

COURSE OBJECTIVE

This course impart the knowledge on tax administration , procedure for assessment of total income of different persons as per Act such as Assessment of an Individual, HUF, Partnership firms, Association of persons, Companies and co-operative societies.

LEARNING OUTCOME

- To provide working aspects on frame work of taxation system in India
- To impart thorough knowledge on various concepts and their application relating to computation of total income and tax liability of different persons as per Act.

UNIT 1

Tax Administration: Various authorities – Powers- Appointment –Jurisdiction- Functions- Procedure for Assessment – Income Tax Returns – Various Types of returns- Types of Assessment

UNIT -II

Individuals and HUF: Assessment of individuals – Assessment of Hindu Undivided Family

UNIT -III

Partnership firms and Association of Persons: Assessment of Partnership Firms – Assessment of Association of Persons – Deductions allowable from Gross Total Income in respect of certain Receipts and Payments

UNIT IV

Companies and co-operative societies: Assessment of Companies - Assessment of co-operative societies

UNIT -V

Collection and Recovery of Taxes: Deductions of Tax At Source – Advance Tax – Direct Payment of Tax – Payment of Tax – Methods of Recovery of Tax- Penalties and Prosecution

SUGGESTED READINGS

TEXT BOOK :

T: Gaur and Narang (2017),“ *Income Tax Law and Practice*”, Kalyani Publisers, Luthiana, 45th Edition.

REFERENCES BOOK:

R1: Reddy and V Hari Prasad Reddy (2017), *Income Tax Theory Law and Practice*, Margham Publications , Chennai, 16th revised edition.

R2: Singhanian, Vinod K. & Monica Singhanian, (201), *Students' Guide to Income Tax*, University Edition.Taxmann Publications Pvt. Ltd., New Delhi., 54th Edition,

R3: Ahuja, Girish & Ravi Gupta, (2015), *Systematic Approach to Income Tax*. Bharat Law House, Delhi. 35thEdition.

R4: Bhagawathi Prasad,(2017), *Income Tax Law and Practice* , Wiswaprakasam Publishers , New Delhi.

R5: Dinker Pagare, *Law and Practice of Income Tax* , Sultan Chand & Sons , New Delhi

WEBSITES

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KARPAGAM ACADEMY OF HIGHER EDUCATION
(Deemed to be University)
(Established Under Section 3 of UGC Act 1956)
Coimbatore – 641 021.

LECTURE PLAN

DEPARTMENT OF COMMERCE

STAFF NAME : Dr. K.JOTHI
SUBJECT NAME : INCOME TAX LAW AND PRACTICE- II
SUBJECT CODE : 15CMU602
SEMESTER : VI
CLASS : III B.COM

UNIT-I

SL. No.	Lecture Duration (Hr)	Topics to be Covered	Support Materials
1	1	Introduction , Income tax Authorities	T: 5/1-5/3
2	1	Administrative and Judicial Authorities	T: 5/5-5/7
3	1	Administrative authorities – Appointment , Functions and Powers	T: 5/7-5/8
4	1	CBDT – Functions and Powers	T: 5/4-5/7
5	1	Assessing officers – Functions, Jurisdiction and powers	T: 5/9-5/10
6	1	Judicial Authorities- Functions and Powers	T: 5/9
7	1	Procedure for assessment, Filing of return, PAN	T: 5/18-5/25
8	1	Self Assessment , Enquiry Before Assessment	T: 5/24-5/28
9	1	Assessment on the basis of return filed	T: 5/28-5/31
10	1	Income escaping assessment and Re-assessment	T: 5/3-5/42
11	1	Time limit and rate of tax	T: 5/44-5/46
12	1	Rules on rectification of mistake	T: 5/47-5/50
13	1	Assessment in case of search	T: 5/47-5/50
14	1	Recapitulation and discussion of important questions	
Total no. Hours planned for Unit - I			14

UNIT II

SL. No.	Lecture Duration (Hr)	Topics to be Covered	Support Materials
1	1	Assessment of individuals – Procedure and sums	T: 4/23
2	1	Computation of tax liability – General format	T: 4/23
3	1	Deductions out of gross total income	T: 4/25-4/28
4	1	Set off and carry forward of losses and exemptions	T: 4/29-4/30
5	1	Assessment of individuals and adjusted total income	T: 4/31-4/64
6	1	Computation of total income	T: 4/31-4/64
7	1	Computation of tax liability – Sums	T: 4/29-4/64
8	1	Assesment of HUF, School of HUF, Residence of HUF	T: 4/29-4/64
9	1	Partition of HUF, Rules for set off of Losses	T: 4/64-4/66
10	1	List of Deductions out of gross total income	T: 4/67-4/68
11	1	Assessment of income not family income	T: 4/68-4/69
12	1	Adjusted total income	T: 4/70
13	1	Tax liability of HUF- Sums	T: 4/72-4/79
14	1	Total income and tax liability of HUF	T: 4/72-4/79
15	1	Recapitulation and discussion of important questions	
Total no. Hours planned for Unit - II			15

UNIT III

SL. No.	Lecture Duration (Hr)	Topics to be Covered	Support Materials
1	1	Assessment of Firms , Meaning of Partnership, LLP, Features	T: 4/82
2	1	Limited Liability Partnership, Meaning and Features	T: 4/82
3	1	Assessment of Firm Covered u/s 184 Procedure and Sums	T: 4/83
4	1	Limits on payment of remuneration to working partners	T: 4/85-86
5	1	Assessment of Firms u/s 185 – Procedure and Sums	T: 4/86-88
6	1	Computation of tax Liability u/s 184- Sums	T: 4/88-4/442
7	1	Computation of tax liability u/s 185 Sums	T: 4/135
8	1	Assessment of AOP/ BOI	T: 4/138-139
9	1	Rate of Tax for AOP and Computation of total income	T: 4/136
10	1	Computation of regular income tax of AOP/ BOI	T: 4/136
11	1	Agriculture and non- agriculture income	T: 4/147
12	1	Rate of tax u/s 80 From Gross total income	T: 4/150-4/151
13	1	Deductions u/s80 ,	T: 4/35-4/41
14	1	Total income and tax liability of AOP /BOI– Sums	T: 4/532-4/536
15	1	Recapitulation and discussion of important questions	
Total No. Hours planned for Unit - III			15

