) Family pension received by the widow or children or nominated person of a member of the armed forces (including para military force) of the union, where the death of such member occurred in the course of operational duties shall be exempt provided the prescribed conditions are satisfied.

17. Amount withdrawn from deposit in national Savings Scheme 1987 on which deduction u/s80 CCA has been allowed including interest thereon.
18. Directors commission for giving guarantee to bank.
19. Directors commission for underwriting shares of a new company.
20. Insurance commission not chargeable under the head business or profession
21. Gratuity received by a director who is not an employee of the company.
22. Tips received by a waiter or taxi driver not being given by his employer.
23. Tax paid by an Indian company on behalf of a foreigner who was sent to India by a foreign company with whom the collaborating company had entered into agreement was Income Of The Foreigner Taxable Under The Head Income From Other Sources.

Dividend

The dividend is the distribution of divisible profits by a joint stock company to its shareholders by way of return on investments in the shares of the company. Dividend from an Indian company is exempted from tax.

Winnings from lotteries & betting, crossword puzzles, horse races and card games etc. sec. 115 BB.

It also includes income through draw of lots, television game shows and similar other games. Taxable at a flat rate of 30% without claiming any allowance or expenditure. Even if income is less than Rs 2,00,000 for the financial year 2012–13, these incomes are fully taxable Income from Units of UTI and Mutual Fund :Income from units of UTI and Mutual Fund is exempt from tax as per section 10(35).

Lottery includes winnings, from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever, under any scheme or arrangement by whatever na me called. Card game and other game of any sort includes any game show, an entertainment programme on television or electronic mode, in which people compete to win prizes or any other similar game. Deductions u/s 80C to 80U is not available against such incomes. Surcharge & education cess

will apply in a usual way.

$$\text{Formula for grossing up} = \frac{\text{Net amount received} \times 100}{100 - \text{Rate of TDS}}$$

TDS Rate

As per section 194B the TDS rate for lottery, crossword puzzles or card games or other games is 30% [No TDS if lottery etc. up to Rs 10,000–but if amount exceeds Rs 10,000 then TDS on whole amount].

As per section 194BB, the TDS rate for winning from horse races is 30 % [No TDS if winning Up to Rs 5000. But if winnings exceed Rs 5000 then TDS on whole winnings].

Note : No TDS is deducted if Lottery Price is less than Rs.10,000 but still the tax is payable by the assessee. Similarly no TDS in case of Winning from other races, gambling or betting.

Interest on securities

The income from interest on securities shall be chargeable to tax under income from other sources, if it is not taxable under the head income from business or profession.

The following amounts due to an assessee in the previous year shall be chargeable to income tax as interest on securities.

1. Interest on any security of the central or state govts.
2. Interest on debentures or other securities issued by a local authority.
3. Interest on debentures issued by a company (whether Indian or foreign)
4. Interest on debentures or other securities issued by statutory corporation.

Kinds of securities

There are four types of securities.

Tax free government securities: The interest on these securities is fully exempt from tax. The interest on such securities is neither included in total income nor taxed.

Less tax government securities: These securities are issued by central govt or state government. These securities are taxable securities. But no tax is deducted at source on such securities. Therefore the interest on such securities will not be grossed up.

Tax free commercial securities: These securities are issued by local authority or Statuary Corporation or a company in the form of debentures or bonds. Actually the interest is not tax free. Income tax due on this interest is payable by the company or authority or Statuary Corporation. These are called tax free because the assessee is not required to pay tax on it. The interest due to an assessee is grossed up and this grossed up amount is included in the total income.

Less tax commercial securities: These are taxable securities. In this case income tax is deducted at source on the amount of interest calculated at the percentage stated on the securities. In this type of securities, if the net amount of interest is given, it has got to be grossed up. If the rate of percentage of interest is given it is not grossed up.

Bond washing transaction

A bond-washing transaction is a transaction where securities are sold sometime before the due date of interest and reacquired after the due date is over. This practice is adopted by persons in the higher income group to avoid tax by transferring the securities to their relatives/friends in the lower income group just before the due date of payment of interest.

In such a case, interest would be taxable in the hands of the transferee, who is the legal owner of securities. In order to discourage such practice, section 94(1) provides that where the owner of a security transfers the security just before the due date of interest and buys back the same immediately after the due date and interest is received by the transferee, such interest income will be deemed to be the income of the transferor and would be taxable in his hands. In order to prevent the practice of sale of securities-cum-interest, section 94(2) provides that if an assessee who has beneficial interest in securities sells such securities in such a manner that either no income is received or income received is less than the sum he would have received if such interest had accrued from day to day, then income from such securities for the whole year would be deemed to be the income of the assessee.

Grossing up of Interest:

Interest is paid after TDS at following rates:
Govt. Securities: Nil (In case of 8% saving bonds, if amount of interest exceeds Rs 10,000 then there is a TDS @ 10%)
Listed / Non listed securities: 10%

$$\text{grossing up: } = \text{Net amount received} \times \frac{100}{100 - \text{Rate}}$$

Note: No tax is deductible on debentures issued by a widely held company if interest is

Paid /payable to an individual, resident in India and the aggregate amount of such interest paid or payable during the financial year does not exceed Rs 2500.

Expenses deductible from Interest income

The following expenses can be claimed as deductions from grossed up Interest income: **(a)Collection charges:** e.g. commission or remuneration to a banker or any other agent/broker for the purpose of realizing the interest.

(b) Interest on loan: Interest on money borrowed for purchasing the securities can be claimed as deduction. This deduction can exceed the amount received by way of interest. If interest is payable outside India, TDS must be done, otherwise deduction is not available.

Basis of charge: Interest on securities is chargeable on receipt basis if the books of accounts of such income are maintained on cash basis. If, however, books of accounts are not maintained or maintained on the basis of mercantile system of accounting, then interest on securities is taxable on accrual basis. Deduction of collection charges, interest on borrowed capital is allowed as per the method of accounting followed by the assessee.

Interest exempt from tax [Sec. 10(15)] Interest on the following is exempt from tax:

1. Interest on notified securities, bonds or certificates:

a. National Defence Gold Bonds, 1980

b. Special bearer bonds, 1991

c. Post office Cash certificates

d. National Plan Certificates

e. National Plan Savings certificates

f. Post Office National Savings Certificates

g. Post Office Savings Bank Account

(i) Individual account – maximum exemption limit Rs 3,500

(ii) Joint account – maximum exemption limit Rs 7,000

2. Interest on National Relief Bonds (only for individual and HUF)

3. 7% Capital Investment Bonds (only for individual and HUF)

4. nterest on notified bonds/ debentures of Public Sector companies

5. Interest on deposits in a specified scheme made by a retired govt./public sector employee out of retirement benefits.

6. Iterest on Gold Deposit bonds

7. Interest received by a non-resident Indian from notified bonds (i.e. NRI bonds). Standard deduction in the case of family pension [Sec. 57(iia)]

In the case of income in the nature of family pension, the amount deductible is Rs. 15,000 or 33 1/3per cent of such income, whichever is less.

For this purpose “family pension” means a regular monthly amount payable by the employer to a person belonging to the family of an employee in the event of his death.

DEDUCTIONS AGAINST INCOME FROM OTHER SOURCE U/S 57

a. commission or remuneration for realising dividend or interest on securities – Section 57(i)

b. Repairs, depreciation in case of letting out of plant, machinery, furniture, building etc.

c. Standard deduction in case of family pension – 57(iia)

d. Any other expenditure of revenue nature [57(iii)]

e. Interest on borrowed capital [loan taken to invest in shares/ debentures etc.]

Illustration:1

Mr. S.B.Singh, a College Professor, furnished the following particulars. You are required to compute income from other sources:

Examination remuneration Rs: 7,000 Royalty from books and articles Rs: 25,000 Winnings from card games Rs: 6,700 Winnings from State lottery Rs: 30,000

Expenditure on purchase of lottery tickets Rs: 12,000.

Solution:

Computation of Income from Other Sources For the AY 2016-17

Particulars	Rs:
Examination remuneration	7,000
Royalty from books and articles	25,000
Winnings from card games	6,700
Winnings from State lottery	30,000
Income from other sources	68,700

Illustration :2

Compute income from other sources:

Dividend (Gross) Rs:9,600

Expenses incurred for its collection Rs: 500

Receipts from letting of plant and machinery Rs: 10,000

Repairs of Plant and Machinery Rs: 4,000

Insurance premium in respect of plant and machinery Rs: 2,000

Depreciation allowed for letting Rs:4,000

Solution:

Computation of Income from Other Sources <u>For the AY 2016-17</u>

Particulars	Rs:	Rs:
Receipts from letting of P&M		10,000
Less: Admissible expenses:		
Repairs of P&M	4,000	
Insurance premium in respect of P&M	2,000	
Depreciation allowed for letting	4,000	10,000
Income from other sources		Nil

Illustration:3

From the following particulars submitted by Sri. Mani Shankar Iyer, compute his income from other sources for the AY 206-17 :

As Director of ABC Ltd. he received Rs: 12,000 p.m. as salary and Rs:1,200 p.m. as entertainment allowance. The company provides him a car for both official and personal use. The personal use is estimated to be 50%. The company incurs an expenditure of Rs:16,000 on running and maintenance of the car {for both official and personal use) and depreciation of the car may be taken as Rs: 14,000. He was also a Director in another company from which he received Rs: 13,000 as Director's fee. Interest received on deposits with a Co-operative bank limited Rs:2,000. Dividend received from a foreign company Rs: 6,000. Received winnings from lottery Rs: 24,500 Income from agricultural land in England Rs: 78,000. Honorarium for delivering lectures in a registered society Rs:1,200.

Solution:

<u>Computation of Income from Other Sources For the AY 2016-17</u>

Particulars	Rs:
Director's fee	13,000

Interest on deposits with Co-operative Bank	2,000
Dividend from a foreign company	6,000
Winnings from lottery (24500 X 100/70)	35,000
Agri. Income from England	78,000
Honorarium for Lectures	1,200
Income from other sources	1,35,200

Illustration:4

Compute income from other sources of Mr. Ajayakumar for the AY 2016-17 His investments are

5% govt. securities Rs: 70,000

7.5% Agra Municipal Bond Rs: 50,000

9% debentures of a company Rs:30,000

Solution:

Computation of Income from Other Sources For the AY 2016-17

Particulars	Rs:
Interest on Govt. Securities (70,000 x 5%)	3,500
Interest on Agra Municipal Bond (5,000 x 7.5 %)	3750
Interest on debentures (30,000 x 9%)	2,700
Interest on Capital Investment Bond	Exempt
Income from Other Sources	9,950

Illustration:5

The following are the details relating to Mr. Siddharth for the P.Y. 2015-16. Compute income from other sources:Income from agriculture in Pakistan Rs: 5,000 Interest on post office savings bank Rs: 1,000 Dividend from foreign company Rs: 700 Dividend from Indian company Rs:1,000Rent from sub-letting house Rs: 26,250 Expenses for sub-letting house Rs: 1,000 Winning from lottery (Net) Rs: 14,000

Solution:

Computation of Income from Other Sources For the AY 2016-17

Particulars		Rs:
Income from agriculture		5,000
Interest on P.O.S.B.		Exempt
Dividend from foreign company		700
Dividend from Indian company		Exempt
Rent from sub-letting house	26,250	
Less: Expenses	1,000	25,250
Winnings from lottery (14,000 x 100/70)		20,000
Income from Other Sources		50,950

(Established Under Section 3 of UGC Act 1956)
COIMBATORE- 641 021
DEPARTMENT OF COMMERCE
INCOME TAX LAW AND PRACTICE
POSSIBLE QUESTIONS
UNIT -III

1. What are disallowed expenses while computing Professional income?

2. Write down the format to compute professional gain of a medical practioner?

3. Bring out the general format for computing the professional gain of an advocate.

4. What are allowable expenses under the head profits and gains of business or profession?

5. List the disallowed income under the head profits and gains of business or profession.

6. Give the specimen for computation of business income.

7. The following is the profit and loss account of a merchant for the year ending 31st March 2016.

PROFIT AND LOSS ACCOUNT

To Office salary	6,500	By Gross profit	36750
To Bad debts	1,700	By Commission	1250
To Provision for bad debt	3,000	By Discounts	500
To Advertisement	3,800	By Sundry receipts	200
To Fire insurance (HP)	550	By Rent of building	3600
To General expenses	2,750	By Profit on sale of	

		Investment	3000
To Depreciation	1,200		
To Interest on bank loan	1,300		
To Interest on capital	2,000		
To Net profit	22500		
	45300		45300

Compute the taxable profits from business. The amount of depreciation is Rs.1,000 Interest on loan .was paid on 1.8.2016 Due date of filing of return is 31.7.2015.

8.Mr DD Dewan & company is chartered accountant in Delhi they have submitted the following income and expenditure account for the year compute the income form profession.

Expenses	Rs	Income	Rs.
To Drawing 2,24,000	48,000	By Audit fees	
To Office rent 98,000	42,000	By financial consultancy service	
To Telephone installation Charges	15,000		
To Electricity bill	4,200	By Dividend from Indian	
		companies (Gross)	6,00

To Salary to staff	66,000		
To Stipends given to Trainees	12,000	By Dividend on units of UTI	4,000
To Charities	1,200	By Accountancy works	24,000
To Gifts given to relatives	9,600		
To Car expenses	21,000		
To Subscription to journals	2,500		
To Institute fee	1,200		
To Net income	1,33,300		
	--------------		------------
	3,56,000		3,56,000
	========		=======

a) Depreciation of car during the year amounts to Rs 5,000

b) 30% of the time car is used for personal purposes.

9. From the following statement, compute the income from profession of Dr. S.K. Kapoor if accounts are maintained on mercantile system:

Particulars	Rs	Particulars	Rs

To dispensary rent	36,000	By Visiting fees	45,000
To Electricity and water charges	6,000	By Consultation fees	1,25,000
To telephone expenses	6,000	By sales of medicines	72,000
To salary to nurse	36,000	By dividends	5,000
To depreciation on surgical Equipmemts	6,000		
To purchase of medicine	36,000		
To Depreciation on X- Ray Machine	4,000		
To income Tax	5,500		
To Donation	4,000		
To Motor car expenses	9,600		
To depreciation car	4,800		
To Net Income	93,100		
	2,47000		2,47,000

i. Electricity and water charges include domestic bill of Rs. 2,500.
ii. Half of motor car expenses are for professional use.
iii. Telephone expenses include 40% for personal use
iv. Opening stock of medicines was Rs. 6,000 and closing stock was Rs. 4,000.

10. Mr.Ram Prasad is a registered medical practitioner. He has prepared the following income and expenditure account for the year during 31-3-2016. You are required to prepare a statement showing his income from profession.

Expenses	Rs	Income	Rs
House hold expenses	20,000	Consultation fees	10,000
Car purchased	30,000	Visiting fees	20,000
Traveling expenses(Personal)	4,000	Gains on races (Gross)	10,000
Charities and donations	1,000	Share in sale proceeds of a ancestral house	34,000
Income Tax	2,000	Profit on sale of securities	6,000
Salaries	8,000	Dividend on shares (Gross)	5,000
Gift to daughter	7,000	Interest on P.O. Savings bank	600
Establishment expenses	1,000	Gifts from farther in Law	2,000
Surgical equipment	4,000	Bad debts recovered	
Books	2,000	(Not allowed in earlier year)	2,000
LIC premium	2,000	Interest o n Fixed deposit	1,300
Wealth tax	1,000		
Interest on Capital	1,000		
Surplus	7,900		

	90,900		90,900

Rate of depreciation allowable on car is 15% and surgical equipment is at 15%. In case of books for profession the rate of depreciation is 60%

11.From the following particulars, compute the business income of Mr.S.Rangnathan.

	Rs		Rs
To Salaries	90,000	By Gross Profit	3,50,000
To Rent and Taxes	20,000	By Dividend	4,000
To Service Charges	4,000	By Bad debts recovered	
To Legal Expenses	5,000	(allowed earlier)	4,400
To Reserve for Income Tax	6,000	Interest from post office	
To depreciation	12,000	Saving Bank	1,200
To expenses on acquisition of patent right	56,000		
To Office Expenses	42,000		
To Contribution to RPF	12,000		
To Bad Debts	4,500		
To Donation to NDF	2,500		
To Net profit	1,05,600		
	3,59,600		3,59,600

(i) Legal expenses include Rs. 2,000. Incurred by assessee for defending a case for damages for breach of contract which was decided in favour of assessee.

(ii) Depreciation of the year on asset other than patent right is Rs.16,900.

(iii) Contribution to RPF due on 31-3-2012 is Rs. 2,000.

12. Compute the professional income of Mr.Kedambi an Advocate, he furnishes the following receipts and payments for the previous year 2015-16

RECEIPTS AND PAYMENTS ACCOUNT

	Rs		Rs
To Balance b/d	6,540	By Rent	2,400
To Legal fees	84,400	By Telephone	3,000
To Salary(as a part-time lecturer)	3,600	By Salaries	2,400
To Interest on debenture (not listed)	2,700	By Subscription to journal	240
To Gift from clients	10,000	By Travelling	560
To Rent	6,000	By Office expenses	600
To Interest on foreign security	8,000	By Purchase of stamp paper	1,600
To Refund from deposit	2,000	By Interest on loan	870
		By Donation to a school	5,000
		By Income Tax paid	8,420
		By Municipal Tax	600
		By L.I.C. premium	6,000
		By Wealth Tax	1,600
		By Balance c/d	89,950
	1,23,240		**1,23,240**

(i) The loan borrowed for constructing his residential house. Its rental value is Rs.300 p.m.

(ii) School is recognized for I.T. purposes.

(iii) Gift from clients include Rs. 2,000 received from his father.

13. Profit and Loss Account of M/s Raju & Company

General Expenses	7,000	Gross Profit	1,40,000
Fire insurance Premium	2,000	Bad Debts Recovered but	
Bad debts	1,000	disallowed earlier	4,000
Advertisement (in Cash)	22,250	Interest from Govt. securities	4.000
Salaries	65,000	Rent received from employees	12,000
Property Salary	12,500	Interest from debtors fro	
Interest on capital	2,000	delayed payment	6,000
Income –Tax	1,000		
Depreciation	2,000		
Sales Tax (due)	5,000		
Advance income tax paid	1,000		
Donation	500		
Motor car expenses	750		
Municipal taxes of quarters			
let to employees	5,000		
Net Profit	39,000		

	1,66,000		**1,66,000**

General expenses include Rs. 4,000 paid as compensation to an old employee whose services were terminated in the interest of the business and Rs.2,200 by way of help to a poor student. Depereciation calculated according to the rates comes to Rs. 2,900. Sales tax was paid on 1-5-2011. Date of filing of returns is 31-7-2011. 50%of Motor expenses are for proprietor's personal use. Compute business income.

14. Compute the professional income of Mr. Kedambi an Advocate, he furnishes the following receipts and payments for the previous year 2015-16

RECEIPTS AND PAYMENTS ACCOUNT

	Rs		Rs
To Balance b/d	6,540	By Rent	2,400
To Legal fees	84,400	By Telephone	3,000
To Salary(as a part-time lecturer)	3,600	By Salaries	2,400
To Interest on debenture (not listed)	2,700	By Subscription to journal	240
To Gift from clients	10,000	By Travelling	560
To Rent	6,000	By Office expenses	600
To Interest on foreign security	8,000	By Purchase of stamp paper	1,600

To Refund from deposit	2,000	By Interest on loan	870
		By Donation to a school	5,000
		By Income Tax paid	8,420
		By Municipal Tax	600
		By L.I.C. premium	6,000
		By Wealth Tax	1,600
		By Balance c/d	89,950
	1,23,240		**1,23,240**

(iv) The loan borrowed for constructing his residential house. Its rental value is Rs.300 p.m.

(v) School is recognized for IT. purposes.

(vi) Gift from clients include Rs. 2,000 received from his father.

15. Following is the profit and loss account of Kesary Malya for the previous year 2015-16

PROFIT AND LOSS ACCOUNT

To salaries	25,650	By gross profit	80,000
To rent	1,000	By bank interest	450
To commission on sales	100	By bad debts recovered last year allowed	2,000
To income tax	2,600		

To entertainment expenses	600	By rent from house property	4,800
To commission paid to collect interest on securities	25	By interest on commercial securities	2,000
To embezzlement by cashier	1,000		
To municipal tax on HP	600		
To bad debts allowed	450		
To repairs to house	1,625		
To office expenses	9,180		
To depreciation	5,000		
To LIC premium	1,320		
To net profit	40,100		
	89,250		**89,250**

Depreciation on the assets is Rs.4,500

Compute the taxable business income for the assessment year 2015-16

16. From the following profit and loss account of Sri rama a sole trader compute his business income for the assessment year 2016-17 :

To general expenses	18,000	By gross profit	89,000
To staff salaries	7,000	By bad debts recovered	1,000

To baddebts	3,000	By income tax refund	4,500
To depreciation	4,000	By dividend on shares	8,000
To advertisement	5,000	By dividend on units of UTI	5,000
To income tax appeal	11,000		
To fire insurance premium on stock	2,000		
To donation to NDF	7,000		
To patents purchased	10,500		
To audit fees	1,000		
To provision for doubtful debts	3,800		
To life insurance premium	5,200		
To net profit	30,000		
	1,07,500		**1,07,500**

Other informations

1. Patents are purchased during the year
2. Bad debts recovered were disallowed earlier
3. Depreciation on assets other than patents is Rs.4,800

CAPITAL GAINS

1. During the year ended 31st March, 2016 Mr. James sold the following asset,

Particulars	**Sale Proceeds**
(i) Furniture purchased on 1-5-2013 for Rs 1,000	Rs. 1,300
(ii) Machinery purchased in 1983-84 (C.I.I: 125)for Rs 50,000 (W.D.V on 1-4-2011 Rs 35,000)	Rs. 60,000
(iii) Machinery purchased on 1-5-2015 for Rs 10,000	Rs. 12,000

Compute the capital gain.

2. Sale price of jewellery in Oct. 2015 (C.I.I. : 1024) Rs. 22,00,000

Cost fo acquisition in 1983-84 (C.I.I:116) Rs. 3,00,000

Amount invested in construction of new house up to 31-7-2011 Rs. 4,00,000

Amount deposited in Capital Gain Deposit Scheme for Completing the construction of house (Deposited in 27-6-2012) Rs 12,00,000

a. Compute the taxable capital gain assuming that he does not own any other house.

b. Compute deemed capital gain if he is able to invest Rs. 10,00,000 out of amount deposited in Capital Gain Deposit Scheme?

3. Mr.Yash sold an asset on 15-8-2015(C.I.I. 1024) for Rs. 1,74,000. The cost price of the asset purchased on 11-2-76 is Rs. 20,000. The fair market value of the same on 1-4-81

(C.I.I.: 100) was Rs. 20,000. The income of Mr. Yash from other sources during the previous year was Rs. 1,22,700. Calculate taxable capital gain.

4. Explain the exempted capital gain u/s 54 and u/s 10 of Income tax Act 1961.

5. M/S P.Bros., Ludhiana running an industrial unit were ordered by Municipal Corporation, Ludhiana to shift their concern from urban area of Ludhiana. They shifted their concern during 2010-11 previous year and in this process sold some of assets whose details are given below:

Asset Acquired in	**P& M (1987)**	**Land (June 1983)**	**Building (1987)**
	Rs	**Rs**	**Rs**
Sale proceeds	10,00,000	7,00,000	12,00,000
W.D.V. on 1-4-2010 [cost u/s 50(2)]	4,40,000	-	7,32,500
Cost of acquisition	6,000	1,00,000	10,00,000
Amount invested during Dec.2013			
due to shifting	8,00,000	2,00,000	5,00,000

Compute the taxable Capital Gain for the Previous year 2015-16 if [C.I.I f or1983-84 is 116; 86-87: 140 and 2014-15 is 1024]

6. Mr. H submits the following particulars about sale of assests during the year 2010-11

Asset	**Jewellery**	**Plot**	**Gold**
	Rs	Rs	Rs
Sale Price	4,50,000	17.24,000	3,00,000
Expenses on sale	NIL	24,000	NIL
Cost of acquisition	50,000	2,00,000	80,000
Year of acquisition	1987-88	1984-85	1999-2000
C.I.I	150	125	389

He has purchased house for Rs 12,00,000 on 1-3-2015. Calculate the amount of taxable capital gain if C.I.I for 2015-16 is 1072

7. Mr.Atul sold the following assets during the previous year 2015-16 [C.I.I : 1072]

Asset	**Securities listed**	**Silver**	**Jewellery**	**Shop**
Date of acquisition	1-1-1999	1-1-1979	1-9-1995	1-3-1986
C.I.I	351	-	281	133

Date of sale	1-6-2013	1-12-2013	11-3-2014	31-3-2014
Cost on 1-4-81	Rs.1,00,000	Rs.30,000	Rs.50,000	Rs.1,30,000
FMV on 1-4-81		Rs.1,00,000		
Sale Price	2,60,000	13,00,000	6,00,000	10,00,000

He purchased a house for Rs. 20,00,000 on 1-6-2015. He did not own any other house on this date. Compute his taxable capital gain.

INCOME FROM OTHER SOURCES

1. Mr. X. received the following gifts during the previous year 2015-16 compute his taxable income under the head " Income from Other Sources"

(i) Received Rs. 1,00,000 as gift from friend on 1-6-2014;

(ii) Received a microwave costing Rs 14,500 as gift from his another friend;

(iii) Received Rs. 50,000 as gift from another friend on 1-11-2014;

(iv) Received Rs. 30,000 as gift from his sister on 1-1-2015;

(v) Received Rs. 40,000 as gift from his friend Mr.D on 1-12-2014;

(vi) Received Rs 1,60,000 as gift from his non- resident friend on 1-2-2015.

2. From the following information compute the income from other sources for the previous year 2015-16:

(i) Card games loss Rs. 12,000.

(ii) Form the activity of owing and maintaining horse for race purposes

a. Loss at Bombay Rs. 40,000

b. Profit at Banglore Rs. 20,000.

(iii) Dividend (Gross) from Indian Companies Rs.6,000.

(iv) Betting in Horse races Rs.4,000.

3. Mr.X has the following incomes during the year ending 31-3-2016.

(i) Dividend declared by M.Co. on 31-3-2014[Indian Co.] Rs. 6,000.
(ii) Dividend declared by Z.Co. on 31-3-2014[Indian Co.] Rs. 9,000.
(iii) Interim dividend received on 1-5-2014 [Indian Co.] Rs. 3,000.
(iv) He won gold worth Rs 10,00,000 from Punjab State Lottery
(v) During March 2015 he earned Rs 1,00,000 as prize money on horse races. These horses are owned by him and expenditure incurred on maintenance of these horses amounted to Rs 1,60,000.

Compute income from other sources for the assessment year 2015- 16.

4. Mr.G.Bedi owns horses at Bombay and Banglore. These horses run for races at the race course. During the year 2015-16 Mr. Bedi submits the following information:

(v) Expenses on race horse at Bombay Rs. 2,60,000
(vi) Expenses on race horse at Banglore Rs. 4,30,000
(vii) Stake money earned by horse at
   a. Bombay Rs. 1,20,000
   b. Bangalore Rs. 5,00,000
(viii) Mr. Bedi received Rs. 1,05,000 on 1-7-2014 on betting during horse races at Bombay. Compute his taxable income under other sources.

5. Harikrishnan a resident individual submits the following particulars of income for the previous year ending March 31 2016.

Dividend form REC international Ltd Rs.4,800. Dividend declared on 16.05.2013 by Sundasram Finance Ltd Rs.2,700, interest paid on capital borrowed fro eh purpose of investment in share of sundaram Finance Ltd Rs.4200. collection charges in respect of dividend Rs.50.

Winning from lottery: Net amount Rs.70,000. TES Rs.30,000 Winning from card games Rs.23,500. Interest on securities issued by the government of Singapore Rs.20,570.

Determine the income chargeable under the head income from other sources for the previous year 2015-16.

6. From the following particulars for the year ended 31st March 2016, Compute the income under the head income from other sources:

	Rs.
Equity dividend (Indian company)	25,200
Dividend (preference)	12,000
Collection charges in respect of dividend 1% of dividend	
Rent from letting out of a building alongwith plant and machinery 30,000	
Depreciation on buildings	4,000
Insurance on building	1,600
Office expense relating to buildings	1,600
Repairs, Rates etc.	1,600

7. List the general income under the head income from other sources

8. Write down the provisions regarding gift under the head income from other sources.

9. Compute taxable income and loss to be C/F;

(i) Business profit for the previous year 201-14 Rs.20,000

(ii) B/F Business Loss of 2011-12 Rs. 10,000

(iii) Capital loss on shares Rs. 60,000

(iv) Loss from self- occupied house (u/s 24) Rs. 5000

TOTAL INCOME

Total income means Income of other person included in assesse's total income, for example: Income of husband which is shown to be the income of his wife is clubbed in the income of Husband and is taxable in the hands of the husband. Under the Income Tax Act a person has to pay taxes on his income. A person cannot transfer his income or an asset which is his one of source of his income to some other person or in other words we can say that a person cannot divert his income to any other person and says that it is not his income. If he do so the income shown to be earned by any other person is included in the assessee's total income and the assessee has to pay tax on it. Inclusion of other's Incomes in the income of the assessee is called

Total Income and the income which is so included is called Deemed Income. It is as per the provisions contained in Sections 60 to 64 of the Income Tax Act. For example: A purchased a house property in the name of his wife B. A let out this house property. The rental income earned by A in name of his wife B is taxable in the hands of A.

INCOME OF OTHER PERSONS INCLUDED IN ASSESSEES TOTAL INCOME

1. **Transfer of income without transfer of Asset**: If any person transfers income without transferring the ownership of the asset, such income will be taxable in the hands of the transferor. Ex. X owns 4000, 14% debentures of A ltd. of Rs. 100 each , he transfers interest income to his friend Y without transferring the ownership of Debentures . In this case although interest will be received by Y but it is taxable in the hands of X.

2. **Revocable transfer of Asset**: If any person transfers any asset to any other person in such form and condition that such transfer is revocable at any time during the lifetime of the transferee , the income earned through such asset is chargeable to tax as the income of the transferor. For ex. X transfers a house property to A. However , X has right to revoke the transfer during the life time of A . It is a revocable transfer and income arising from the house property is taxable in the hands of X.

3. **Remuneration to Spouse**: An individual is chargeable to tax in respect of any remuneration received by the spouse from a concern in which the individual has *substantial interest. This provision has an exception. If the remuneration is received by spouse by the application of technical or professional knowledge or experience clubbing provisions will not take place. For ex. X has substantial interest in A ltd. and Mrs. X is employed by A ltd. without any technical or professional qualification. In this case salary income of Mrs. X shall be taxable in the hands of X.

Income from assets transferred to spouse: Where an asset is transferred by an individual to his spouse directly or indirectly, otherwise than for adequate consideration or in connection with an agreement to live apart, any income from such asset is deemed to be the income of the transferor. For ex. Mrs. A transfer's 100 debentures of IFCI to her husband without adequate consideration. Interest income on these debentures will be included in the income of Mrs. A.

5. Income from asset transferred to son's wife: If an individual, directly or indirectly transfers asset , without adequate consideration to son's wife , income arising from such asset is included in the income of the transferor. For ex. Mrs. A transfer's 100 debentures of IFCI to her son's wife without adequate consideration. Interest income on these debentures will be included in the income of Mrs. A.

6. Income from asset transfer to a person for the benefit of spouse/ son's wife: If anindividual , directly or indirectly transfers asset , without adequate consideration to a person or an association of persons for the benefit of his/her spouse /son's wife , income arising from suchasset directly or indirectly is included in the income of the transferor. For Ex. X transfers Government bonds without consideration to an association of persons, subject to the condition that , the interest income from these bonds will be utilized for the benefit of Mrs. X or Mrs. X son's wife . Interest from bonds will be included in the income of X

7. Income of a minor child: All income which arises to the minor shall be clubbed in the income of his parents. Income will be included in the income of that parent whose total income is greater. This case has two exceptions.

(1) Income of minor child suffering from specified disability .

(2) Income of minor child on account of manual work or involving application of his skill/talent etc.

****Substantial Interest**: An individual is deemed to have substantial interest if he beneficially holds equity shares carrying not less than 20% voting poweringcase of a company or is entitled to not less than 20% of the profits in case of a concern other tan a company , at any time during the previous year.

Some special points to remember:

1. If an individual makes a gift in cash or by cheque to his spouse and that money is utilized by the spouse for purchase of an asset . The income earned by the spouse from that asset will not be clubbed in the income of the individual.
2. In order to invoke clubbing provisions there must be relation of husband and wife. That means if a person transfers asset to his would be spouse before marriage income arising from such asset will not be included in the income of transferor.
3. Negative income is also income. Under the Income Tax Act income does not means positive income only. The term income includes negative income or loss also.
4. Income from accretion to asset is not taxable in the hands of the transferor.
5. Income from saving out of pin money is not included in the income of husband.
6. Income of minor child is clubbed with the income of the parent whose income after excluding the share of minor's income is greater.
7. If trust is created for the benefit of minor child and income during minority of child is being accumulated and added to corpus of trust and income from increased corpus is given to the child after attaining majority, clubbing provisions are not applicable.

SET OFF, OR CARRY FORWARD AND SET OFF

Set off of loss from one source against income from another source under the same head of income (sec 70.)

(1) Save as otherwise provided in this Act, where the net result for any assessment year in respect of any source falling under any head of income, other than Capital gains, is a loss, the assessee shall be entitled to have the amount of such loss set off against his income from any other source under the same head.
(2) Where the result of the computation made for any assessment year under sections to in respect of any short-term capital asset is a loss, the assessee shall be entitled to have the amount of such loss set off against the income, if any, as arrived at under a similar computation made for the assessment year in respect of any other capital asset.
(3) Where the result of the computation made for any assessment year under sections to in respect of any capital asset (other than a short-term capital asset) is a loss, the assessee shall be entitled to have the amount of such loss set off against the income, if any, as arrived at under a similar computation made for the assessment year in respect of any other capital asset not being a short-

However the following are the exceptions to the general rue.
(1) Loss from speculation business cannot be set off against income from other sources. This loss can be set off only against income from another speculation business.
(2) Loss of specified business cannot be set off against income from other business. This loss can be set off only against income from other specified business.
(3) Long term capital loss cannot be set off against short term capital gain. This loss can be set off only against long term capital gain.
(4) Loss from the activity of owning and maintaining race horses shall be set off against income from owning and maintaining race horses only and not against any other income under the head other sources.