UNIT IV

SL. No.	Lecture Duration (Hr)	Topics to be Covered	Support Materials
1	1	Assessment of companies, Introduction, Corporate Tax	4/152
2	1	Definition of Person, Company and types of company	4/153-4/155
3	1	Residential status and scope of income	4/155-4/157
4	1	Computation of gross total income of companies	4/157-4/158
5	1	Setoff and carry forward of losses and deductions out of gross total income	4/158-4/161
6	1	Rate of tax and computation of tax liability	4/161-4/162
7	1	Assessment of companies – Sums	4/163-4/190
8	1	Assessment of companies – Computation of total income - sums	4/163-4/190
9	1	Assessment of companies – Computation of Total income - sums	4/191-4/207
10	1	Assessment of Co- operative societies- meaning and definition	4/191-4/207
11	1	Deductions out of Gross Total Income -sums	4/208-4/210
12	1	Minimum Alternate tax and rate of tax	4/208-4/210
13	1	Tax credit for AMT	4/210-4/212
14	1	Assessment of Co- operative societies - sums	4/213-4/216
15	1	Assessment of Co- operative societies - sums	4/213-4/216
16	1	Recapitulation and discussion of important questions	
Total No. Hours planned for Unit - IV			16

UNIT - V

SL. No.	Lecture Duration (Hr)	Topics to be Covered	Support Materials
1	1	Collection of tax, meaning and Methods	T: 5/51
2	1	Interest on securities	T: 5/54-5/57
3	1	Tax Deducted at source , Rate of TDS and No TDS	T: 5/59-5/70
4	1	Advance Payment of tax- Meaning and Procedure	T: 5/70-5/71
5	1	Grossing up of Total income	T: 5/63
6	1	Collection of tax – Methods Issue of certificate and submission	T: 5/71-5/72
7	1	Installment of Advance payment of tax	T: 5/73-5/75
8	1	Recovery of tax, Modes of Recovery of tax	T: 5/75-5/76
9	1	Recovery of penalties , fines and interest	T: 5/80
10	1	Settlement commission , functions and provisions	T: 5/88-5/93
11	1	Procedure powers and Rules	T: 5/88-5/93
12	1	Recapitulation and discussion of important questions	
Total no. Hours planned for Unit - IV			12
13	1	Discussion of Previous year ESE Questions	
14	1	Discussion of Previous year ESE Questions	
15	1	Discussion of Previous year ESE Questions	3
Total no. Hours planned for Unit - V			15
TOTAL HOURS PLANNED			75

TEXT BOOK

T: Gaur V P , D.B.Narang, Puja Gaur, Rajeev Puri,(2017) . Income Tax Law and Practice , Kalyani Publishers , Ludhiana, 45th Revised Edition

REFERENCES

R1: Bhagawathi Prasad,(2017), Income Tax Law and Practice , Wiswaprakasam Publishers , New Delhi.

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

R3: Reddy and V Hari Prasad Reddy (2017), Income Tax Theory Law and Practice, Margham Publications , Chennai, 16th revised edition.

R4: Jayaprakash Reddy, (2017), Law and Practice of Income Tax, APH Publishing House , Delhi.

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COURSE CODE: 15CMU602

BATCH : 2015-18

SEMESTER - VI

UNIT: I INCOME TAX AUTHORITIES

UNIT 1

SYLLABUS

Tax Administration: Various authorities – Powers- Appointment –Jurisdiction- Functions- Procedure for Assessment – Income Tax Returns – Various Types of returns- Types of Assessment

I. INCOME-TAX AUTHORITIES.

Various Authorities

Section 116 of the Income Tax Act 1961 provides for the administrative and judicial authorities of administration of this Act. The direct Tax Laws Act 1987, has brought far reaching changes in the organizational structure. The implementation of the act lies on the hands of these authorities. The changes in designation of certain authorities and creation of certain new post in the structure of the main features of amendments made by the Direct Tax law (amendment) Act 1987,. The new structure of authorities has been properly depicted. These authorities have been grouped into two main wings.

1. Administrative Authorities
2. Judicial Authorities

Administrative Authorities:

Under this wing authorities are,

- a. The Central Board of Direct Taxes
- b. Principal Directors General of Income-tax or Principal Chief Commissioners of Income-tax
- c. Directors-General of Income-tax or Chief Commissioners of Income-tax,
- d. Principal Directors of Income-tax or Principal Commissioners of Income-tax,

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UNIT: I INCOME TAX AUTHORITIES

- e. Directors of Income-tax or Commissioners of Income-tax or Commissioners of Income-tax (Appeals),
- f. Additional Directors of Income-tax or Additional Commissioners of Income-tax or Additional Commissioners of Income-tax (Appeals),
- g. Joint Directors of Income-tax or Joint Commissioners of Income-tax,
- h. Deputy Directors of Income-tax or Deputy Commissioners of Income-tax or Deputy Commissioners of Income-tax (Appeals),
- i. Assistant Directors of Income-tax or Assistant Commissioners of Income-tax,
- j. Income-tax Officers,
- k. Tax Recovery Officers,
- l. Inspectors of Income-tax.

Central Board of Direct Taxes

The apex body of the department is the Central Board of Direct Taxes (CBDT). CBDT functions as a division of the Ministry of Finance under the Department of Revenue. Its functions include formulation of policies, dealing with matters relating to levy and collection of direct taxes, and supervision of the functioning of the entire Income Tax Department. CBDT also proposes legislative changes in direct tax enactments and changes in rates and structure of taxation in tune with the policies of the Government.

The Board comprises of the Chairman and six Members. The Chairman is the co-coordinating head and each of the members has been assigned a specialized function. They are assisted by Joint Secretaries, Directors, Deputy Secretaries, Under Secretaries and ministerial staff for carrying out their day-to-day functions.