Inter head adjustment [Section 71]
Loss under one head of income can be adjusted or set off against income under another head.
However, the following points should be considered:
(i) Where the net result of the computation under any head of income (other than 'Capital Gains') is a loss, the assessee can set-off such loss against his income assessable for that assessment year

under any other head, including 'Capital Gains'.

(ii) Where the net result of the computation under the head "Profits and gains of business or profession" is a loss, such loss cannot be set off against income under the head "Salaries".

(iii) Where the net result of computation under the head 'Capital Gains' is a loss, such capital loss cannot be set-off against income under any other head.

(iv) Speculation loss and loss from the activity of owning and maintaining race horses cannot be set off against income under any other head.

Carry forward and set off losses

If it is not possible to set off the losses during the same assessment year in which they occurred, so much of the loss as he has not been so set off out of the following losses can be carried forward for being set off against his income in the succeeding years provided the losses have been determined in pursuance of a return filed by the assessee within the time allowed u/s 139(i) and it is the same assessee who sustained the loss.

(i) Loss under the head income form house property.

(ii) Loss of non speculation business or rofession.

(iii)Loss of speculation business.

(iv)Loss of specified business

(v) Short term capital loss or long term capital loss.

(vi)Loss from activity of owning and maintaining race horses.

Set-off and carry forward of loss from house property [Section 71B]

(i) In any assessment year, if there is a loss under the head 'Income from house property', such Loss will first beset-off against income from any other head during the same year.

(ii) If such loss cannot be so set-off, wholly or partly, the unabsorbed loss will be carried forward to the following assessment year to be set-off against income under the head 'Income from house property'.

(iii) The loss under this head is allowed to be carried forward up to 8 assessment years immediately succeeding the assessment year in which the loss was first computed.
(iv) For example, loss from one house property can be adjusted against the profits from another house property in the same assessment year. Any loss under the head 'Income from house property' can be set off against any income under any other head in the same assessment year. However, if after such set off, there is still any loss under the head "Income from house property", and then the same shall be carried forward to the next year.
(v) It is to be remembered that once a particular loss is carried forward, it can be set off only against the income from the same head in the forthcoming assessment years.

Carry forward and set-off of business losses [Sections 72 & 80]

Under the Act, the assessee has the right to carry forward the loss in cases where such loss cannot be set-off due to the absence or inadequacy of income under any other head in the same year. The loss so carried forward can be set-off against the profits of subsequent previous years.

Section 72 covers the carry forward and set-off of losses arising from a business or profession. The assessee's right to carry forward business losses under this section is, however, subject to the following conditions:-
(i) The loss should have been incurred in business, profession or vocation.
(ii) The loss should not be in the nature of a loss in the business of speculation.
(iii) The loss may be carried forward and set-off against the income from business or profession though not necessarily against the profits and gains of the same business or profession in which the loss was incurred. However, a loss carried forward cannot, under any circumstances, be set-off against the income from any head other than "Profits and gains of business or profession".
(iv) The loss can be carried forward and set off only against the profits of the assessee who incurred the loss. That is, only the person who has incurred the loss is entitled to carry forward or set off the same. Consequently, the successor of a business cannot carry forward or set off the losses of his predecessor except in the case of succession by inheritance.
(v) A business loss can be carried forward for a maximum period of 8 assessment years immediately succeeding the assessment year in which the loss was incurred.
(vi) As per section 80, the assessee must have filed a return of loss under section 139(3) in order

to carry forward and set off a loss. In other words, the non-filing of a return of loss disentitles the assessee from carrying forward the loss sustained by him. Such a return should be filed within the time allowed under section 139(1). However, this condition does not apply to a loss from house property carried forward under section 71B and unabsorbed depreciation carried forward under section 32(2).

Carry forward and set off speculation business losses (section 73)

The loss of a speculation business of any assessment year is allowed to be set off only against the profits and gains of another speculation business in the same assessment year. If a speculation loss could not be set off from the income of another speculation business in the same assessment year, it is allowed to be carried forward for 8 assessment years immediately succeeding the Assessment year for which the loss was first computed.

Also, it can only be set off against the income of only a speculation business. It may be observed that it is not necessary that the same speculation business must continue in the assessment year in which the loss is set off. However, filing of return before the due date is necessary for carry forward of such a loss.

The following are the other important points regarding carry forward of business losses.

1. Losses of discontinued business of an industrial undertaking after reestablishment or revival. If on account of natural calamities the business of an industrial undertaking is discontinued; but revived within 3 years thereafter, the unabsorbed losses of the undertaking shall be carried forward and set off against the profit of the revived business or any other business up to a maximum period of 8 years.

2. Treatment of losses after succession takes place by inheritance : The loss incurred by the father in the course of carrying on his business can be carried forward and set off by his son , if he succeeds to the business of his father on account of his death.

3. Provisions relating to carry forward and set off of accumulated loss and unabsorbed depreciation allowance in amalgamation or demerger, etc 72A.

Losses in speculation business (sec 73)

(1) Any loss, computed in respect of a speculation business carried on by the assessee, shall not be set off except against profits and gains, if any, of another speculation business.

(2) Where for any assessment year any loss computed in respect of a speculation business has not been wholly set off under sub-section (1), so much of the loss as is not so set off or the whole loss where the assessee had no income from any other speculation business, shall, subject to the other provisions of this Chapter, be carried forward to the following assessment year, and

(i) it shall be set off against the profits and gains, if any, of any speculation business carried on by him assessable for that assessment year ; and

(ii) if the loss cannot be wholly so set off, the amount of loss not so set off shall be carried forward to the following assessment year and so on.

Losses under the head Capital gains (sec 74)

(1) Where in respect of any assessment year, the net result of the computation under the head Capital gains is a loss to the assessee, the whole loss shall, subject to the other provisions of this Chapter, be carried forward to the following assessment year, and

(a) in so far as such loss relates to a short-term capital asset, it shall be set off against income, if any, under the head Capital gains assessable for that assessment year in respect of any other capital asset;

(b) in so far as such loss relates to a long-term capital asset, it shall be set off against income, if any, under the head Capital gains assessable for that assessment year in respect of any other capital asset not being a short-term capital asset;

(c) if the loss cannot be wholly so set off, the amount of loss not so set off shall be carried forward to the following assessment year and so on.

(2) No loss shall be carried forward under this section for more than eight assessment years immediately succeeding the assessment year for which the loss was first computed.

(3) In respect of allowance on account of depreciation or capital expenditure on scientific research, the provisions of sub-section (2) of section 72 shall apply in relation to speculation business as they apply inrelation to any other business.

(4) No loss shall be carried forward under this section for more than eight assessment years immediately succeeding the assessment year for which the loss was first computed.

Illustration:1

The business income of an individual for the AY 2016-17 has been determined by the AO at Rs: 3,50,000. Later, it is found that he has not considered the following while determining the income: Depreciation for the current year Rs: 12,000

Unabsorbed depreciation carried forward Rs: 15,000

Unabsorbed business loss carried forward from AY 2011-12 Rs: 3,000

Determine the total income for the AY 2016- 17.

Solution:

Computation of Total Income for the AY 2016-17

Particulars	Rs:
Business income as determined by A O	3,50,000
Less: Current year's depreciation	12,000
	3,38,000
Less: Unabsorbed Business Loss of 2011-12	3,000
	3,35,000
Less: Unabsorbed Depreciation	15,000
Total Income	**3,20,000**

Illustration:2

From the following information of a trader, compute the gross total income for the AY 2016-17

1) Income from H.P. Rs: 2,50,000
2) Business Loss Rs: 60,000
3) Current year's depreciation Rs: 10,000
4) Business loss of preceding years Rs: 50,000
5) Unabsorbed depreciation of preceding years Rs: 30,000
6) STCG Rs:40,000
7) LTCG Rs: 50,000

Solution :

Computation of Total Income for the AY 2016-17

Particulars	**Rs:**	**Rs:**
Income from H.P.		2,50,000
Less: Business loss	60,000	
Current depreciation	10,000	
Unabsorbed depreciation	30,000	1,00,000
		1,50,000
LTCG	50,000	
Less: STCG	40,000	10,000
Gross Total Income		**1,60,000**

DEDUCTIONS FROM GROSS TOTAL INCOME

In computing the total income of an assessee, deductions specified under sections 80C to 80U will be allowed from his Gross Total Income. However, the aggregate amount of deductions under this chapter shall not, in any case, exceed the gross total income of the assessee.

Total Income =

Gross Total Income – Deductions under sections 80C to 80U.

These deductions are divided into two categories. They are:

A. Deductions in respect of certain payments
B. Deductions in respect of certain incomes.

Deductions in respect of certain payments

SECTION 80C: Deduction in respect of life insurance premia, deferred annuity, contributions to provident fund, subscription to certain equity shares or debentures, etc.
Persons Covered: Individual /HUF.

Eligible Amount: Any sums paid or deposited in the previous year by the assessee —

1. As ***Life Insurance premium*** to effect or keep in force insurance on life of (a) self, spouse and any child in case of individual and (b) any member, in case of HUF.

(i).Insurance premium should not exceed 20% of the actual capital sum assured, if the policy is issued before 1-04-2012.

(ii). The qualifying amount of life insurance premium on the insurance policy issued on or after 1-04-2012 shall not exceed 10% of the actual capital sum assured.

(iii). The qualifying amount of life insurance premium on an insurance policy issued on or after 1-04-2013 shall not exceed 15% of the actual capital sum assured if it is on the life of a person who is (a) a person with disability or a person with severe disability or (b) suffering from decease or aliment specified u/s 80DDB.

2. To effect or keep in force ***a deferred annuity contract*** on life of self, spouse and any child in case of individual. Such contract should not contain a provision for cash payment option in lieu of payment of annuity.

3. By way of ***deduction from salary payable by or on behalf of the Government*** to any individual for the purpose of securing to him a ***deferred annuity*** or making provision for his spouse or children. The sum so deducted does not exceed 1/5th of the salary.

4. As contribution (not being repayment of loan) by an individual to ***Statutory Provident Fund;*** i.e., any provident fund to which the Provident Funds Act, 1925, applies.

5. As contribution to ***Public Provident Fund*** scheme, 1968, in the name of self, spouse and any child in case of individual and any member in case of HUF.

6. As contribution by an employee to a ***recognized provident fund***.

7. As contribution by an employee to an ***approved superannuation fund***.

8. any subscription to any such security of the central government or any such deposit scheme which is notified by the central govt.

9. Any sum deposited in a ***10 year or 15 year account under the Post Office Savings Bank (CTD) Rules, 1959***, in the name of self and as a guardian of minor in case of individual and in the

11. As a contribution to Unit-linked Insurance Plan (ULIP) of UTI or LIC Mutual Fund (Dhanraksha plan) in the name of self, spouse and child in case of individual and any member in case of HUF.

12. To effect or to keep in force a contract for such annuity plan of the LIC (i.e., Jeevan Dhara,

Jeevan Akshay and their upgradations) or any other insurer as referred to in by the Central Government.

13. As subscription to ***any units of any Mutual Fund*** referred u/s. 10(23D) ***(Equity Linked Saving Schemes)***.

14. As a contribution by an individual to any ***pension fund*** set up by any Mutual Fund referred u/s 10(23D).

15. As subscription to any such deposit scheme of ***National Housing Bank (NHB)***, or as a contribution to any such pension fund set up by NHB as notified by Central Government.

16. As subscription to ***notified deposit schemes*** of (a) Public sector company providing long-term finance for purchase/construction of residential houses in India or (b) Any authority constituted in India for the purposes of housing or planning, development or improvement of cities, towns and villages.

17. As ***tuition fees*** (excluding any payment towards any development fees or donation or payment of similar nature), to any university, college, school or other educational institution situated within India for the purpose of full-time education of any two children of individual.

18. Towards the cost of ***purchase or construction of a residential house property*** (including the repayment of loans taken from Government, bank, LIC, NHB, specified assessee's employer etc., and also the stamp duty, registration fees and other expenses for transfer of such house property to the assessee). The income from such house property should be chargeable to tax under the head "Income from house property".

19. As subscription to ***equity shares or debentures*** forming part of any eligible issue of capital of public company or any public financial institution ***approved by Board***.

20. As ***Term Deposit*** (Fixed Deposit) ***for 5 years or more with Scheduled Bank*** in accordance with a scheme framed and notified by the Central Government.

21. As subscription to any notified bonds of National Bank for Agriculture and Rural Development (NABARD).

22. In an account under the **Senior Citizen Savings Schemes Rules, 2004.**

23. As f**ive year term deposit** in an account under the **Post Office Time deposit Rules, 1981**.

Extent of Deduction: 100% of the amount invested or Rs. 1,00,000/- whichever is less. However, as per Section 80CCE, the total deduction the assessee can claim u/ss. 80C, 80CCC and 80CCD(1) shall be restricted in aggregate to Rs. 1,00,000/-.

SECTION 80CCC- Deduction In Respect of Contribution to Certain Pension Funds Persons Covered- Individual.

Eligible Amount- Deposit or payment made to LIC or any other insurer in the approved annuity plan for receiving pension.

Extent of Deduction- Least of amount paid or Rs. 1,00,000/- .

SECTION 80CCD- Deduction In Respect of Contribution to Pension Scheme of Central Government

Persons Covered- Individual in the employment of Central Government or any other employer on or after 1-1-2004 or any other assessee being an individual.

Eligible Amount- Deposit or payment made by the employee and Central Government or individual under a pension scheme notified by the Central Government.

Extent of Deduction-A) Aggregate of (a) Amount paid or deposited by the employee and (b) Amount paid or deposited by the Central Government. The total deduction shall be restricted to maximum 10% of salary.

B) Amount deposited by individual, subject to 10% of total income, in a previous year

80CCE- The aggregate amount of deductions under section 80C, section 80CCC and 80CCD shall not exceed Rs 1, 00,000.

Section 80CCG

Section 80CCG of the Income-tax Act is also called as Rajiv Gandhi Equity Savings Scheme, 2012 (RGESS). Any resident individual with income less than Rs 12 lakhs who uses demat account for the first time to buy notified shares, mutual funds or ETFs can claim 50% deduction on the invested amount. RGESS was introduced to encourage small investors to participate in the equity markets.

Eligibility

1. The assessee should be a new retail investor. This means you should be using a demat account the first time ever for equities. You should be using a new demat account or if you had a demat account you should have never traded in equities using it before.

2. The gross total income should not exceed Rs 12 lakhs.

3. Investment must be done in

(i) Shares belonging to BSE-100, NSE-100, maharatnas, navratnas or miniratnas. FPOs of these companies or IPOs of PSUs with 51% government shareholding are also eligible.

(ii) Mutual funds and ETFs investing in the above shares are eligible for tax saving through RGESS. NFOs of such funds are also eligible for 80 CCG RGESS deduction.

4. NRIs cannot avail this tax benefit. RGESS tax rebate under section 80CCG is applicable only for residents. Investments will have a total lock-in period of three years. The first year will be a fixed lock-in period where the assessee cannot alter the securities on which deduction has been claimed under 80CCG and the next two years will be flexible lock-in period where the assessee can sell the securities while ensuring that value of the portfolio on which tax benefit has been claimed is maintained.

Maximum deduction limit: Maximum investment is capped at Rs 50,000. You can claim only 50% deduction on the amount invested. This deduction can be availed for three consecutive years, based on investments you make in those years, complying with RGESS requirements.

Section 80D- Deductions In Respect Of Medical Insurance Premia

Eligible Amount Premium paid on Mediclaim Policy issued by GIC or any other insurer approved by IRDA (Insurance Regulatory and Development Authority).

Extent of Deduction:

For Individual

A. For taxpayer his/her spouse and dependent children: 100% of premium paid subject to ceiling of (a) Rs. 20,000/- in the case of premium paid in respect of senior citizen (who has attained the age of 65 years or more) and (b) Rs. 15,000/- in other cases.

B. Additional deduction for parents of the taxpayer whether dependent or not 100% of premium paid subject to ceiling of (a) Rs. 20,000/- in the case of premium paid in respect of senior citizen (who has attained the age of 65 years or more) and (b) Rs. 15,000/- in other cases.

From Assessment year 2015-16, the benefit of deduction will be extended to the contribution made to Central Government Health Scheme. However, the aggregate limit for deduction remains the same.

Section 80DD- Deduction In Respect Of Maintenance Including Medical Treatment Of Handicapped Dependant

Persons Covered- Resident Individual/HUF.

Eligible Amount-(a) Expenditure incurred on medical treatment [including nursing], training and rehabilitation of a disabled dependant, or (b) Any payment or deposit made under a scheme framed by LIC or any other insurer or the administrator or the specified company and approved by the Board for payment of lump sum amount or annuity for the benefit of dependant with disability.

Relevant Conditions/Points

1. The concerned assessee must attach a copy of certificate in the prescribed Form and signed by prescribed medical authority along with return of income filed u/s 139. A fresh medical certificate may be required to be submitted after the expiry of stipulated period depending on the condition of disability as specified in such certificate.

2. Dependant means (a) in case of an individual, the spouse, children, parents, brothers and sisters of such individual and (b) in the case of a Hindu Undivided Family, any member of HUF; and who is dependant wholly or mainly on such individual or HUF for support and maintenance and who has not claimed deduction under section 80U for the assessment year relating to previous year.

Extent of Deduction(a) Rs. 50,000/- in case of normal disability or (b) Rs. 100,000/- in case of severe disability.

Section 80DDB- Deduction In Respect Of Medical Treatment, Etc. Persons Covered- Resident Individual/HUF.

Eligible Amount- Expenditure actually incurred for the medical treatment of such diseases or ailments specified in Rule 11DD (some of the diseases are parkinsons disease, malignant cancers, full blown AIDS, chronic renal failure, thalassaemia etc.) for self or dependant relative (spouse, children, parents, brothers and sisters) in case of individual or any member of HUF in case of HUF.

Relevant Conditions/Points

1. The concerned assessee must attach a copy of certificate in the prescribed Form No.10-I by a neurologist, an oncologist, a urologist, a haematologist, an immunologist or such other specialist working in Government Hospital along with return of income.ndividual/HUF

2. The deduction under this section shall be reduced by the amount received under insurance from an insurer or reimbursed by an employer, for the medical treatment of the concerned person.

Extent of Deduction

100% of the expenses incurred subject to ceiling of (a) Rs. 60,000/- in the case of expenses incurred for senior citizen (who has attained the age of 65 years or more) and (b) Rs. 40,000/- in other cases.

Section 80E- Deduction in Respect of Interest on Loan Taken for Higher Education

Persons Covered- Individual.

Eligible Amount- Any amount paid by way of interest on loan taken from any financial institution or any approved charitable institution for his/her higher education or w.e.f. 1-4-2008 for the purpose of higher education of his/her spouse, children and legal guardian of the Individual.

Relevant Conditions/Points

1. Amount should be paid out of income chargeable to tax.
2. All field of studies including vocational studies pursued after passing the Senior secondary examination or its equivalent from any school, board or university recognized by the central govt. or state govt. or local authority or by any other authority authorised by the central govt. or state govt. or local authority to do so.
3. Approved charitable institution means an institution established for charitable purposes and notified by the Central Government u/s. 10(23C) or referred in 80G(2)(a).
4. Financial institution means banking company or financial institution notified by Cetral

Government.

5. The deduction is allowed in the initial assessment year (i.e., the assessment year relevant to the previous year, in which the assessee starts paying the interest on loan) and 7 assessment years immediately succeeding the initial assessment year or until the interest is paid in full whichever is earlier.

Extent of Deduction- Entire amount of interest.

Section 80G Deduction In Respect of Donations to Certain Funds, Charitable Institutions, Etc.

Persons Covered-All assessees [except for 80G (2)(c), which is applicable for donations made only by company] to the Indian Olympic Association or to any other Association or Institution for the development of infrastructure for sports & games or the sponsorship of sports & games, in India

Eligible Amount- Any sums paid in the previous year as Donations to certain funds, charitable institutions etc. specified u/s. 80G(2).

Relevant Conditions/Points

1. Donation in kind is not eligible for deduction.

2. Donations paid out of another year's income or out of income not includible in the assessment of current year are also eligible for deduction. Lt. F. No. 45/313/66 – ITJ (61) dt. 2-12-1966.

Extent of Deduction

Without any ceiling of 10% of adjusted Gross Total Income:—

(a) 100% of donation if donation given to

(i)National Defence Fund set up by the Central Government;

(ii)Prime Minister's National Relief Fund;

(iii)Prime Minister's Armenia Earthquake Relief Fund;

(iv)Africa (Public Contributions — India) Fund;

(v)National Foundation for Communal Harmony;

(vii)An approved university/educational institution of National eminence;

(viii)The Maharashtra Chief Minister's Relief Fund

(ix)Chief Minister's Earthquake Relief Fund, Maharashtra;

(x)Any fund set up by the State Government of Gujarat exclusively for providing relief to the victims of earthquake in Gujarat;
(xi)any Zila Saksharta Samiti constituted in any district under the chairmanship of the Collector of that district;
(xii)National Blood Transfusion Council or to any State Blood Transfusion Council;
(xiii)any fund set up by a State Government for the medical relief to the poor;
(xiv)the Army Central Welfare Fund or the Indian Naval Benevolent Fund or the Air Force Central Welfare Fund,
(xv)Andhra Pradesh Chief Minister's Cyclone Relief Fund, 1996;
(xvi) National Illness Assistance Fund;
(xvii)Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund in respect of any State or Union Territory;
(xviii)National Sports Fund;
(xix)National Cultural Fund;
(xx)Fund for Technology Development and Application;
(xxi) National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities;
(xxii)Any trust, institution or fund to which Section 80G(5C) applies for providing relief to the victims of earthquake in Gujarat (contribution made during January 26, 2001 and September 30, 2001) **or b) 50% of donation if donation given to:**

Jawaharlal Nehru Memorial Fund; Prime Minister's Drought Relief Fund; National Children's Fund(deduction shall be allowed 100% w.e.f.A.Y 2014- 15) ; Indira Gandhi Memorial Trust; Rajiv Gandhi Foundation.

With ceiling of 10% of adjusted Gross Total Income:— Where the aggregate of sums exceed 10% of adjusted gross total income, then such excess amount is ignored for computing such aggregate.

(a) 100% of qualifying amount, if donation given to Government or any approved local authority, institution or association to be utilised for the purpose of promoting family planning; Donation by a Company to the Indian Olympic Association or to any other notified association or institution established in India for the development of infrastructure for sports and games in India

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or the sponsorship of sports and games in India.

(b) 50% of qualifying amount if donation given to any other fund or any institution which satisfies conditions mentioned in Section 80G(5); Government or any local authority to be utilised for any charitable purpose other than the purpose of promoting family planning, Any authority constituted in India for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns, villages or both; Any corporation referred in Section 10(26BB) for promoting interest of minority community; For repairs or renovation of any notified temple, mosque, gurudwara, church or other place.

Section 80GG Deduction in Respect of Rent Paid

Persons Covered Any assessee other than assessee having income falling u/s 10(13A) (i.e., House Rent Allowance).

Eligible Amount Any expenditure incurred by him on payment of rent (by whatever name called) in respect of any furnished or unfurnished accommodation in excess of 10% of his total income, before making any deduction under this section.

Extent of Deduction- Lower of (a) Rs. 2,000 per month, or (b) 25% of the total income (after allowing all deductions except under this section), or (c) Expenditure incurred in excess of 10% of the total income (after allowing all deductions except under this section).

Section 80GGA Deduction In Respect Of Certain Donations For Scientific Research Or Rural Development

Persons Covered- All assessees:

Eligible Amount-

1. Any sum paid to a scientific research association or to a university, college, or other institution to be used for ***scientific research*** [approved u/s. 35(1) (ii)];
2. Any sum paid to a university, college, or other institution to be used for ***research in social science or statistical research*** [approved u/s. 35(1)(iii)];
3. Any sum paid to an association or institution for any ***programme of rural development*** [approved u/s. 35CCA];
4. Any sum paid to an association or institution for ***training of persons for implementing rural development programmes*** [approved u/s. 35CCA];
5. Any sum paid to a public sector company or local authority or to an association or

institution approved by National Committee for carrying out ***any eligible project or scheme*** [approved u/s. 35AC];

6. Any sum paid to a ***rural developemt fund*** set up and notified by Central Government for the purposes of Section 35CCA(1)(a);

7. Any sum paid to a ***National Urban Poverty Eradication Fund*** set up and notified by Central Government for the purposes of Section 35CCA(1)(d).

Extent of Deduction-100% of the amount paid as donation/contribution.

Section 80GGB Deduction in Respect of Contribution Given by Companies to Political Parties or an Electoral Trust"

Persons Covered- Indian company.

Eligible Amount- Contribution given by Indian companies to any political parties or an electoral

Extent of Deduction-100% of the amount paid as contribution.

Section 80GGC- Deduction In Respect of Contribution Given by any Person to Political Parties or an Electoral Trust"

Persons Covered- Any assessee (except local authority and every artificial juridical person wholly or partly funded by the Government).

Eligible Amount- Contribution given by assessee to political parties or an electoral trust.

Extent of Deduction-100% of the amount paid as contribution.

Illustration:1

Ram Prakash (70 years of age) gives the following information. Compute deductible amount under sec.80C for the A.Y. 2016-17

1. Payment of LIC premium for his own life (policy amount Rs: 60,000) Rs: 13,000.
2. Payment of LIC premium on life of his wife Rs: 5,000 (paid out of agricultural income)
3. Contribution to URPF Rs: 24,000
4. Contribution to PPF Rs: 15,000
5. Interest accrued on NSC (VIII issue) including 6th year's interest of Rs: 1,500 is Rs:8,000
6. Repayment of loan taken for construction of a residential flat from Housing Development Finance Corporation (includes interest Rs: 34,000) Rs: 80,000.

Solution :

Computation of Deduction under section 80 C for the A.Y.2016-17

Particulars	Rs:
LIC Premium ---self (20% of sum insured)	12,000
LIC Premium --- wife	5,000
Contribution to PPF	15,000
Accrued interest to NSC VIII th issue	7,500
Repayment of housing loan (80,000 – 34,000)	46,000
Total deduction	**85,500**

Illustration:2

From the following information, compute total income for the A.Y. 2016-17

1. Business income of Surjih, aged 70, is Rs: 13,20,000
2. He deposited Rs: 70,000 in PPF And purchased NSC VIII issue Rs: 50,000
3. He paid interest on loan taken from a financial institution for higher education of his grand son Rs:1,20,000.
4. He spent Rs: 40,000 on medical treatment of disabled dependent.

Solution:

Computation of Total Income for the A.Y.2015-16

Particulars		Rs:
Business Income Being GTI		13,20,000
Less: Deduction u/s 80 C :		
PPF and NSC (Maximum deduction Rs:1,00,000)	1,00,000	
Deduction u/s 80DD:		
Medi. Treatment deduction allowed Rs:50,000)	50,000	
Deduction u/s 80E (interest on loan for high. Edu. Of grand son ---- Not deductible)	---	1,50,000
Total Income		**11,70,000**

Illustration :3

Compute total income of Mr. X, a disabled, for the A.Y 2016-17

1. Salary income is Rs: 4,30,000
2. He deposited Rs:20,000 in URPF.
3. He paid LIC premium Rs: 45,000 on a policy (issued on 15-6-2012) of Rs: 4,00,000
4. He donated Rs: 20,000 to National Children's Fund by cheque.

Solution:

Computation of Total Income for the A.Y.2016-17

Particulars		**Rs:**
Salary Income being GTI		4,30,000
Less: Deduction u/s 80 C : LIC premium (10% of sum assured)	40,000	
Deduction under 80G Donation to NCF (50% of 20,000)	10,000	
Deduction under 80 U (Disabled)	50,000	1,00,000
Total Income		**3,30,000**

Illustration:4

Compute total income of Mr. Xaviour, a non-resident for the A.Y. 2016-17

1. Salary for 3 months received in India (computed) Rs: 18,000
2. Dividend received in Belgium from British companies Rs: 44,000
3. Interest on SB deposits in SBI Rs: 2,000
4. Taxable income from H.P. Rs:6,800.

Solution :

Computation of Total Income for the A.Y.2016-17

Particulars	**Rs:**	**Rs:**
Salary		18,000

Income from H.P.		6,800
Interest on SB Deposits		2,000
Gross Total Income		26,800
Less: Deductions	Nil	
Total Income		**26,800**

Illustration:5

From the following , compute Total Income of Mrs. Rajalakshmi for the A.Y. 2016-17

Income from poultry farming Rs: 30,000

Interest from bank deposits Rs: 4,000

Dividend from shares held in an Indian company (Gross) Rs: 20,000

Income from units of Mutual Fund (Gross) Rs:8,000

Income from other sources Rs:42,000

Donation to National Defence Fund Rs:2,000

Solution:

Computation of Total Income for the A.Y 2016-17

Particulars	**Rs:**	**Rs:**
Income from Business:		
Income from poultry farming		30,000
Income from Other Sources:		
Interest on deposits	4,000	
Dividend from shares in Indian company	Exempt	
Income from units of UTI	Exempt	
Other incomes	42,000	46,000
Gross Total Income		**76,000**
Less : Deduction u/s 80G		2,000
Total Income		**74,000**

Illustration:6

Mr. X earned GTI of Rs: 5,00,000 in the P.Y and made the following donations during the year by cheques:

a) Rs: 10,000 to CM's Earthquake Relief Fund Maharashtra.
b) Rs: 15,000 to National Foundation for Communal Harmony.
c) Rs; 40,000 to municipality for family planning
d) Rs: 25,000 to approved institutions

Compute the amount of deduction admissible u/s 80G for the A.Y.2016-17

Solution: **Computation of Deduction u/s 80G**

Particulars	**Rs:**	**Rs:**
a)CM's Earthquake Relief Fund (100% of amount donated)		10,000
b)National Foundation for Communal Harmony (100% of amount donated)		15,000
c and d) Qualifying amount is 10% of GTI (Rs: 50,000): Donation to municipality for Family planning (40,000 x 100%) For the balance amount 50% (10,000 x 50 %)	 40,000 5,000	 45,000
Deduction u/s 80 G		**70,000**

Illustration: 7

From the following, prepare a statement of assessment of income of Mr. Ashikh for the A.Y. 2016-17

1) Monthly salary Rs: 15,000 w.e.f. 01-07-2012.
2) His contribution to URPF is 15%
3) Employer's contribution is 10%
4) Dividend on preference share of an Indian company Rs: 8,000
5) Deposit made in a bank (interest 5 %) Rs:20,000

6) He owns a house, half of which is occupied by his son for his residence who is living separate from his father and the other half is let at Rs: 1,500 p.m. ; insurance premium Rs: 250; local taxes Rs:6,000
7) He has income from a firm Rs:12,000 and fror the HUF Rs: 10,000.

Solution:

Computation of Total Income for the AY 2016-17

Particulars	**Rs:**	**Rs:**
Income from salary (15,000 x 9)		1,35,000
Income from H.P.		
Gross Annual Value	36,000	
Less : Municipal Tax	6,000	
	30,000	
Less : Standard Deduction 30 % 0f GAV	9,000	21,000
Income from business:		
Share from a firm	Exempt	
Share from HUF	Exempt	---------
Income from other sources:		
Dividend	Exempt	
Interest on FD	1,000	1,000
Gross Total Income		**1,57,000**
Less : Deduction under section 80 C		Nil
Total Income		**1,57,000**

Illustration:8

Compute the taxable income of HUF:

Profit from business Rs: 32,000

Salary received by a member of the family Rs: 8,000

Director’s fee received by Karta of the family Rs: 6,000

Profit from a firm Rs:10,000

Dividend (Gross) Rs: 5,000

Rental value of the property let out Rs: 12,000

Municipal taxes Rs: 600.

Solution: **<u>Computation of Total Income of the HUF</u> for the AY 2016-17**

Particulars	**Rs:**	**Rs:**
Income from business:		
Family business	32,000	
Profit from a firm	Exempt	
		32,000
Income from H.P. :		
Rental Value	12,000	
Less : Municipal Tax	600	
	11,400	
Less : Annual Value (30 %)	3,420	7,980
Total Income		39,980

Note: salary received by member of an HUF and director's fee received by the Karta are not taxable in the hands of HUF.

Investments which are eligible for deductions u/s 80C

The following investments/payments are inter alia eligible for deduction u/s 80C:-

Nature Of Investment	**Remarks**
Life Insurance Premium	For individual, policy must be in the name of self or spouse or any child's name. For HUF, it may be on life of any member of HUF.

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Assistant Professor
KAHE

Sum paid under contract for deferred annuity	For individual, on life of self, spouse or any child of such individual.
Sum deducted from salary payable to Govt. Servant for securing deferred annuity for self, spouse or child	Payment limited to 20% of salary.
Contribution made under Employee's Provident Fund Scheme	-
Contribution to PPF	For individual, can be in the name of self/spouse, any child & for HUF, it can be in the name of any member of the family.
Contribution by employee to a Recognised Provident Fund.	-
Subscription to any notified securities/notified deposits scheme.	-
Subscription to any notified savings certificates.	e.g. NSC VIII issue.
Contribution to Unit Linked Insurance Plan of LIC Mutual Fund	e.g. Dhanrakhsa 1989
Contribution to notified deposit scheme/Pension fund set up by the National Housing Bank.	-
Certain payment made by way of instalment or part payment of loan taken for purchase/ construction of residential house property.	Condition has been laid that in case the property is transferred before the expiry of 5 years from the end of the financial year in which possession of such property is obtained by him, the aggregate amount ofdeduction of income so allowed for various years shall be liable to tax in that year.
Subscription to units of a Mutual Fund notified u/s 10(23D)	-

Subscription to deposit scheme of a public sector company engaged in providing housing finance.	-
Subscription to equity shares/ debentures forming part of any approved eligible issue of capital madeby a public company or public financial institutions.	-
Tuition fees paid at the time of admission or otherwise to any school, college, university or other educational institution situated within India for thepurpose of full time education.	Available in respect of any two children.
Any term deposit for a fixed period of not less than five years with the scheduled bank.	This has been included in Section 80C by the Finance Act 2006.
Subscription to notified bonds issued by NABARD	This has been included in Section 80C by the Finance Act 2007 and has come into effect from 1.4.2008.
Payment made into an account under the Senior Citizens Savings Scheme Rules, 2004	This has been introduced by Finance Act, 2008 and shall come into effect from 1.4.2009.
Payment made as five year time deposit in an account under the Post Office Time Deposit Rules, 1981	This has been introduced by Finance Act, 2008 and shall come into effect from 1.4.2009.