The Investigation Directorates and the Central Charges of the department, which are headed by the Directors General of Income Tax (Investigation) and the Chief

Commissioners of Income Tax (Central), function under the supervisory umbrella of Member (Investigation) in the CBDT. The Chairman and other Members have been assigned territorial zones for the purpose of supervising and monitoring the work of field formations.

For the effective discharge of its functions, the CBDT is assisted by a number of attached offices known as Directorates. These directorates have been assigned specific functions like vigilance, inspection, judicial, recovery, maintenance of statistics, printing and publications, publicity, conducting of departmental examinations, imparting of training to officers and staff, etc. These functions are performed by the directorates at the all-India level.

1. Functions and Organisation

The Central Board of Direct Taxes is a statutory authority functioning under the Central Board of Revenue Act, 1963. The officials of the Board in their ex-officio capacity also function as a Division of the Ministry dealing with matters relating to levy and collection of direct taxes.

2. Historical Background of C.B.D.T.

The Central Board of Revenue as the apex body of the Department, charged with the administration of taxes, came into existence as a result of the Central Board of Revenue Act, 1924. Initially the Board was in charge of both direct and indirect taxes. However, when the administration of taxes became too unwieldy for one Board to handle, the Board was split up into two, namely the Central Board of Direct Taxes and Central Board of Excise and Customs with effect from 1.1.1964. This bifurcation was brought about by constitution of two Boards u/s 3 of the Central Board of Revenue Act, 1963.

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Composition and Functions of CBDT

The Central Board of Direct Taxes consists of a Chairman and following six Members:

1. Chairman
2. Member (Income-tax)
3. Member (Legislation & Computerization)
4. Member (Personnel & Vigilance)
5. Member (Investigation)
6. Member (Revenue)
7. Member (Audit & Judicial)

Powers of the Board (CBDT):

The following are the powers of Central Board of Direct Taxes

- (a) It declares any association etc. as company u/s 2(17)(iv).
- (b) Conditions for Leave Travel Concession are prescribed by the Board u/s 10(5).
- (c) House rent “allowance limit is prescribed for exemption u/s (13A).
- (d) Various rules and limits u/ss 11 and 12A regarding charitable institutions and their registration are prescribed by the Board.
- (e) Rates of depreciation are determined by the Board u/s 32.
- (f) Prescribed authorities are named by the Board u/s 35CCA and 35CCB.
- (g) The Board prescribed cases where payment exceeding Rs. 10,000 could be made in cash u/s 40A(3).
- (h) The Board notifies professions and persons who have to maintain books of accounts etc. u/s 44AA.
- (i) The conditions governing the reference to the Valuation Officer are prescribed by the Board.
- (j) To specify permanent disability or mental-retardation for deduction u/s 80DD.

- (k) Rules for deduction u/s 80GG on account of rent payable by the assessee are formulated by the Board
- (l) Form of audit report and rules relating thereto are also prescribed by the Board u/ss 80HH, HHA, HHB, HHC and HHD.
- (m) Relief u/s 89 is prescribed by the Board in case where arrears of salary is received.
- (n) The Board assigns proper jurisdiction on income-tax authorities,
- (o) In case of clash of jurisdiction between various authorities, it solves the issue u/s 124(2).
- (p) It authorizes particular income-tax authorities to conduct a search etc. u/s 132(1).

Appointment of Income-tax Authorities.

- (1) The Central Government may appoint such persons as it thinks fit to be income-tax authorities.
- (2) Without prejudice to the provisions of sub-section (1), and subject to the rules and orders of the Central Government regulating the conditions of service of persons in public services and posts, the Central Government may authorize the Board, or a Director-General, a Chief Commissioner or Director or a Commissioner to appoint income-tax authorities below the rank of an Assistant Commissioner or Deputy Commissioner.
- (3) Subject to the rules and orders of the Central Government regulating the conditions of service of persons in public services and posts, an income- tax authority authorized in this behalf by the Board may appoint such executive or ministerial staff as may be necessary to assist it in the execution of its functions.

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Control of income-tax authorities.

The Board may, by notification in the Official Gazette, direct that any income-tax authority or authorities specified in the notification shall be subordinate to such other income-tax authority or authorities as may be specified in such notification.

Instructions to subordinate authorities.

- (1) The Board may, from time to time, issue such orders, instructions and directions to other income-tax authorities as it may deem fit for the proper administration of this Act, and such authorities and all other persons employed in the execution of this Act shall observe and follow such orders, instructions and directions of the Board.

- (2) Without prejudice to the generality of the foregoing power may be functioned by the authorities.

Chief Commissioner of Income Tax or Director General of Income Tax:

The **Chief Commissioner of Income Tax** or Director General of Income Tax is a senior rank in the Income Tax Department in India. Chief Commissioners are in charge of operations of the department with in a region which is usually overlapping with the territory of a state. Depending on the region their numbers vary from 23 and 3. They are chosen from the Indian Revenue Service and usually after serving in the Government for a period of 30 years. After cadre restructuring a new designation is created the **Principal Chief Commissioner of Income Tax** and senior most Chief Commissioners of Income Tax are promoted into this grade and has additional responsibilities as per personnel and budgetary targets is concerned. Their equivalent rank at the Union Secretariat is that of a Special Secretary to Govt. of India in the apex scale.

Functions

Chief Commissioners are allotted budgetary targets for collection by the Central Board of Direct Taxes and the targets are divided among the Commissioners of Income Tax and are constantly monitored. The Chief Commissioner of Income tax also performs the following cadre control functions with respect to employees who are in his jurisdiction.

1. Transfer and posting of Group 'A' officers up to the level of Addl./Joint CIT and all other cadre control functions in relation to Groups 'B', 'C' and 'D' employees.
2. Fixation of the sanctioned strength of various cadres in the charge of each CIT and allocation of officers and staff to each CIT/CIT(A).
3. Vigilance and disciplinary matters.
4. Confidential reports of officials working in the region in addition to those working directly under him.
5. Immovable property returns.
6. Budgeting and expenditure control.
7. Estate functions.
8. Grievance redressal.
9. Employees' association matters.
10. Protocol functions.
11. Computerization.

Commissioner / Director of Income Tax:-

The regional commissioner of income tax is appointed by the CBR. He also performs his function according to the direction of the CBR. Specific area given in his jurisdiction is known as region.

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UNIT: I INCOME TAX AUTHORITIES

Functions and Powers of Commissioner of Income Tax

1. Regulates The Inspection Work :-

The regional commissioner plays an important role in the income tax department. He regulates the inspection work of the additional commissioner.

2. Administrative Remedies For the Tax Payers :-

Now he has enabled the taxpayers to obtain administrative remedies locally for which they had to approach to central board of revenue in the past.

3. Power of Revision :-

The regional commissioner income tax is empowered to revise the orders of income tax commissioner (Appeals).

4. Power To Determine The Jurisdiction :-

He has also power to make the final decision about the jurisdiction of two commissioners of income tax of the same region. In consultation with the CBR he also determines the jurisdiction of the appellate additional commissioners of his region.

5. Power To Write Off :-

He is also empowered to write off irrecoverable demands with the instructions issued by the CBR.

6. Posting Orders :-

Posting orders for the DR'S and issued by him to the income tax tribunal. He also makes all other necessary arrangements in this regard.

7. Over All Supervision :-

He is responsible for all over supervision of the technical worked performed in his region. He also examines the periodical returns and statements.

8. Collection Of Arrears :-

The regional commissioner of income tax keeps close watch on the arrears of assessments and collection of income tax.

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9. Action Against Tax Evasion :-

The regional commissioner of income tax takes action against the complaints of tax evasion.

10. Power Of Internal Audit :-

The regional commissioner of income tax conducts the internal audit of the income tax department and makes necessary arrangements in this regard.

11. Inspection Power :-

He can inspect the subordinate offices at any time. He also regulates the inspection work of the inspecting additional commissioners.

12. Examines The Inspection Notes :-

He examines the inspection notes from the regional commissioner of the income tax and inspecting additional commissioners and takes necessary actions keeping in view the notes.

13. Executive's Judicial Power :-

He has judicial as well as executive powers. He may perform any other function which is assigned by the CBR.

14. Other Functions :-

Any other function assigned by the central board of revenue will be performed by the regional commissioner of income tax.

Assessing Officer [SEC. 2(7A)]

"Assessing Officer" means the Assistant Commissioner or Deputy Commissioner or Assistant Director or Deputy Director or the Income-tax Officer who is vested with the relevant jurisdiction by virtue of directions or orders issued under sub-section (1) or sub-section (2) of section 120 or any other provision of this Act, and the Joint Commissioner or Joint Director who is directed under clause (b) of sub-section (4) of that section to

exercise or perform all or any of the powers and functions conferred on, or assigned to, an Assessing Officer under this Act;

Importance of Assessing Officer:

In the organizational setup of the income tax department Assessing Officer plays a very vital role. He is the primary authority who initiates the proceedings and is directly connected with the public. From the time of filing of return till the assessment is completed he plays a pivotal role. He can start proceedings for non filing of return, imposition of penalties etc. Orders passed by him can be challenged only on approval. The department can revise his orders only if it is proved that there are prejudicial to the revenue and that too only by the Commissioner of Income Tax.

Appointment of Income-tax Authorities [Sec. 117]

(1) **Power of Central Government:** The Central Government may appoint such persons as it thinks fit to be income-tax authorities. It kept with itself the powers to appoint authorities upto and above rank of an Assistant Commissioner of Income-Tax

(2) **Power of the Board and Other Higher Authorities :** Subject to the rules and orders of the Central Government regulating the conditions of service of persons in public services and posts, the Central Government may authorize the Board, or a Director-General, a Chief Commissioner or a Director or a Commissioner to appoint income-tax authorities below the rank of an Assistant Commissioner or Deputy Commissioner.

(3) **Power to appoint Executive and Ministerial Staff :** Subject to the rules and orders of the Central Government regulating the conditions of service of persons in public services and posts, an income-tax authority authorized in this behalf by the Board may

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appoint such executive or ministerial staff as may be necessary to assist it in the execution of its functions.

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(4) Control of Income-Tax Authorities [Sec. 118]. The Board may, by notification in the Official Gazette, direct that any income-tax authority or authorities specified in the notification shall be subordinate to such other income-tax authority or authorities as may be specified in such notification.

Powers :

- (a) He disallows excessive or unreasonable expenditure where payment has been made to a relative etc. u/s 40A.
- (b) He determines actual cost to the assessee where the plant etc, had been used by the assessee earlier but had been transferred and retransferred.
- (c) He decides about referring valuation of capital asset to the Valuation Officer.
- (d) He scrutinises transactions where deductions under sections 80 IIII, IIHB etc. are claimed.
- (e) Relief u/sS9Js granted by him when arrears of salary are received.
- (f) Income from transactions with non-residents is computed by him u/s 92.
- (g) He can enforce attendance of witnesses u/s 133.
- (h) On authorisation he conducts searches and seizures.
- (i) He can call for information u/s 133.
- (j) Permanent account number is allotted by the AO.
- (k) He can ask the assessee to get his accounts audited.
- (l) He is empowered to reopen assessment.
- (m) Partition of the HUF has to be accepted by him otherwise the HUF will continue to be joint.
- (n) Notice of demand for payment of advance tax as well as for payment of the final tax liability is issued by the AO.
- (o) He grants refunds.

Power Of Income Tax Authorities Relating To Search And Seizure [SECTION 132]

1. Entering and Searching the Premises :

Where the Director General or Director or the Chief Commissioner or Commissioner or any such Joint Director or Joint Commissioner as may be empowered in this behalf by the Board , in consequence of information in his possession, has reason to believe that—

(a) Any person to whom a summons under sub-section (1) of section 131 of this Act, or under sub-section (1) of section 142 of this Act was issued to produce, or cause to be produced, any books of account or other documents has omitted or failed to produce, or cause to be produced, such books of account or other documents as required by such summons or notice.