It may be noted that the aggregate amount of deductions under sections 80C, 80CCC and 80CCD are subject to an overall ceiling of Rs.1 lakh.

KARPAGAM ACADEMY OF HIGHER EDUCATION
(Established Under Section 3 of UGC Act 1956)
COIMBATORE- 641 021
DEPARTMENT OF COMMERCE
INCOME TAX LAW AND PRACTICE
POSSIBLE QUESTIONS

UNIT-IV

1. The following are the particulars of income and loss of an individual under different heads of income. Set- Off losses in the assessment year 2015-16 and find out the net result:

Income from house property A	Rs.	5,000.
Loss from House property B	Rs (-)	8,000.
Income from interest on securities	Rs.	20,000.
Loss from a cycle business	Rs (-)	20,000.
Profit from speculation business	Rs.	20,000
Loss from short – term capital asset	Rs (-)	6,000
Long term capital loss	Rs.(-)	25,000
Long – term capital gain (Investments)	Rs.	21,000

2. From the following particulars of income of assesses A, B and C how the capital losses shall be setoff and carried forward for the previous year ending on 31.03.2015?

		Rs.
A.	i. Business income	15,000
	ii. Short term capital loses	1,200
	iii. Long term capital gain (Shares)	7,200
	iv. Long term capital gain on sale of jewellery	20,000
B	i. Business income	30,000
	Ii. Short term capital loss	40,000
C.	i. Business income	60,000
	ii short term capital gain	20,000

iii. Long term capital gain	17,000
iv. Carry forward loss (Short term capital assets)	50,000

3. Mr. Ram Patel submits the following information of his income and losses for the year ending 31.03.2015. compute total income,

		Rs.
1. Salary computed		24,000
2. Income from house property		
House A	(income)	10,000
House B	(loss)	40,000
House C (Self occupied) loss		28,000
3. Income from business:		
Cloth business Profit		10,000
Hardware business loss		12,000
Speculation profit		12,000
Speculation loss		17,000
4. Capital gains:		
Short term gain		8,000
Short term loss		24,000
Long term gain		8,000
5. Other sources :		
Income from subletting		12,000
Loss from card games		6,000

Income from card games	9,000
Interest on securities gross	8,000

4. Determine the total income from the following particulars

	Previous Year 2012-2013	Previous Year 2013-2014
	Rs.	Rs.
House property Income (computed)	20,000	20,000
Salary Income (computed)	1,80,000	1,90,000
Business profit before depreciation	40,000	1,20,000
Depreciation for the year	1,20,000	1,40,000
Capital Gain – Short term	10,000	-
Income from other sources	20,000	40,000

5. Explain the provisions of set off and carry forward of losses?

6. Calculate set off and carry forward of losses and total income.

	Pre. Year 2014-15	Pre. Year 2015-16
	Rs.	Rs.
House property income (Computed)	20,000	20,000
Salary income computed	1,80,000	1,90,000
Business profit before depreciation	40,000	1,20,000
Depreciation for the year	1,20,000	1,40,000
Capital gain – short term	10,000	nil
Income from other sources	20,000	40,000

7. The following are the particulars of income and loss of an individual under different heads of income. Set- Off losses in the assessment year 2015-16 and find out the net result and give comment on it

Long term capital gain	Rs. 25,000
Income from house property A	Rs. 10,000.
Loss from House property B	Rs(-) 25,000.
Income from interest on securities	Rs. 40,000.
Loss from a cycle business	Rs(-) 40,000.
Profit from speculation business	Rs. 50,000
Loss from short – term capital asset	Rs (-)15,000
Income from House property C	Rs. 45,000

COMPUTATION OF TAX LIABILITY OF INDIVIDUALS

THE COMPUTATION OF TOTAL INCOME

The computation of total income of an individual involves the following three steps:

Step1. Compute income under each of the five heads in accordance with the provisions of Sections 15-59, i.e.,

- Income under the head ―Salaries‖ [Sections 15-17].
- Income from house property [Sections22-27].
- Profits and gains of business or profession [Sections28-44].
- Capital gains [Sections44-55].
- Income from other sources [Sections56-59].

In computing income under the five heads mentioned above, the following should be considered:

(i) Income of any other person in respect of which an individual is chargeable to tax under Sections 60-64, shall be included under the respective heads. The other person‘s incomes in respect of which an individual is chargeable to tax are : transfer of income where there is no transfer of assets (u/s 60), revocable transfer of assets (u/ss 61-63), and income of spouse, minor child, etc., (u/s 64).

(ii) If the net result of computation in respect of one source of income shows a loss, it can be set off against income from another source under the same head (Section 70). In setting off income of one source against income from another, restrictions imposed under Section 70 should be considered.

(iii) If the net result of computation under any head shows a loss, this can be set off against income under other heads (Section 71). The restrictions imposed u/s 71 in respect of such inter-head adjustments should be considered.

(iv) If there is any unabsorbed loss in the earlier previous year or years, these shall be set off in accordance with the provisions of the Act.

Step 2. The aggregate of income under all the five heads in Step No. 1 is called gross total income.

Allow deductions from gross total income under Sections 80C to 80U

Step 3. The balance of income after allowing deductions u/ss 80C to 80U is called total income. Under the provision of Section 288A, the total income so determined shall be rounded off to the nearest multiple of ` 10.

TAX LIABILITY OF INDIVIDUALS

Income-tax is levied on an assessee's total income. The total income has to be computed as per the provisions of the Income-tax Act, 1961. Following steps are considered for computing total income and to charge tax.

Step 1 – Determination of the residential status of the Assessee:

First all we want determine the residential status of the assessee. The residential status of a person has to be determined to find out which income is to be included in computing the total income. It decides whether the individual is tobe taxed or not. The residential status of an individual is determined on the basis of the duration of time spend by him in India. . Based on the time spent by him, he may be (a) resident and ordinarily resident, (b) resident but not ordinarily resident, or (c) non-resident.

Step 2 – Classification of income under different heads

The Act specifies five heads of income. These heads of income consist of all possible types of income that can accrue to or be received by an individual. An individual is required to classify the income earned by him under the appropriate heads of income.

Step 3 – Exclusion of income not chargeable to tax:

There are certain incomes which are wholly exempt from income-tax e.g. agricultural income. These incomes have to be excluded while calculating Gross Total Income. T the same time certain incomes are partially exempt from income tax e.g. House Rent Allowance, Education Allowance etc.. These incomes are excluded only to the extent of the limits specified in the Act. The balance income over and above the prescribed limits would enter computation of total income and have to be classified under the relevant head of income.

Step 4 – Computation of income under each head:

Income is to be computed in accordance with the provisions governing a particular head of income. As per the rules certain deductions and allowances are allowed. These deductions are allowed while computing income under each head.

Step 5 – Clubbing of income of spouse, minor child etc.:

In case of individuals, income-tax is levied on a slab system on the total income. The tax system is progressive. That means if income increases the tax amount to be paid also increases. We can see that some taxpayers who have the higher income bracket have a tendency to divert some portion of their income to their spouse, minor child etc. to minimize their tax burden. In order to prevent such tax avoidance, clubbing provisions have been included in the Income-tax Act. As per the provisions of income tax act income arising to certain persons (like spouse, minor child etc.) have to be included in the income of the person when it is seen that the income is diverted for avoiding tax.

Step 6 – **Set-off or carry forward and set-off of losses:**

An individual may have different sources of income under the same head of income. He might have profit from one source and loss from the other. As per the provision we can set off the losses under one head or form other heads or can carry forwards for the coming assessment years. All provisions related to that should be considered while computing total income of the Assessee.

Step 7 – Computation of Gross Total Income:

The final figures of income or loss under each head of income, after allowing the deductions, allowances and other adjustments, are then aggregated, after giving effect to the provisions for clubbing of income and set-off and carry forward of losses, to arrive at the gross total income.

Step 8 – Deductions from Gross Total Income:

There are deductions prescribed from gross total income. The allowable deductions in case of an individual are deductions under sections 80C, 80CCC, 80CCD, 80CCF, 80D, 80DD, 80DDB, 80E, 80G, 80GG, 80GGA, 80GGC, 80-IA, 80-IAB, 80-IB, 80-IC, 80-ID,80-

IE, 80JJA, 80QQB, 80RRB, 80TTA and 80U. These deductions are allowed as per the rules prescribed in the income tax act.

Step 9 – **Compute Total income:**

After allowing all deductions allowable, we can compute total income.

Step 10 – **Application of the rates of tax on the total income:**

Different slab of tax rates are available on basis of status and age of individual. . There also will be basic exemption limit. For the assessment Year 2016-17

PART I: Income Tax Slab For Individual Taxpayers & HUF (Less than 60 Years Old) (Both Men & Women)

Income Slab	**Tax Rate**
Income up to Rs 2,50,000*	No tax
Income from Rs 2,50,000 – Rs 5,00,000	10%
Income from Rs 5,00,000 – 10,00,000	20%
Income more than Rs 10,00,000	30%
Surcharge: 12% of income tax, where total income exceeds Rs.1 crore.	
Cess: 3% on total of income tax + surcharge.	
**Income tax exemption limit for FY 2015-16 is up to Rs. 2,50,000 for individual & HUF other than those covered in Part(II) or (III)*	

PART II: Income Tax Slab For Senior Citizens (60 Years Old Or More but Less Than 80 Years Old)(Both Men & Women)

Income Slab	**Tax Rate**
Income up to Rs 3,00,000*	No tax
Income from Rs 3,00,000 – Rs 5,00,000	10%
Income from Rs 5,00,000 – 10,00,000	20%
Income more than Rs 10,00,000	30%
Surcharge: 12% of income tax, where total income exceeds Rs.1 crore.	
Cess: 3% on total of income tax + surcharge.	
**Income tax exemption limit for FY 2015-16 is up to Rs. 3,00,000 other than those covered in Part(I) or (III)*	

PART III: Income Tax Slab For Senior Citizens (80 Years Old Or More) (Both Men & Women)

Income Slab	**Tax Rate**
Income up to Rs 2,50,000*	No tax
Income up to Rs 5,00,000*	No tax

Income Slab	Tax Rate
Income from Rs 5,00,000 – 10,00,000	20%
Income more than Rs 10,00,000	30%
Surcharge: 12% of income tax, where total income exceeds Rs.1 crore.	
Cess: 3% on total of income tax + surcharge.	
**Income tax exemption limit for FY 2015-16 is up to Rs. 5,00,000 other than those covered in Part(I) or (II)*	

Aggregation of Income

In certain cases, some amounts are deemed as income in the hands of the assessee though they are actually not in the nature of income. These cases are contained in sections 68, 69, 69A, 69B, 69C and 69D. The Assessing Officer may require the assessee to furnish explanation in such cases. If the assessee does not offer any explanation or the explanation offered by the assessee is not satisfactory, the amounts referred to in these sections would be deemed to be the income of the assessee. Such amounts have to be aggregated with the assessee's income.

Cash credits (sec 68)

Where any sum is found credited in the books of an assessee maintained for any previous year, and the assessee offers no explanation about the nature and source thereof or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, the sum so credited may be charged to income-tax as the income of the assessee of that previous year.

Unexplained investments (sec 69)

Where in the financial year immediately preceding the assessment year the assessee has made investments which are not recorded in the books of account, if any, maintained by him for any source of income, and the assessee offers no explanation about the nature and source of the investments or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, the value of the investments may be deemed to be the income of the assessee of such financial year.

Unexplained money, etc (Sec 69A)

Where in any financial year the assessee is found to be the owner of any money, bullion, jewellery or other valuable article and such money, bullion, jewellery or valuable article is not recorded in the books of account, if any, maintained by him for any source of income, and the assessee offers no explanation about the nature and source of acquisition of the money, bullion, jewellery or other valuable article, or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, the money and the value of the bullion, jewellery or other valuable article may be deemed to be the income of the assessee for such financial year.

Amount of investments, etc., not fully disclosed in books of account(69B.)

Where in any financial year the assessee has made investments or is found to be the owner of any bullion, jewellery or other valuable article, and the Assessing Officer finds that the amount expended on making such investments or in acquiring such bullion, jewellery or other valuable article exceeds the amount recorded in this behalf in the books of account maintained by the assessee for any source of income, and the assessee offers no explanation about such excess amount or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, the excess amount may be deemed to be the income of the assessee for such financial

Unexplained expenditure, etc (69C).

Where in any financial year an assessee has incurred any expenditure and he offers no explanation about the source of such expenditure or part thereof, or the explanation, if any, offered by him is not, in the opinion of the Assessing Officer, satisfactory, the amount covered by such expenditure or part thereof, as the case may be, may be deemed to be the income of the assessee for such financial year :

Amount borrowed or repaid on hundi (69D.)

Where any amount is borrowed on a hundi from, or any amount due thereon is repaid to, any person otherwise than through an account payee cheque drawn on a bank, the amount so borrowed or repaid shall be deemed to be the income of the person borrowing or repaying the amount aforesaid for the previous year in which the amount was borrowed or repaid.

ASSESSMENT OF INDIVIDUALS

Examples 1. K (age 62 years) is a retired person. He purchased a piece of land in December, 2010 and sold the same in April, 2016. Taxable long-term capital gain on such sale amounted to ` 1,80,000. Apart from gain on sale of land, he is not having any other income. What will be his tax liability for the year 2016-17 if:

(i) He is resident in India? (ii) He is a non-resident?

Answer:

(i) If K is a resident in India, his tax liability, after adjustment of basic exemption limit would be nil.

(ii) If K is a non-resident, he will not be entitled to adjust basic exemption limit against his income from long-term capital gains. In view of this, his tax liability will be ` 37080 [ ` 1,80,000 x 20% + 3% education cess].

Example 2:

C (age 67 years and resident) is a retired person earning a monthly pension of ` 5,000 from his Indian employer. He purchased some jewellery in December, 2010 and sold the same in April, 2016. Taxable LTCG amounted to ` 2,70,000. Apart from pension income and gain on sale of gold he is not having any other income. What will be his tax liability for the year 2016-17:

(i) If C is a resident? (ii) C is a non-resident?

Answer:

Computation of tax liability for the assessment year 2017-2018

	`	`
A. **In the case of resident assessee**:		
Income under the head —Salaries	60,000	
Capital gains [LTG]]	2,70,000	

Gross total income	3,30,000	
Less: Deduction u/s 80C- 80U	Nil	3,00,000
Total income	6,000	
Tax on total income : (Note 1)	5,000	
Less: Tax rebate u/s 87A	1,000	
Balance tax	30	
Add: Education cess @3%		1,030
Tax payable		
B. In the case of non-resident assessee:		3,30,000
Total income as above		
Tax on total income (Note 2)	54,000	
Add: Education cess	1,620	55,620

Note1:

Since C is a senior citizen below 80 years, the basic exemption limit is ` 3,00,000. Further, a resident individual can adjust the basic exemption limit against LTCG. However, such adjustment is possible only after adjusting income other than LTCG. In this case, he is having pension income of ` 60,000 (` 5,000 ×

12)and LTCG of ` 2,70,000. Thus, first we have to adjust the pension income against the exemption limit and the balance limit will be adjusted against LTCG. Accordingly, his tax liability will be [ ` 3,30,000 – 60,000 – (3,00,000 -60,000) x 20%] =` 6,000.

2. For non-resident individual, irrespective of the age, the basic exemption limit is ` 2,50,000. Further, a non-resident individual cannot adjust the basic exemption limit against LTCG covered under section 112. In other words, C can adjust the pension income against the basic exemption limit but the remaining exemption limit cannot be adjusted against LTCG . Accordingly, his tax liability will be ` 3,30,000 – 60,000) x 20% = ` 54,000.

Example 3.

The income and related particulars of Mr. C, aged 56, for the year ended 31.03.2017 are given below:

(a) Salary ` 24,000 per month.

(b) He was provided with a rent free accommodation in Hyderabad for which rent of ` 6,000 per month was paid by the employer.

(c) His wife was sick and treatment was taken in a private hospital, for which an amount of ` 32,000 was paid towards medical expenses by his employer in December 2016.

(d) An allowance of ` 13,200 was paid by his employer towards his son‘s education;

(e) The employer paid D.A. `10,000 per month (considered for retirement benefits), Professional tax of `2,400 and Income Tax liability of ` 15,000.

(f) He encashed earned leave of his credit to the tune of ` 10,000;

(g) Loss from speculative business `20,000.

(h) Loss from sale of shares in ABC Pvt. Ltd. Held for 10 months ` 8,000;

(i) Profit on sale of sale of long term capital assets ` 10,000.