(b) Any person to whom a summons or notice as aforesaid has been or might be issued will not, or would not, produce or cause to be produced, any books of account or other documents which will be useful for, or relevant to, any proceeding under the Indian Income-tax Act.

(c) Any person is in possession of any money, bullion, jewellery or other valuable article or thing and such money, bullion, jewellery or other valuable article or thing represents either wholly or partly income or property [which has not been, or would not be, disclosed] for the purposes of the Indian Income-tax Act.

(d) The Director General or Director or the Chief Commissioner or Commissioner, as the case may be, may authorize any Joint Director, Joint Commissioner, Assistant Director or Deputy Director, Assistant Commissioner or Deputy Commissioner or Income-tax Officer, or such Joint Director, or Joint Commissioner , as the case may be, may authorise any Assistant Director or Deputy Director, Assistant Commissioner or Deputy

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Commissioner or Income-tax Officer, the officer so authorized in all cases being hereinafter referred to as the authorised officer to—

- (i) enter and search any [building, place, vessel, vehicle or aircraft] where he has reason to suspect that such books of account, other documents, money, bullion, jewellery or other valuable article or thing are kept;
- (ii) break open the lock of any door, box, locker, safe, almirah or other receptacle for exercising the powers conferred by clause (i) where the keys thereof are not available;
- (iia) search any person who has got out of, or is about to get into, or is in, the building, place, vessel, vehicle or aircraft, if the authorised officer has reason to suspect that such person has secreted about his person any such books of account, other documents, money, bullion, jewellery or other valuable article or thing;
- (iib) require any person who is found to be in possession or control of any books of account other documents maintained in the form of electronic record as defined in clause (t) of subsection (1) of section 2 of the Information Technology Act, 2000 (21 of 2000), to afford the authorised officer the necessary facility to inspect such books of account or other documents
- (iii) seize any such books of account, other documents, money, bullion, jewellery or other valuable article or thing found as a result of such search:
- (iv) place marks of identification on any books of account or other documents or make or cause to be made extracts or copies there from;
- (v) make a note or an inventory of any such money, bullion, jewellery or other valuable article or thing :

Where any building, place, vessel, vehicle or aircraft referred to in clause (i) is within the area of jurisdiction of any, but such has no jurisdiction over the person referred to in clause (a) or clause (b) or clause (c), then, notwithstanding anything contained in section, it shall be competent for him to exercise the powers under this sub-section in all cases where he has reason to believe that any delay in getting the authorization from the

having jurisdiction over such person may be prejudicial to the interests of the revenue.

The Finance Act, 1988 has further that where it is not possible or practicable to take physical possession of any valuable article or thing and remove it to a safe place due to its volume, weight or other physical characteristics or due to its being of a dangerous nature, the authorised officer may serve an order on the owner or the person who is in immediate possession or control thereof that he shall not remove, part with or otherwise deal with it, except with the previous permission of such authorised officer.

Application of Seized or Requisitioned Assets [Section 132(B)]

1. Any Assets seized under this section shall be first applied to pay the existing liability under Income-Tax Act, or Wealth Tax Act or Gift Tax Act.
2. Next it shall be adjusted against the tax liability determined under block assessment and any penalty levied or interest payable under such assessment.
3. In case assessee has explained the source of any asset, the authority may recover the amount of tax liability as mentioned above and remaining portion if any may be released but with the prior approval of CCIT or CIT. Such asset may be released to the assessee within 120 days from last authorization made for search and seizure.
4. In case seized assets consists of money or partly of money and partly of other assets, the authority may apply such money to the tax liabilities mentioned above and assessee shall be discharged of such liability up to the extent of such money.
5. The other assets shall be under distraint and the Assessing Officer shall sell the assets but after prior approval of CCIT or CIT and apply such money to the existing liabilities and liability under block assessment.
6. The authority can realize the tax by any other mode also.
7. The remaining assets shall be handed over to the assessee from whose custody they

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were seized.

8. The Govt. shall pay an interest @ 1 ½ % for every month or part of a month if there is any surplus of assets over the liability so adjusted. This interest shall be calculated from the date on which 120 days expire from the day last authorization was made till the day block assessment is made.

Power of Survey [Section 133a]

An Assessing Officer or his duly authorized inspector, Deputy Commissioner or Assistant Director has the power to enter :

1. any place within the limits of the area assigned to him, or
2. any place occupied by any person in respect of whom he exercises jurisdiction
3. any place in respect of which he is authorised for the purposes of this section by such income-tax authority, who is assigned the area within which such place is situated or who exercises jurisdiction in respect of any person occupying such place.

It may require the proprietor or any other person attending to such business or profession to afford him necessary facilities :

1. to inspect such books of account or other documents as he may require and which may be available at such place
2. to check or verify the cash, stock or other valuable article or thing which may be found therein, and
3. to furnish such information as he may require as to any matter which may be useful for, or relevant to, any proceeding under this Act.
4. An income-tax authority acting under this section may –
 1. place marks of identification on the books of account or other documents inspected by him.
 2. impound and retain in his custody for such period as he thinks fit any

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books of account or other documents inspected by him

3. Retain in his custody any such books of account or other documents for a period exceeding 10 days (exclusive of holidays) without obtaining the approval of the Chief Commissioner or Director General therefore

In case the Income Tax Authority is not provided with such facility, such authority can proceed u/s 131(1) and 131(2) against the proprietor or nay other person attending to such business.

Provision Relating to Power to Collect Certain Information [SECTION 133B]

(1) An income-tax authority may, for the purpose of collecting any information which may be useful for, or relevant to, the purposes of this Act, enter—

(a) any building or place within the limits of the area assigned to such authority ; or

(b) any building or place occupied by any person in respect of whom he exercises jurisdiction,

(2) An income-tax authority may enter any place of business or profession only during the hours at which such place is open for the conduct of business or profession.