Compute the total income and tax liability of Mr. C for the Assessment Year 2017-18.

Answer:

Computation of total income and tax liability of Mr. C, for the assessment year 2017-18 relating to the previous year 2016-17

Salaries:		`
Basic salary [` 24,000 x 12]		2,88,000
Encashment of leave while in service (fully taxable)		10,000
D.A.		1,20,000
Perquisites:		
Rent free accommodation [Note]		62,700
Reimbursement of medical expenses	32,000	
Less: Exemption (non-recognized hospital)	15,000	17,000
Children education allowance	13,200	
Less: Exempt u/s 10(14) [@ `100 p.m.]	1,200	12,000
Income-tax paid by employer		15,000
Professional tax paid by the employer		2,400
Gross salary		5,27,100
less: Professional tax u/s 16(iii)		2,400
Net salary		5,24,700
Capital Gains (Long-term capital gains)	10,000	
Less: Short-term capital loss	8,000	2,000
Total income		5,26,700

Tax Liability

Tax on long term capital gains (`2,000 @ 20%)	400

Tax on other incomes of `5,24,700 at normal rates	29,940
	30,340
Add: Education Cess and Higher Education cess 3% (2% + 1%)	910
Total Tax Liability	31,250

Working Note:1.

Rent- free accommodation being lower of the following:	
A. Rent paid by employer	` 72,000
B. 15% of salary (basic salary, leave encashment and D.A. i.e., (2,88,000+10,000+1,20,000 = ` 4,18,000)	` 62,700

Note 2: Loss from speculation business is to be set off against income from speculation business income only.

Example 4: V has the following incomes for the financial year 2016-17

	`
Business Income	(-) 40,000
Short-term capital gains	16,000
Long-term capital gains	2,90,000

He deposits ` 10,000 in public provident fund account. You are required to find out his tax liability for the assessment year 2017-2018.

Answer:

Computation of income of Mr. V for the Assessment Year 2017-18 relating to the previous year 2016-17

	`	`

Business income		(-) 40,000
Capital gains:		
Short-term	16,000	
Long-term	2,90,000	3,06,000
Gross total income		2,66,000
Less: Deduction u/s 80C		Nil
Total income		2,66,000

Notes:

1. Business loss can be set off against capital gains. It is beneficial to first set it off against short term capital gain and the balance against long term capital gain. The whole of total income would consist of long term capital gain.
2. Deduction u/s 80C is not available in respect of PPF, since the whole of gross total income consist of income by way of long term capital gains.

Computation of tax liability

	`
Total income (long-term capital gains)	2,66,000
Tax on total income :	
Up to ` 2,50,000	Nil
Balance ` 16,000 @20%	3,200
Total tax	3,200
Less: Tax rebate u/s 87A [100 % of tax or ` 5,000, whichever is less]	3,200

Tax payable	Nil

Example 5: Y submits the following particulars of his income for the year ended 31.032017.

1) On 30.04.2016, when he attained the age of 60, his friend gave him a flat at Surat, each contributing `40, 000 in cash. The cost of the flat was ` 6.4 lakhs.
2) Another friend sent cash gift of ` 75,000 for the occasion.
3) Y sold the flat on 30.01.2017 for `8.9 lakhs. The registrar's valuation for stamp duty purposes was `9.2 lakhs. Neither the buyer nor Y questioned this value.
4) He also purchased equity shares (listed) of X Ltd. On 05.02.2016 for ` 3.5 lakhs. These were sold privately on 15.03.2017 for `2.8 lakhs.
5) He has paid life insurance premium of ` 90,000 for his major son who is not dependent on him.
6) You are required to calculate the total income of Y for the Assessment Year 2017-18, Cost inflation

indices 1125 for 2016-17; and 1081 for 2015-16.

Answer:

Total income of Y for the Assessment Year 2017-2018.

	`
Capital Gains (Note 1)	2,80,000
Income from other sources (Note 2)	75,000
Gross total income	3,55,000
Less: Deduction under Chapter VI-A (Note 3)	90,000
Total Income	2,65,000

Working Note 1: Working of capital gains

Short-term capital gains from sale of flat at Surat:	`
Full value of consideration being higher of stamp duty value u/s 50C	
or actual amount received	9,20,000
Less: Cost of Acquisition	6,40,000
Short term capital gains	2,80,000
Sale of equity shares [long term capital asset]	
Sale consideration	2,80,000
3,50,000 x 1125/1081	3,64,246
Long term capital loss	(84,246)

Note 1: Chargeable capital gains: Loss from long-term capital assets can be set off only against profits from similar assets).

Note 2: The gift of property is covered by section 56(2)(vi)(b). Since the amount of gift in kind does not exceed ` 50,000 in each case and this section does not need aggregation of multiple gifts, it is not taxable. However, the gift of ` 75,000 received from another friend (non – relative) is covered by section 56(2)(vi)(a). Hence his is taxable.

Note 3: w.e.f. 1-10-2009 value of immovable property shall be the stamp duty value of the property.

Hence, stamp duty value of the property is taxable at the hands of Y.

Note 4: Deduction u/s 80C can be claimed in respect of LIC paid for any child.

Example 6. Compute the total income of Mr. P from the information given below:

Particulars	`
Net income from House Property	1,75,000
Income from business	2,25,000

Short-term capital gain on sale of shares	80,000
Long term capital loss on sale of property (brought forward from A.Y. 2014-15)	(70,000)
Income from integrated activities of growing tea crops and manufacturing tea	1,50,000
Dividends from Indian companies carrying on agricultural operations	70,000
Current year depreciation	35,000
Brought forward business loss(loss incurred six years ago)	(65,000)
Expenditure incurred on medical treatment of dependent with severe disability	1,20,000

Answer:

Computation of total income and tax liability of Mr. P, for the assessment year 2017- 2018 relating to the previous year 2016-2017

Particulars	`	`
Income from House property:		1,75,000
Income from business:		
Profit before depreciation	2,25,000	
Less: Current year depreciation	35,000	
Less: Brought forward business loss	65,000	
	1,25,000	
Income from tea business [40% is business income]	60,000	1,85,000
Capital gains:		
Short term capital gain	80,000	
Long term capital loss from property [Not to be set off]	Nil	80,000

Gross total income		**4,40,000**
Less: Deduction under Section 80DD		1,25,000
Total Income		**3,15,000**

Example 7: D, aged 55, resident of India, furnishes the following information for the previous year ended 31.03.2017.

	`
House property income (net)	18,500
Business income	5,000
Capital gains(short term)	22,000
Capital gains(long term)	2,500
Income from horse race	15,000
Income from card games	16,000
Additional information are as follows:	
Brought forward business loss for A.Y.2008-09	12,000
Unabsorbed depreciation for A.Y.2014-15	6,000
Long term Capital Loss for A.Y. 2013-14	12,000
Loss from horse race suffered in AY 2013-14	8,000
Speculative loss for AY 2012-13	10,000

D has taken a life insurance policy for his major son working in a software company for a salary of `5 lakhs per annum. He has paid a premium of ` 60,000 in cash for a capital sum assured of `4,00,000/-He has paid PPF of ` 70,000 by raising a hand loan from his friend. Calculate total income and tax liability. State the items to be carried forward.

Answer:

Computation of total income and tax liability of Mr. D, for the assessment year 2017-2018 relating to the previous year 2016-2017:

Particulars	**(`)**	
Salaries	Nil	
Income from house property		
Profits and gains of business and profession Less: business loss brought forward	5,000 (12,000)	
Capital gains/Losses Long-term capital gain Less: Long term capital loss brought forward	 2,500 (12,000)	
Short-term capital gain Less: Unabsorbed depreciation for 2014-15	22,000 (6,000)	
Income from other sources		

Income from horse races(15,000-8000 set off)	7,000	
Income from card games	16,000	
Gross total income		
Less: Deduction under Chapter VI-A u/s 80C Life insurance policy (maximum 10% of sum assured) Public provident fund But restricted to income from HP and short-term capital gains)	40,000 70,000	
Taxable Income		
Tax payable @ 30% on Income from horse race &Income from card games Less: Rebate 87A Education cess and SHE cess) 2+ 1%)% (Rounded off)		

Tax payable		
Item to be Carried Forward Long term capital loss of AY 2013-14		

Note: In respect of speculative loss of 2012-13, time limit for carry forward has expired.

Example 8. Mrs. S, aged 64 has carried on business during the year ended March 31, 2017. The particulars of Profit and Loss account are given below:

Profit and Loss Account for the year ended 31.03.2017

	`		`
To office salaries	22,000	By Gross Profit	3,78,150
To Proprietor‘ salary	12,000	By profit on sale of residence	33,500
To General expenses	8,500	By Disallowed Bad debts recovered	62,000
To Bad debts	7,500	By Interest from Government Securities (net)	12,600
To Fire insurance premium	5,500	By Dividend from JB Agro Ltd.	4,000
To Depreciation	2,500	By income from horse race (gross)	16,000
To Motor car expenses	7,500	By Sundry receipts	1,500
To donation to Goa University	60,000		
To Income tax 2015-16	8,000		
To Life insurance premium	10,000		
To Reserve for future loss	2,000		
To Advertisement	6,000		
To Net Profit	3,56,250		
	5,07,750		5,07,750

Additional Information:

(i) General expenses include ` 1,500 paid as compensation to an old employee whose services were terminated. His service was considered detrimental to business interest. A sum of ` 6,000 being cost of small machines is also included in general expenses.

(ii) One – third of the motor car expenses is for personal use.

(iii) Reserve for future loss represents a demand of Sales tax under dispute.

(iv) Depreciation is found to be in excess of `500 as per Income Tax Rules.

(v) Actual income tax for 2016-17 ` 12,000.

(vi) Profit on sale of residence represents long term capital gains computed in the prescribed manner.

(vii) Tax has been deducted at source from the Govt. Securities at 10%

(viii) JB Agro Ltd. is a Listed company.

(ix) She received ` 4,000 as interest on moneys lent to her friends, which has not been reflected in the

books.

(x) Compute her total income and Tax Liability.

Answer:

Computation of total income and tax liability of Mrs. S, for the assessment year 2017-2018 relating to the previous year 2016-2017

Particulars	(`)	(`)
Net profit as per P&L Account		3,56,250
Add: **Inadmissible expenses**:		
Proprietor‘s salary	12,000	
Motor car expenses	2,500	
Donation to Goa University	60,000	
Income tax	8,000	
insurance Premium	10,000	

Reserve for future loss	2,000	
Excess Depreciation	500	
Cost of small machine (capital expenses)	6,000	1,01,000
Total		4,57,250
Less: Incomes not taxable under the head:		
Profits of house property	33,500	
Recovery of bad debts disallowed earlier	62,000	
Dividend Income	12,600	

Horse race income	16000	1,28,100
Business Income		**3,29,150**
Capital gains:		
Long-term capital gain on sale of house property		33,500
Income from other sources:		
Interest on Securities(12,600 x 100/90=14,000)	14,000	
Income from horse races	16,000	
Interest from friends	4,000	
Dividends from domestic company	exempt	34,000
Gross total income		3,96,950
Less: Deduction under section 80C: Life insurance premium		10,000
		3,86,650
Tax on income other than race horse `3,70,650		7,065

Tax on Horse Race Income (16,000 x 30%)		4,800
		11,865
Less: Rebate u/s 87A		5000
		6,865
Add: Education cess and SHE cess @ 3%		206
Tax payable (rounded off)		7,070

Example 9: M gives you the following information for the year ended 31.03.2017: Owns 3 goods carriages throughout the financial year 2016-17. Retail trade turnover ` 36,00,000. Has eligible brought forward depreciation of the assessment year 2012-13 ` 60,000 relating to retail trade. Deposited ` 80,000 in PPF account and ` 90,000 in tax saver deposit. Assume that he wants to offer income by opting for sections 44AD and 44AE. Compute his total income for the assessment year 2017-18.

Answer:

Computation of total income of M for the Assessment Year 2017-2018 relating to the previous year 2016-2017

Particulars	`	`
Income U/s 44AD from retail trade @ 8% on `36,00,000		2,88,000
Income U/s 44AE in respect of plying of goods carriage (`7,500 x 3 x 12)		2,70,000

Business income prior to set off Less: Brought depreciation not eligible for set off as the brought forward depreciation is deemed to be current year depreciation and has been deducted while computing income under Section 44AD		5,58,000 ----------
Gross Total Income		**5,58,000**
Less: Deduction under Section 80C In respect of PPF Contribution In respect of Tax Saver Deposit Maximum amount allowable	 80,000 90,000	 1,50,000
Total Income		**4,08,000**

KARPAGAM ACADEMY OF HIGHER EDUCATION
(Established Under Section 3 of UGC Act 1956)
COIMBATORE- 641 021
DEPARTMENT OF COMMERCE
INCOME TAX LAW AND PRACTICE

UNIT V

1. The following are the particulars of the income of the university teacher during the year ending 31st March 2017

a. Salary Rs. 37,400 per month plus Rs.9,000 p.m. as grade pay from which 10 percent is deducted for SPF to which the university contributes 12 percent.
b. Rent –free bunglow of the annual letting value of Rs. 18,000
c. Wardnership allowance Rs.2000 per month
d. 12 % interest on government Loan of Rs.65,000
e. Income from house property (computed) Rs 29,560
f. He received Rs.3,500 for writing articles in a journal
g. He paid Rs.2,000 (by cheque) to GIC under mediclaim
h. Interest in postal savings bank deposit Rs.6,500
i. Interest gross Rs2,500
j. Examiner ship remuneration Rs.3,500
k. During the year, he sold shares of reliance industrial ltd and earned a long term capital gains of Rs.60,000

During the year he paid Rs. 24,000 as life insurance premium on his own policies and spent Rs.600 on books purchased for his own use.

Find out his total income, tax and exempted income. Population of Amristsar is 12 lakhs.

2. Dr. V.P.Sharma whose age is 69 years has given following details of his income. Compute his total income and tax liability for the assessment year 2017-18.

(i) Pension from government Rs2,47,500

(ii) Salary from private sector company Rs.6,00,000

(iii)Long term capital gain Rs. 36,500

(iv)Interest on fixed deposit with bank Rs. 22,600

(v) Deposited Rs.10,000 in MEP and Rs,10,000 in NSS 1992.

3.(a) (i) Mr.A has business profit of Rs.3,05,000 and received Rs.8,000 as $1/8^{th}$ share of profit of an association of persons during the previous year ending on March 31, 2017.Calculate his tax liability.

(ii)What difference it will make if total income of A is Rs.2,27,000 and his ½ share from AOP (which has no such member whose individual income exceeds maximum exempted limit i.e Rs.2,50,000 is Rs.80,000.

4. From the particulars given below compute the total income and tax payable of Mr Deb, a central government employee working at Chandigarh

(i) Salary Rs 20,000 p.m

TA bill Rs. 5,000 p.a , Actual expenditure Rs. 6,000 p.a.

His contribution to SPF RS 1,700 p.m.

Employers contribution to SPF 10% of Salary

Interest on accumulated balance of SPF @ 13 % Rs.12,000

Entertainment allowance Rs.1,000 p.m.

(ii) He owns two houses, one of which is let out at a rent o fRs. 400p.m. and other (whose annual value is Rs.1,000) remained vacant throughout the year on account of his employment at Ambala where he has taken a house on rent. The two houses subject to Municipal taxes of Rs.600 and 100 respectively.

(iii) During the year he sold shares of Hero Honda ltd. And earned a short term capital gain of Rs. 50,000 (STT paid)

(iv) He earned Rs.11,500 as interest from the government securities and bank interest of fixed deposits Rs.11,000 and on a savings account Rs. 10,600.

(v) He pays life insurance premium of Rs. 25,000 on his life policy of Rs. 4,00,000. He deposited Rs.10,000 in home deposit account.

5.Mrs.Kamala has attained the age of 65 years on 3-10-2016.she had following incomes for the previous year ending 31-3-2017:

(i) Short-term capital gain on sale of plot	Rs.1,56,000
(ii) Long-term capital gain on sale of Jewellary	Rs.2,05,000

She has deposited Rs.35,000 in PPF.

You are requested to compute the tax liability of Mrs.Kamala for the assessment year 2017-2018.

6. Mrs.Rama jain is working in a office . Her gross salary for the year 2016-2017 was Rs.5,95,650. She has deposited:

(i) Rs. 3,000 in recognised provident fund.

(ii) Rs.6,000 in public providend fund;

(iii) Rs.2,500 under unit linked insurance plan of UTI;

(iv) Rs.5,000 in NSC VIII issue.

Her other incomes are:

(i) Rs.2,230 accured as interest on NSC VIII issue purchased in December 2015

(ii) Interest on debentures of a company Rs.6,000

Compute her tax liability for the A/Y 2017-18

UNIT - I

BRIEF HISTORY OF INCOME TAX IN INDIA

In India, Income tax was introduced for the first time in 1860, by Sir James Wilson in order to meet the losses sustained by the Government on account of the Military Mutiny of 1857. Thereafter; several amendments were made in it from time to time. In 1886, a separate Income tax act was passed. This act remained in force up to, with various amendments from time to time. In 1918, a new income tax was passed and again it was replaced by another new act which was passed in 1922.This Act remained in force up to the assessment year 1961-62 with numerous amendments. The Income Tax Act of 1922 had become very complicated on account of innumerable amendments. The Government of India therefore referred it to the law commission in1956 with a view to simplify and prevent the evasion of tax. The law commission submitted its report-in September 1958, but in the meantime the Government of India had appointed the Direct Taxes Administration Enquiry Committee submitted its report in 1956.In consultation with the Ministry of Law finally the Income Tax Act, 1961 was passed. The Income Tax Act 1961 has been brought into force with 1 April 1962. It applies to the whole of India including Jammu and Kashmir.