(3) An income-tax authority acting under this section can not remove from the building or place wherein he has entered, any books of account or other documents or any cash, stock or other valuable article or thing.

Disclosure Of Information Regarding Assesseees To Certain Authorities [Section 138]

(1) (a) The Board or any other income-tax authority may furnish or cause to be furnished to—

(i) any officer, authority or body performing any functions under any law relating to the imposition of any tax, duty or cess

(ii) such officer, authority or body performing functions under any other law as the Central Government may specify,

(b) Where a person makes an application to the Chief Commissioner or Commissioner in the prescribed form for any information relating to any assessee received or obtained by any income-tax authority, the Chief Commissioner or Commissioner may, if he is satisfied that it is in the public interest so to do, furnish or cause to be furnished the information asked for and his decision in this behalf shall be final and shall not be called in question in any court of law.

II. ASSESSMENT PROCEDURE

Meaning of assessment

Every taxpayer has to furnish the details of his income to the Income-tax Department. These details are to be furnished by filing his return of income. Once the return of income is filed by the taxpayer, the next step is the processing of the return of income by the Income-tax Department. The Income-tax Department examines the return of income for confirming its correctness. The process of examining the return of income by the Income-tax Department is called "Assessment".

Major assessments under the Income-tax Law

Under the Income-tax Law, there are four major assessments as given below:

- Assessment under section 143(1), *i.e.*, Summary assessment without calling the assessee *i.e.* taxpayer.
- Assessment under section 143(3), *i.e.*, Scrutiny assessment.

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- Assessment under section 144, *i.e.*, Best judgment assessment.
- Assessment under section 147, *i.e.*, Income escaping assessment.

Assessment under section 143(1)

Assessment under section 143(1) is like preliminary checking of the return of income. At this stage, no detailed scrutiny of the return of income is carried out. At this stage, the total income or loss is computed after making the following adjustments (if any), namely:-

- (i) any arithmetical error in the return; or
- (ii) an incorrect claim, if such incorrect claim is apparent from any information in the return (*);

(*) For the above purpose, “an incorrect claim apparent from any information in the return” means a claim, on the basis of an entry, in the return:-

- (a) of an item, which is inconsistent with another entry of the same or some other item in such return;
- (b) in respect of which the information required to be furnished under the Act to substantiate such entry has not been furnished; or
- (c) in respect of a deduction, where such deduction exceeds specified statutory limit which may have been expressed as monetary amount or percentage or ratio or fraction.

Procedure adopted for making the assessment under section 143(1)

Assessment under section 143(1) is like preliminary checking of the return of income. At this stage, the total income or loss is computed after making the preliminary adjustments (as discussed in previous FAQ). The other procedures in this regard are as follows:

- After correcting arithmetical error or incorrect claim (if any), the tax and interest, if any, shall be computed on the basis of the adjusted income.

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- Any sum payable by the taxpayer or refund due to the taxpayer shall be intimated to him.
- An intimation shall be prepared or generated and sent to the taxpayer specifying the sum determined to be payable by, or the amount of refund due to him.
- An intimation shall also be sent to the taxpayer, in a case, where the loss declared in the return of income by the taxpayer is adjusted but no tax or interest is payable by, or no refund is due to him.
- No intimation will be sent to the taxpayer in a case where no sum is payable or refundable or no adjustment is made to the returned income. In such a case, the acknowledgement of the return of income shall be deemed to be the intimation.
- The processing of a return under section 143(1) shall not be necessary, where a notice has been issued to the taxpayer under section 143(2), *i.e.*, a notice of scrutiny assessment is issued to the taxpayer.

Time limit for making the assessment under section 143(1)

Assessment under section 143(1) can be made within a period of one year from the end of the financial year in which the return of income is filed.

Assessment under section 143(3)

This is a detailed assessment and is referred to as scrutiny assessment. At this stage, a detailed scrutiny of the return of income will be carried out. The scrutiny is carried out to confirm the correctness and genuineness of various claims, deductions, etc., made by the taxpayer in the return of income.

The scope of assessment under section 143(3) i.e. scrutiny assessment

The objective of scrutiny assessment is to confirm that the taxpayer has not understated the income or has not computed excessive loss or has not underpaid the tax in any manner. To confirm the above, the Assessing Officer carries out a detailed scrutiny of the return of income and will satisfy himself regarding various claims, deductions, etc., made by the taxpayer in the return of income.

The procedure adopted for making the assessment under section 143(3) i.e. scrutiny assessment

In case of Assessment under section 143(3), a scrutiny is carried out to confirm the correctness and genuineness of various claims, deductions, etc., made by the taxpayer in the return of income. The other procedures in this regard are as follows:

- If the Assessing Officer considers it necessary or expedient to ensure that the taxpayer has not understated the income or has not computed excessive loss or has not underpaid the tax in any manner, then he will serve on the taxpayer a notice requiring him to attend his office or to produce or cause to be produced any evidence on which the taxpayer may rely on in support of the return.
- The provisions of notice are governed by section 143(2). In other words, to carry out assessment under section 143(3), the Assessing Officer should serve a notice under section 143(2).
- Notice under section 143(2) shall be served on the taxpayer within a period of six months from the end of the financial year in which the return is filed.
- The taxpayer or his representative (as the case may be) will appear before the Assessing Officer and will place his arguments, supporting, etc., on various matters/issues as required by the Assessing Officer.
- After hearing/verifying such evidence and taking into account such particulars as the taxpayer may produce and such other evidence as the Assessing Officer may require on specified points and after taking into account all relevant material which he has gathered,

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the Assessing Officer shall, by an order in writing, make an assessment of the total income or loss of the taxpayer and determine the sum payable by him or refund of any amount due to him on the basis of such assessment.

The time limit for making the assessment under section 143(3) i.e. scrutiny assessment

As per section 153, assessment under section 143(3) shall be made within a period of two years from the end of the relevant assessment year. *E.g.* Assessment under section 143(3) for the financial year 2013-14 *i.e.* assessment year 2014-15 shall be completed till 31-3-2017.