Income-tax law in India

The income tax law in India consists of the following components:

1. Income tax Acts
2. Income tax rules
3. Finance Act
4. Circulars, notifications etc
5. Legal decision of courts.

Finance Act:

Every year, the Finance Minister of the Government of India presents the Budget to the Parliament. Once the Finance Bill is approved by the Parliament and gets the assent of the President of India, it becomes the Finance Act.

Income-tax Rules:

The administration of direct taxes is looked after by the Central Board of Direct Taxes

(CBDT). The CBDT is empowered to make rules for carrying out the purposes of the Act. For the proper administration of the Income-tax Act, the CBDT frames rules from time to time. These rules are collectively called Income-tax Rules, 1962.

Circulars and Notifications:

Circulars are issued by the CBDT from time to time to deal with certain specific problems and to clarify doubts regarding the scope and meaning of the provisions. These circulars are issued for the guidance of the officers and/or assessees.

Important Definitions

Assessment Year : Section 2(9)

"Assessment year" means the period starting from April 1 and ending on March 31 of the next year. Eg: Assessment year 2013-14 which commences on April 1, 2013 and ends on March 31, 2014. Income of previous year of an assessee is taxed during the assessment year at the rates

Previous year : Section 3

Income earned in a particular year is taxable in the next year. The year in which income is earned is known as previous year and the next year in which income is taxable is known as assessment year. In other words, previous year is the financial year immediately proceeding the assessment year.

Exceptions to the general rule that previous year's income is taxable during the assessment year

In the following situations income of an assessee is liable to be assessed to tax in the same year in which he earns the income:

a. Income of non-residents from shipping;

b. Income of persons leaving India either permanently or for a long period of time;

c. Income of bodies formed for short duration;

d .Income of a person trying to alienate his assets with a view to avoiding payment of Tax;

e. Income of a discontinued business.

Person : Section 2(31)

The term "person" includes:

1. an individual;
2. a Hindu undivided family;
3. a company;
4. a firm;
5. an association of persons or a body of individuals , whether incorporated or not;
6. a local authority; and
7. every artificial juridical person not falling with in any of the preceding categories.

Assessee : Section 2(7)

Every person in respect of whom, any proceeding under the act has been taken for the assessment of his income or of the income of any other person in respect of which he is assessable or of the loss sustained by him or by such other person or the amount of refund due to him or to such other person may be called an assessee.

Deemed Assessee:

A person who is deemed to be an assessee for some other person is called "Deemed Assessee".

Assessee In Default:

When a person is responsible for doing any work under the Income Tax Act and he fails to do it, he is called an "Assessee in default".

Assessment [Section 2(8)]

This is the procedure by which the income of an assessee is determined by the Assessing Officer.

Basis Of Charge Of Income Tax Sec : 4

To know the procedure for charging tax on income, one should be familiar with the following:

1. **Annual tax** - Income-tax is an annual tax on income.

2. **Tax rate of assessment year** - Income of previous year is chargeable to tax in the next following assessment year at the tax rates applicable for the assessment year. This rule is, however, subject to some exceptions

3. **Rates fixed by Finance Act** - Tax rates are fixed by the annual Finance Act and not by the Income-tax Act. For instance, the Finance Act, 2013, fixes tax rates for the Assessment year 2013-14.
4. **Tax on person** - Tax is charged on every person
5. **Tax on total income** - Tax is levied on the "total income" of every assessee computed

INCOME : Section 2 (24)

The definition of the term "Income" in section 2(24) is inclusive and not exhaustive. Therefore, the term "income" not only includes those things that are included in section 2(24) but also includes those things that the term signifies according to its general and natural meaning. Income, in general, means a periodic monetary return which accrues or is expected to accrue regularly from definite sources. However, under the Income-tax Act, 1961, even certain income which do not arise regularly are treated as income for tax purposes e.g. Winnings from lotteries, crossword puzzles.

Section 2(24) of the Act gives a statutory definition of income.
At present, the following items of receipts are included in income:—
(1) Profits and gains.
(2) Dividends.
(3) Voluntary contributions received by a trust/institution created wholly or partly for charitable or religious purposes or by an association or institution
(4) The value of any perquisite or profit in lieu of salary taxable under section 17.
(5) Any special allowance or benefit other than the perquisite included above, specifically granted to the assessee to meet expenses wholly, necessarily and exclusively for the performance of the duties of an office or employment of profit.
(6) Any allowance granted to the assessee to meet his personal expenses at the place where the duties of his office or employment of profit are ordinarily performed by him or at a place where he ordinarily resides or to compensate him for the increased cost of living.
(7) The value of any benefit or perquisite whether convertible into money or not, obtained from a company either by a director or by a person who has a substantial interest in the company or by a relative of the director or such person and any sum paid by any such

company in respect of any obligation which, but for such payment would have been payable by the director or other person aforesaid.

(8) The value of any benefit or perquisite, whether convertible into money or not, which is obtained by any representative assessee mentioned under section 160(1)(iii) and (iv), or by any beneficiary or any amount paid by the representative assessee for the benefit of the beneficiary which the beneficiary would have ordinarily been required to pay.

(9) Deemed profits chargeable to tax under section 41 or section 59.

(10) Profits and gains of business or profession chargeable to tax under section 28.

(11) Any capital gains chargeable under section 45.

(12) The profits and gains of any insurance business carried on by Mutual Insurance Company or by a cooperative society, computed in accordance with Section 44 or any surplus taken to be such profits and gains by virtue of the provisions contained in the first Schedule to the Act.

(13) The profits and gains of any business of banking (including providing credit facilities) carried on by a co-operative society with its members.

(14) Any winnings from lotteries, cross-word puzzles, races including horse races, card games and other games of any sort or from gambling, or betting of any form or nature whatsoever.

(15) Any sum received by the assessee from his employees as contributions to any provident fund or superannuation fund or Employees State Insurance Fund (ESI) or any other fund.

(16) Any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy will constitute income. “Keyman insurance policy” means a life insurance policy taken by a person on the life of another person where the latter is or was an employee or is or was connected in any manner what so ever with the former’s business.

(17) Any sum referred to clause (va) of Section 28. Thus, any sum, whether received or

receivable in cash or kind, under an agreement for not carrying out any activity in relation to any business;

or not sharing any know-how, patent, copy right, trade-mark, licence, franchise, or any other business or commercial right of a similar nature, or information or technique likely to assist in the manufacture or processing of goods or provision of services, shall be chargeable to income tax under the head “profits and gains of business or profession”.

(18) Any sum of money or value of property referred to in section 56(2)(vii) or section 56(2)(viia).

(19) Any consideration received for issue of shares as exceeds the fair market value of shares referred to in section 56(2)(viib).

Gross Total Income Sec: 80b (5)

As per section 14, the income of a person is computed under the following five heads:

1. Salaries.
2. Income from house property.
3. Profits and gains of business or profession.
4. Capital gains.
5. Income from other sources.

If the income is not derived from any of the above sources, it is not taxable under the act. The aggregate income under these heads is termed as “gross total income”.

Total Income Sec : 2(45)

Total income means the the amount left after making the deductions under section 80C to 80U from the gross total income.

Casual Income

Any receipt which is of a casual and non-recurring nature is called casual income. Casual income includes the following receipts:

1. Winning from lotteries,
2. Winning from crossword puzzles,
3. Winning from races (including horse races),

4. Winning from card games and other games of any sort
5. Winning from gambling or betting of any form or nature.

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Assistant Professor
KAHE

RATES OF INCOME TAX FOR THE ASSESSMENT YEAR 2016-17

Individual resident aged below 60 years (i.e. born on or after 1st April 1956)

Income Tax :

Income Slabs		Tax Rates
i.	Where the taxable income does not exceed Rs. 2,50,000/-.	NIL
ii.	Where the taxable income exceeds Rs. 2,50,000/- but does not exceed Rs. 5,00,000/-.	10% of amount by which the taxable income exceeds Rs. 2,50,000/-. **Less** : Tax Credit u/s 87A - 10% of taxable income upto a maximum of Rs. 2000/-.
iii.	Where the taxable income exceeds Rs. 5,00,000/- but does not exceed Rs. 10,00,000/-.	Rs. 25,000/- + 20% of the amount by which the taxable income exceeds Rs. 5,00,000/-.
iv.	Where the taxable income exceeds Rs. 10,00,000/-.	Rs. 125,000/- + 30% of the amount by which the taxable income exceeds Rs. 10,00,000/-.

Surcharge : 12% of the Income Tax, where taxable income is more than Rs. 1 crore.

Education Cess : 3% of the total of Income Tax and Surcharge.

Senior Citizen (Individual resident who is of the age of 60 years or more but below the age of 80 years i.e. born on or after 1st April 1936 but before 1st April 1956)

Income Tax :

Income Slabs		Tax Rates
i.	Where the taxable income does not exceed Rs. 3,00,000/-.	NIL
ii.	Where the taxable income exceeds Rs. 3,00,000/- but does not exceed Rs. 5,00,000/-	10% of the amount by which the taxable income exceeds Rs. 3,00,000/-. **Less :** Tax Credit u/s 87A - 10% of taxable income upto a maximum of Rs. 2000/-.
iii.	Where the taxable income exceeds Rs. 5,00,000/- but does not exceed Rs. 10,00,000/-	Rs. 20,000/- + 20% of the amount by which the taxable income exceeds Rs. 5,00,000/-.
iv.	Where the taxable income exceeds Rs. 10,00,000/-	Rs. 120,000/- + 30% of the amount by which the taxable income exceeds Rs. 10,00,000/-.

Surcharge : 12% of the Income Tax, where taxable income is more than Rs. 1 crore.

Education Cess : 3% of the total of Income Tax and Surcharge.

Super Senior Citizen (Individual resident who is of the age of 80 years or more i.e. born before 1st April 1936)

Income Slabs		Tax Rates
i.	Where the taxable income does not exceed Rs. 5,00,000/-.	NIL
ii.	Where the taxable income exceeds Rs. 5,00,000/- but does not exceed Rs. 10,00,000/-	20% of the amount by which the taxable income exceeds Rs. 5,00,000/-.
iii.	Where the taxable income exceeds Rs. 10,00,000/-	Rs. 100,000/- + 30% of the amount by which the taxable income exceeds Rs. 10,00,000/-.

Surcharge : 12% of the Income Tax, where taxable income is more than Rs. 1 crore.

Education Cess : 3% of the total of Income Tax and Surcharge.

Any NRI or HUF or AOP or BOI or AJP

Income Tax :

Income Slabs		Tax Rates
i.	Where the taxable income does not exceed Rs. 2,50,000/-.	NIL
ii.	Where the taxable income exceeds Rs. 2,50,000/- but does not exceed Rs. 5,00,000/-.	10% of amount by which the taxable income exceeds Rs. 2,50,000/-.
iii.	Where the taxable income exceeds Rs. 5,00,000/- but does not exceed Rs. 10,00,000/-.	Rs. 25,000/- + 20% of the amount by which the taxable income exceeds Rs. 5,00,000/-.
iv.	Where the taxable income exceeds Rs. 10,00,000/- .	Rs. 125,000/- + 30% of the amount by which the taxable income exceeds Rs. 10,00,000/-.

Surcharge : 12% of the Income Tax, where taxable income is more than Rs. 1 crore. if applicable)

Education Cess : 3% of the total of Income Tax and Surcharge.

Agriculture income

Agriculture income is exempt under the Indian Income Tax Act. This means that income earned from agricultural operations is not taxed. The reason for exemption of agriculture income from Central Taxation is that the Constitution gives exclusive power to make laws with respect to taxes on agricultural income to the State Legislature. However while computing tax on non-agricultural income agricultural income is also taken into consideration. As per Income Tax Act income earned from any of the under given three sources meant Agricultural Income;

(i) Any rent received from land which is used for agricultural purpose.

(ii) Any income derived from such land by agricultural operations including processing of agricultural produce, raised or received as rent in kind so as to render it fit for the market, or sale of such produce.

(iii) Income attributable to a farm house subject to the condition that building is situated on or in the immediate vicinity of the land and is used as a dwelling house, store house etc.

Now income earned from carrying nursery operations is also considered as agricultural income and hence exempt from income tax.

In order to consider an income as agricultural income certain points have to be kept in mind:

(i) There must me a land.

(ii) The land is being used for agricultural operations.

(iii) Agricultural operation means that efforts have been induced for the crop to sprout out of the land .

(iv) If any rent is being received from the land then in order to assess that rental income as agricultural income there must be agricultural activities on the land.

(v) In order to assess income of farm house as agricultural income the farm house building must be situated on the land itself only and is used as a store house/dwelling house.

Certain income which is treated as Agriculture Income:

(a) Income from sale of replanted trees.

(b) Rent received for agricultural land.

(c) Income from growing flowers and creepers.

(d) Share of profit of a partner from a firm engaged in agricultural operations.

(e) Interest on capital received by a partner from a firm engaged in agricultural operations.

(f) Income derived from sale of seeds.

Certain income which is not treated as Agricultural Income:

(a) Income from poultry farming.

(b) Income from bee hiving.

(c) Income from sale of spontaneously grown trees.

(d) Income from dairy farming.

(e) Purchase of standing crop.

(f) Dividend paid by a company out of its agriculture income.

(g) Income of salt produced by flooding the land with sea water.

(h) Royalty income from mines.

(i) Income from butter and cheese making.

(j) Receipts from TV serial shooting in farm house is not agriculture income.

Partly agriculture income

Partly agricultural income consists of both the element of agriculture and business, so non agricultural part of the income is taxed. Some examples for partly agricultural income are given below:

1. Profit of business other than Tea

This rule applicable to agricultural produce like cotton, tobacco, and sugarcane etc, here the market value of the agricultural produce raised by the Assessee for utilizing it as raw material for his business will be deducted out of the total profit of such Assessee while calculating tax on his income.

2. Profit from Tea manufacturing

If a person using his own tealeaves grown by him for his tea manufacturing business, then 60 % of his income will be treated as agricultural income and the remaining 40 % will be treated as business income. So he has to pay tax on that remaining 40% of income.

3. Income from the manufacturing of centrifuged latex

If a person manufacturing centrifuged latex by using his own made raw then, 65 % of the income derived from the sale of the same is treated as agricultural income so he has to pay tax remaining part of the income.

4. Income from the coffee manufacturing

a) 75% of the income derived from the sale of coffee grown and cured by the seller in India is deemed to be agricultural income 25% is taken as business income.

b) 65% the income derived from the sale of coffee grown, cured, roasted and grounded by the seller in India is deemed to be agricultural income 40% is taken as business income.

Illustration:1 Mr. Ramsanth had estates in Rubber, tea and coffee. He derives income from them. He furnishes the following particulars of his income for the year ending 31-3-2015.

Manufacture of rubber	Rs: 5,00,000
Manufacture of coffee grown and cured	Rs: 3,50,000
Manufacture of tea	Rs: 7,00,000

Compute taxable income of Ramsanth for the A.Y. 2013-14.

Solution :

Computation of Taxable income for the A.Y.2015-16:

Manufacture of rubber (35% is non-agricultural income)	:	175,000
Manufacturing of Coffee (25% is non-agricultural income)	:	87,500
Manufacturing of tea (40% is non-agricultural income)	:	2,80,000
Taxable Income	:	5,42,500

Residential Status And Tax Incidence

Tax incidence on an assessee depends on his residential status. The residential status of an assessee is determined with reference to his residence in India during the previous year. Therefore, the determination of the residential status of a person is very significant in order to find out his tax liability. Residence and citizenship are two different things. The incidence of tax has nothing to do with citizenship.

Residential Status of an Individual

As per section 6, an individual may be (a) resident and ordinarily resident in India, (b) resident but not ordinarily resident in India, or(c) non-resident in India. The following are the two sets of conditions for determining the residential status of an individual:

Basic conditions :

He is in India in the previous year for a period of 182 days or more

OR

He is in India for a period of 60 days or more during the previous year and has been in India for a period of 365 days or more during 4 years immediately preceding the previous year.

Note: In the following two cases, an individual needs to be present in India for a minimum of 182 days or more in order to become resident in India:

(a) An Indian citizen who leaves India during the previous year for the purpose of taking employment outside India or an Indian citizen leaving India during the previous year as a member of the crew of an Indian ship.

(b) An Indian citizen or a person of Indian origin who comes on visit to India during the previous year (a person is said to be of Indian origin if either he or any of his parents or any of his grandparents was born in undivided India).

Additional Conditions:

(i) He has been resident in India in at least 2 out of 10 previous years [according to basic condition noted above] immediately preceding the relevant previous year.

AND

(ii) He has been in India for a period of 730 days or more during 7 years immediately preceeding the relevant previous year.

Resident

An individual is said to be resident in India if he satisfies any one of the basic conditions.

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(A)Resident And Ordinarily Resident

An individual is said to be resident and ordinarily resident in India if he satisfies any one of the basic conditions and both of the additional conditions.

(B)Resident But Not Ordinarily Resident

An individual is said to be resident but not ordinarily resident in India if he satisfies any one of the basic conditions but not satisfies both of the additional conditions.

Non-Resident

An individual is a non-resident in India if he satisfies none of the basic conditions.

Residential Status Of A Hindu Undivided Family

As per section 6(2), a Hindu undivided family (like an individual) is either resident in India or non-resident in India. A resident Hindu undivided family is either ordinarily resident or not ordinarily resident.

HUF : Resident or Non-Resident

A Hindu undivided family is said to be resident in India if control and management of its affairs is wholly or partly situated in India. A Hindu undivided family is non-resident in India if control and management of its affairs is wholly situated outside India.

A resident Hindu undivided family is an ordinarily resident in India if the karta or manager of the family (including successive kartas) satisfies the following two additional conditions as laid down by section 6(6)(b).

Additional condition (i) Karta has been resident in India in at least 2 out of 10 previous years [according to the basic condition mentioned in immediately preceding the relevant previous year) **Additional condition (ii)** Karta has been present in India for a period of 730 days or more during 7 years immediately preceding the previous year.

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If the Karta or manager of a resident Hindu undivided family does not satisfy the two additional conditions, the family is treated as resident but not ordinarily resident in India.

Residential Status of Firm and Association of Persons

As per section 6(2), a partnership firm and an association of persons are said to be resident in India if control and management of their affairs are wholly or partly situated within India during the relevant previous year. They are, however, treated as non-resident in India if control and management of their affairs are situated wholly outside India.

Residential Status of a Company

As per section 6(3), an Indian company is always resident in India. A foreign company is resident in India only if, during the previous year, control and management of its affairs is situated wholly in India. However, a foreign company is treated as non-resident if, during the previous year, control and management of its affairs is either wholly or partly situated out of India.

Sum

Mr. Alex Joseph, an American, came to India for the first time 10-01-2009 and left for Britain on 15-09-2009. He again came to India on 01-05-2012 and left for Korea on 15-06-2012. Determine his residential status.

Solution:

During the previous year 2012-13, Mr. Alex Joseph was in India only for 46 days only. So he is a non-resident for the assessment year 2013-14.

Sum

Mr. Ahammed Khan, a citizen of India went to Tokyo to join a course in Business Administration on 01-03-2012 and came back to India on 5th September,2012. Determine his residential status for the A.Y 2013-14.

Solution:

During the P.Y. 2012-13, Ahammed Khan was in India for a period of 208 days (26+31+30+31+31+28+31), and therefore he satisfies the basic conditions. As he satisfies both the additional conditions, he is ordinarily resident for the A.Y. 2013-14.

Scope of Total Income (Section 5) :

Resident and ordinarily resident:

Total income of an assessee who is resident and ordinarily resident includes:

(*a*) any income received or deemed to be received in India during the previous year by or on behalf of the assessee ; or

(*b*)any income accrues or arises or deemed to accrue or arise to him in India during the previous year ; or

(*c*) any income accrues or arises to him outside India during such year.

Resident but not ordinarily resident:

(*a*) any income received or deemed to be received in India during the previous year by or on behalf of the assessee ; or

(*b*)any income accrues or arises or deemed to accrue or arise to him in India during the previous year ; or

(*c*) any income accrues or arises to him outside India from a business controlled in or a profession set up in India.

Non- resident:

(*a*) any income received or deemed to be received in India during the previous year by or on behalf of the assessee ; or

(*b*)any income accrues or arises or deemed to accrue or arise to him in India during the previous year.

Income Exempt from Income Tax

The following Income is exempt from Income tax:-

1. Agriculture Income [Sec. 10(1)]
2. Payments received from family income by a member of HUF [Sec. 10(2)]
3. Share of profit from a firm [Sec. 10(2A)]
4. Interest received by a non resident from prescribed securities [Sec. 10(4)]
5. Interest received by a person who is resident outside India on amounts credited in the non-resident (External) account [Sec. 10(4)]
6. Leave travel concession provided by as employer to his Indian citizen employee,Sec. 10(5)]

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7. Remuneration received by foreign diplomats of all categories [Sec. 10(6)]
8. Salary received by a foreign citizen as an employee of a foreign enterprise provided his stay in India does not exceed 90 days [Sec. 10(6)(vi)]
9. Salary received by a non-resident foreign citizen as a member of ship's crew provided his total stay in India does not exceed 90 days [Sec. 10(6)(vii)]
10. Remuneration received by an employee, being a foreign national, of a foreign government deputed in India for training in a Government establishment or public sector undertaking [Sec. 10(6)(xi)]
11. Tax paid on behalf of foreign companies [Sec. 10(6A)]
12. Tax paid by Government or an Indian concern in case of a non-resident / foreign company [Sec.10(6B)]
13. Income arising to notified foreign companies from services provided in or outside India in project connected with the security of India [Sec. 10(6C)]
14. Foreign allowance granted by the Government of India to its employees posted abroad [Sec. 10(7)]
15. Remuneration received from a foreign Government by an individual who is in India in connection with any sponsored co-operative technical assistance programme with a foreign Government and the income of the family members of such employee [Sec. 10(8)and(9)]
16. Remuneration / fee received by non-received consultants and their foreign employees [Sec. 10(8A),(8B) and (9)]
17. Death-cum-retirement gratuity [Sec. 10(10)]
18. Commuted value of pension and any payment received by way of commutation of pension by as individual out of annuity plan of LIC or any other insurer from a fund set up by that corporation or insurer [Sec. 10(10A)]
19. Leave salary [Sec. 10(10AA)]
20. Retrenchment compensation [Sec. 10(10B)]
21. Compensation received by victims of Bhopal gas leak disaster [Sec. 10(10BB)]
22. Compensation from the Central Government or a state Government or a local authority received by an individual or his legal heir on account of any disaster [Sec. 10(10BC)]
23. Compensation received from a public sector company at the time of voluntary retirement or separation [Sec. 10(10C)]

25. Any sum (including bonus) on life insurance policy (not being a keyman insurance policy) [Sec. 10(10D)]
26. Any amount from provident fund paid to retiring employee [Sec. 10(11)]
27. Amount from an approved superannuation fund to legal heirs of the employee [Sec. 10(13)]
28. House rent allowance subject to certain limits [Sec. 10(13A)]
29. Special allowance granted to an employee [Sec. 10(14)]
30. Interest from certain exempted securities [Sec. 10(15)]
31. Payment made by an Indian company, engaged in the business of operation of an aircraft, to acquire an aircraft on lease from a foreign Government or foreign enterprise [Sec. 10(15A)]
32. Scholarship granted to meet the cost of education [Sec. 10(16)]
33. Daily allowance of a member of parliament or state Legislature (entire amount is exempt), any other allowance subject to certain conditions [Sec. 10(17)]
34. Rewards given by the central or state Government for literary, scientific or artistic work or attainment or for service for alleviating or for service for alleviating the distress of the poor, the weak and the ailing, or for proficiency in sports and games or gallantry awards approved by the Government [Sec. 10(17A)]
35. Pension and family pension of gallery award winners [Sec. 10(18)]
36. Family pension received by family members of armed forces [Sec. 10(19)]
37. National property income of any one place occupied by a former ruler [Sec. 10(19A)]
38. Income from local authorities [Sec. 10(20)]
39. Any income of housing boards constituted in India for planning, development or improvement of cities, town or villages [Sec. 10(20A)]
40. Any income of an approved scientific research association [Sec. 10(21)]
41. Income of specified non- agencies [Sec. 10(22B)]
42. Any income (other than interest on securities income from property income received for rendering any specific services and income by way of interest or dividends) of approved professional bodies [Sec. 10(23A)]
43. Any income received by any person on behalf of any regimental fund or non public fund established by the armed forces of the union for the welfare of the past and present members of the such forces or their dependents [Sec. 10(23AA)]
44. Income of funds established for the welfare of employees [Sec. 10(23AAA)]
45. Any income of the pension fund set by LIC or any other insurer approved by the controller of insurance or insurance Regulatory and development authority [Sec. 10(23AAB)]

46. any income (other than business income) of a trust or a society approved by Khadi and village industries commission [Sec. 10(23B)]
47. Income of an authority whether known as Khadi and village industries board or by any other name for the development of Khadi and village industries [Sec. 10(23BB)]
48. Income of the European Economic Community derived in India by way of, interest, dividends or capital gains in certain cases [Section 10(23BBB)]
49. Any income arising to anybody or authority established, constituted or appointed under any enactment for the administration of public religious or charitable trusts or endowments or societies for religious or charitable purposes [Section 10(23BBA)]
50. Income of SAARC Fund for Regional Projects, set up by Colombo Declaration [Section 10(23BBC)]
51. Any income of Secretariat of Asian Organisation of Supreme Audit Institutions [Section 10(23BBD)]
52. Any income received by any person on behalf of specified national funds and approved public charitable trust or institution [Section 10(23C)]
53. Income of Mutual Fund set up by — a public sector bank or a public financial institution [Section 10(23D)]
54. Any income by way of dividend, or long term capital gains of venture capital funds and venture capital companies [Section 10(23F)]
55. Income of a member of Scheduled Tribe, living in Nagaland, Manipur, Tripura, Arunachal Pradesh and Mizoram from any source arising by reason of his employment therein and income by way of dividend and interest on securities [Section 10(26)]
56. Any income accruing or arising to any resident of Ladakh from any source therein or out of India before the assessment year 1989-90, provided that such person was resident in Ladakh in the previous year relevant to the assessment year 1962-63 [Section 10(26A)]
57. Any income of a statutory Central or State corporation or of a body/institution, financed by the Government formed for promoting the interest of Scheduled Castes/Tribes [Section 10(26B)]
58. Income of co-operative society formed for promoting interests of members of Scheduled Castes/Scheduled Tribes [Section 10(27)]
59. Income by way of subsidy from Tea Board for replanting or replacement of tea bushes or for the purpose of rejuvenation or consolidation of areas used for cultivation of tea in India [Section 10(30)]

60. Subsidy received by planters of Rubber, Coffee, Cardamon [Section 10(31)]
61. Income of a minor child up to Rs. 1,500 in respect of each minor child whose income is includible under section 64(1A) [Section 10(32)]
62. Any income by way of Capital gains on transfer of US-64 units [Section 10(33)]
63. Dividend on or after April, 2003 from domestic companies [Section 10(34)]
64. Income on units of Mutual Funds on or after April 1, 2003 [Section 10(35)]
65. Long term Capital gains on transfer of listed Equity Shares purchased during 1-3-2003 to 29-2-2004 [Section 10(36)]
66. Capital gain to individual/HUF on compensation received on compulsory acquisition of urban agriculture land [Section 10(37)]
67. Long term capital gain in some cases [Section 10(38)]
68. Sum received without consideration from international sporting event held in India [Section 10(39)]
69. Income of Industrial Units situated in trade-free zones, specified technology parks etc. [Section 10A]
70. Income from specified 100% export oriented undertakings [Section 10B]
71. Income from property held for approved charitable or religious purposes [Section 11]
72. Specified Income of Registered political parties [Section 13A7968

KARPAGAM ACADEMY OF HIGHER EDUCATION
(Established Under Section 3 of UGC Act 1956)
COIMBATORE- 641 021
DEPARTMENT OF COMMERCE
INCOME TAX LAW AND PRACTICE
POSSIBLE QUESTIONS

UNIT 1

1.Define the following

i) Agricultural income

ii) Assessee

2. Define a) Person and b) Income as per Act.

3. Define a) Assessment year and b) Previous Year

4. Mr. Kanan an Indian citizen leaves India for the first time on 31st May 2009 and comes back on 15th May 2012 . He again leaves India on 10th June 2013 to come back on 14th January 2014. He is living in India since then. Determine his residential status for the previous year 2013-14.

5. An Individual Left India for Iran on 15th July 2011, for taking up job in engineering firm there. He returned to India on 15th September 2013. He was never out of India in the past. State what is his residential status will be for previous year 2013-14.

6. What is the residential status of an individual for the assessment year 2014-15 who came to India for the first time in 2011-12 and was in India as follows:

Previous Year	Presence in India
2013-14	185 Days
2012-13	15 Days
2011-12	26 Days

7. What are the different categories of assessees according to their residential status?

8. How would you determine the residential status of a HUF?

9. What is the scope of total income of a person under income tax act 1961?

10. Explain the Residential status of Individual under Income Tax Act 1961.

11. Which of the following incomes are taxable when the residential status of Mr.Umesh is:

(i) Resident, (ii) Not Ordinarily Resident, (iii) Non_Resident.

a. Income accured in Canada but received in India Rs.2,000
b. Rs.5,000 were earned in Africa and received there but brought to India.
c. Rs.5,000 earned in India but received in Canada.
d. Rs.10,000 earned and received in Srilanka from a business controlled from India.
e. House property income (computed) from Srilanka Rs.2,000.
f. Rs.4,000 was past untaxed foreign income which was brought to India during the previous year.
g. Profit earned from a business in Kanpur Rs.10,000

12. The following are the details of income fo Shri Ram lal:

a. Share of income from a joint venture in India Rs.10,000

b. Dividend Rs. 1,000

c. Income from agriculture in Pakistan Rs.20,000

d. Salary received in India Rs.9,800 but the services for the same were rendered in Iran.

e. Income from business (Controlled from India) in Pakistan Rs.10,000 and the income remitted to India

f. Income earned and received in Pakistan from bank deposit Rs.5,000

g. Income accrued in India but received in Iran Rs.10,000

Compute his taxable income if he is (i) Resident, (ii) Not Ordinarily Resident, (iii) Non_Resident.

13. Following are the income of Sir rathnam for the previous year 2014-15

a. Profit from the business in Banglore Rs.10,000

b. Income accrued in India but received in Japan Rs. 4,000

c. Profit form business in Canada but received in India Rs. 5,000

d. Income from house property in Karachi received in Bombay Rs. 4,000

e. Profit from business established in England and deposited there , the business being controlled from India Rs. 20,000

f. Income from house property in America and deposited there Rs. 2,000

g. Past untaxed foreign income brought to India during the previous year Rs. 10,000

Compute his taxable income if he is (i) Resident, (ii) Not Ordinarily Resident, (iii) Non_Resident.

14. From the following particulars compute the total income of Mr. C A for the assessment year 2015-16 if he is i) Resident, (ii) Not Ordinarily Resident, (iii) Non_Resident.

1. Income from house property computed Rs.32,000
2. Loss from house property in France Rs. – 60,000
3. Income from house property in England received there and deposited in Bank there Rs. 90,000
4. Business income in India Rs. 2,60,000
5. Loss from business in England Rs. 1,20,000
6. Profit from business in England which is controlled from there Rs. 1,00,000
7. Interest on debentures of an Indian company Rs. 10,000
8. Income from profession set up in India received in England for services rendered in India Rs. 2,00,000.

15. How is residence of an assessee determined for tax purposes? Explain the incidence of tax liability?

16. How would you determine the residential status of a person?

17. Give any fifteen income which are totally exempt form income tax.

18. Discuss the incomes which are not included in total income nor income tax is payable on them.

19. The following are the incomes of Shree Deepak for the assessment year 2015-16.

a. dividend from Indian company Rs. 10,000
b. Profit from business in Japan received in India Rs. 1,20,000

c. Profit from business in Pakistan despited in a bank there. This business is controlled from India Rs.2,00,000
d. Profit from busiess in Indore (Controlled by London Head office) Rs. 1,10,000
e. Interest received from a non-resident Mr. Abdul on the loan provided to him for a business carried on in India Rs. 50,000
f. Income was earned in America and received there but brought in India Rs.80,000
g. Share of income from Indian partnership firm Rs. 1,50,000
h. Income from house property in India received in America (Computed) Rs. 62,000
i. Interest on debentures of a Indian company received in dubai Rs. 25,000

Compute his taxable income if he is (i) Resident, (ii) Not Ordinarily Resident, (iii) Non_Resident.

20. Determine the residential status in the following cases

a. Gatting, a foreign citizen, leaves India for the first time in the last 20 years on November 25, 2011. During the calendar year 2012, he comes to India on September 1 and stays for a period of 20 days. During the calendar year 2013 he does not visit India at all but comes to India on January 15, 2014. Determine the residential Status of Mr. Gatting for the assessment year 2015-16

b. Dr.K.S.Sharma, an Indian working in U.S.A. Every year he comes to India on leave and stays with his parents who are staying in Calicut. What would be the residential status of Dr.K.S.Sharma during the assessment year 2015-16. If he comes to India on 20th September 2013 and stayed up to 31st March 2014. His total stay during the preceding 7 Years was 500 days. He had left India on 31st March 2006.

21. Determine the residential status in the following cases

a. A person after about 26 years stay in India, retired to England in April 2012 and returned to India on 15th February 2014 to take up a salaried appointment. What is his residential status for the previous year 2014-15?

b.Mr.Prashant went to W. Germany for diploma course on 5th August 2013 and came back to India on 25th February 2014. His family remained in India. He had never been out of India before. What is his residential status for the year ending on 31st March 2015?