Assessment under section 144

Assessment under section 144 (**called best judgment assessment**) is an assessment carried out as per the best judgment of the Assessing Officer. Best judgment assessment is resorted due to certain failures (specified under section 144) on the part of the taxpayer.

The circumstances the Assessing Officer will proceed for making assessment under section 144 i.e. best judgment assessment

As per section 144, best judgment assessment is resorted due to following failures on the part of the taxpayer:

- If the taxpayer fails to file the return of income as required within the due date prescribed under section 139(1) or a belated return under section 139(4) or a revised return under section 139(5).
- If the taxpayer fails to comply with all the terms of a notice issued under section 142(1).
- If the taxpayer fails to comply with the directions issued under section 142(2A).
- If after filing the return of income, the taxpayer fails to comply with all the terms of a notice issued under section 143(2), *i.e.*, notice of scrutiny assessment.

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From the above criteria, it can be observed that best judgment assessment is resorted in cases where the return of income is not filed by the taxpayer or there is no co-operation by the taxpayer on various matters.

The procedure adopted for making the assessment under section 144 i.e. best judgment assessment

Assessment under section 144 (called best judgment assessment) is an assessment carried out as per the best judgment of the Assessing Officer. The other procedures in this regard are as follows:

- If the circumstances justifying best judgment assessment (discussed in previous FAQ) are satisfied, then the Assessing Officer will serve a notice on the taxpayer to show cause why the assessment should not be completed to the best of his judgment.
- No notice as given above is required in a case where a notice under section 142(1) has been issued prior to the making of an assessment under section 144.
- If the Assessing Officer is not satisfied by the arguments of the taxpayer and he has reason to believe that the case demands a best judgment, then he will proceed to carry out the assessment as per best of his knowledge.
- If the criteria of the best judgment assessment are satisfied, then after taking into account all relevant material which the Assessing Officer has gathered, and after giving the taxpayer an opportunity of being heard, the Assessing Officer shall make the assessment of the total income or loss to the best of his judgment and determine the sum payable by the taxpayer on the basis of such assessment.
- A refund cannot be granted under section 144.

The time limit for making the assessment under section 144 i.e. best judgment assessment

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As per section 153, assessment under section 144 shall be made within a period of two years from the end of the relevant assessment year. *E.g.* Assessment under section 144 for the financial year 2013-14 *i.e.* assessment year 2014-15 shall be completed till 31-3-2017.

Assessment under section 147

This is an income escaping assessment. This assessment is carried out if the Assessing Officer observes that any income has escaped assessment.

The circumstances under which assessment under section 147 i.e. income escaping assessment can be carried out

This assessment is carried out if the Assessing Officer has reason to believe that any income chargeable to tax has escaped assessment for any assessment year

Scope of assessment under section 147

- The objective of carrying out assessment under section 147 is to bring under the tax net any income which has escaped assessment in original assessment.
- Original assessment here means an assessment under sections 143(1), 143(3), 144 and 147 (as the case may be).
- In other words, if any income has escaped (*) from being taxed in the original assessment made under section 143(1) or section 143(3) or section 144 or section 147, then the same can be brought under tax net by resorting to assessment under section 147.
- Where a return of income has been furnished by the taxpayer but no assessment has been made and it is noticed by the Assessing Officer that the taxpayer has understated the income or has claimed excessive loss, deduction, allowance or relief in the return.
- Where the taxpayer has failed to furnish a report in respect of any international transaction which he was required to do under section 92E.

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- Where an assessment has been made, but:
 - (i) income chargeable to tax has been under assessed; or
 - (ii) income has been assessed at low rate; or
 - (iii) income has been made the subject of excessive relief; or
 - (iv) excessive loss or depreciation allowance or any other allowance has been computed;
- Where a person is found to have any asset (including financial interest in any entity) located outside India.

Procedure adopted for making the assessment under section 147 i.e. income escaping assessment

The objective of carrying out assessment under section 147 is to bring under the tax net any income which has escaped assessment in original assessment. The other procedures in this regard are as follows :

- For making an assessment under section 147, the Assessing Officer has to issue notice under section 148 to the taxpayer and has to give him an opportunity of being heard. The time-limit for issuance of notice under section 148 is discussed in later FAQ.
- If the Assessing Officer has reason to believe that any income chargeable to tax has escaped assessment for any assessment year, then he may assess or reassess such income and also any other income chargeable to tax which has escaped assessment and which comes to his notice subsequently in the course of the proceedings under section 147. He is also empowered to re-compute the loss or the depreciation allowance or any other allowance, as the case may be, for the assessment year concerned.
- Items which are the subject matters of any appeal, reference or revision cannot be covered by the Assessing Officer under section 147.

Time limit for making the assessment under section 147 i.e. income escaping assessment

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As per section 153, assessment under section 147 shall be made within a period of one year from the end of the financial year in which notice under section 148 was served on the taxpayer. Notice under section 148 can be issued within a period of 4 (*) years from the end of the relevant assessment year.

- (*) If the escaped income exceeds Rs. 1,00,000 and certain other conditions are satisfied, then notice can be issued upto 6 years from the end of the relevant assessment year.
- In case, the escaped income relates to any asset (including financial interest in any entity) located outside India, notice can be issued upto 16 years from the end of the relevant assessment year.
- Notice under section 148 can be issued by AO only after getting prior approval from the prescribed authority.

Scrutiny Assessments by Income Tax Department

Scrutiny assessment refers to the examination of a return of income by giving an opportunity to the assessee to substantiate the income declared and the expenses, deductions, losses, exemptions, etc. claimed in the return with the help of evidence. During the course of scrutiny, the assessing officer gets an opportunity to conduct enquiries, as deemed fit, from the assessee and from third parties. The exercise is aimed at ascertaining whether the income in the return is correctly shown by the assessee and whether the claims for deductions, exemptions, etc. are factually and legally correct. If any omissions, discrepancies, inaccuracies, etc. come to light as a result of this examination, the assessing officer makes his own assessment of the assessee's taxable income after taking into consideration all the relevant facts. These assessments are made under section 143(3) of the Income Tax Act.

Selection of Cases for Scrutiny Assessment :

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Theoretically, each and every return of income can be subjected to the process of scrutiny. There was a time when scrutiny assessment was taken up in every case. Subsequently, returns showing income above a certain monetary limit, say ` 1 lakh or above, were taken up for scrutiny. Then came an era when returns for scrutiny assessment were picked up on a random basis. With the progressive increase in the work load of the Income Tax Department, scrutiny assessment in a few selected cases became the accepted norm. The criteria for selection, however, kept on evolving.

At present, the returns of income voluntarily filed by the tax payers are mostly accepted by the Income Tax Department without any questions. In a very small percentage of cases, scrutiny assessments are framed under section 143(3) of the Income Tax Act, 1961. The cases for this purpose are mostly selected through the process of computer assisted scrutiny selection (CASS) and there is no element of subjectivity in this process.

In addition to the above process for selection through computers, the cases where there is information about concealment of income, which may be based on an enquiry report, survey report or any other source, can also be selected for scrutiny. Only truly deserving cases are identified for scrutiny assessment in this manner. The selection in this manner is made by the assessing officer only with the approval of higher authorities so that the selection is fair and proper.

All search and seizure assessments are also scrutiny assessments. The issues relating to search and seizure assessments have already been discussed in detail in the preceding Chapter 8 titled “Income Tax Searches”. There is yet another category of cases in which scrutiny assessment is framed under section 143(3) of the Act. There is a provision in the Income Tax Act which enables the reopening of cases where there is reason to believe that any income has escaped assessment.

Purpose of Scrutiny Assessment

In the cases selected for scrutiny, the assessing officer conducts necessary enquiries during assessment proceedings to ensure that the assessee has not:

- Understated the income, or.
- Computed excessive loss, or
- Underpaid tax in any manner.

Also, the cases where searches, surveys and enquiries have been conducted finally culminate into scrutiny assessments determining the taxable income and the tax liability of the concerned persons and entities. While framing the assessments, all information gathered about the relevant financial transactions through search, survey or enquiry is logically analyzed with a view to determining the correct taxable income. The assesseees are given an opportunity to explain their stand and rebut the findings of the enquiry. The process for completing scrutiny assessment in these cases is the same as in the case of returns selected for scrutiny assessment.

Filing of Return

It is a prescribed form through which the particulars of income earned by a person in a financial year and taxes paid on such income are communicated to the Income-tax Department. Different forms of returns of income are prescribed for filing of returns for different Status and Nature of income. These forms can be downloaded from www.incometaxindia.gov.in

Different Forms in Income Tax Act

Under the Income-tax Law, different forms of returns are prescribed for different classes of taxpayers. The return forms are known as ITR forms (Income Tax Return Forms). The forms of return prescribed under the Income-tax Law for filing of return of income for the assessment year 2015-16 (*i.e.*, financial year 2014-15) are as follows (*):

<i>Return Form</i>	<i>Brief Description</i>
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- ITR - 1 Also known as SAHAJ is applicable to an individual having salary or pension income or income from one house property (not a case of brought forward loss) or income from other sources (not *being lottery winnings* and income from race horses).
- ITR 2A It is applicable to Individuals and Hindu Undivided Family not having income from business or profession and capital gains and resident who do not hold foreign assets do not have foreign income.
- ITR - 2 It is applicable to an individual or a Hindu Undivided Family having income from any source other than "Profits and gains of business or profession".
- ITR - 3 It is applicable to an individual or a Hindu Undivided Family who is a partner in a firm and where income chargeable to tax under the head "Profits or gains of business or profession" does not include any income except the income by way of any interest, salary, bonus, commission or remuneration, by whatever name called, due to, or received by him from such firm.
- ITR - 4S Also known as SUGAM is applicable to individuals and Hindu Undivided Family who have opted for the presumptive taxation scheme of section 44AD/44AE.
- ITR - 4 It is applicable to an individual or a Hindu Undivided Family who is carrying on a proprietary business or profession.
- ITR - 5 This Form can be used by a person being a firm, LLP, AOP, BOI, artificial juridical person referred to in section 2(31)(vii), co-operative society and local authority. However, a person who is required to file the return of income under section 139(4A) or

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139(4B) or 139(4C) or 139(4D) shall not use this form (*i.e.*, trusts, political parties, institutions, colleges, etc.)

ITR - 6

It is applicable to a company, other than a company claiming exemption under section 11 (exemption under section 11 can be claimed by charitable/religious trust).

ITR - 7

It is applicable to a persons including companies who are required to furnish return under section 139(4A) or section 139(4B) or section 139(4C) or section 139(4D) (*i.e.*, trusts, political parties, institutions, colleges, etc.).

ITR - V

It is the acknowledgement of filing the return of income.



Modes of Filing the Return of Income

This Return Form can be filed with the Income-tax Department in any of the following ways, -

- (i) by furnishing the return in a paper form;
- (ii) by furnishing the return electronically under digital signature;
- (iii) by transmitting the data in the return electronically under electronic verification code;
- (iv) by transmitting the data in the return electronically and thereafter submitting the verification of the return in Return Form ITR-V;

Note

Where the return of income is filed in the manner given at (iv) without digital signature, then the taxpayer should take two printed copies of Form ITR-V. One copy of ITR-V, duly signed by the taxpayer, is to be sent (within the period specified in this

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regard, i.e., 120 days) by ordinary post or speed post to "Income-tax Department - CPC, Post Bag No. 1, Electronic City Post Office, Bengaluru-560100 (Karnataka). The other copy may be retained by the taxpayer for his record.

A taxpayer may pay tax in any of the following forms:

- (1) Tax Deducted at Source (TDS)
- (2) Tax Collected at Source (TCS)
- (3) Advance tax or Self-assessment Tax or Payment of tax on regular assessment.

Mandatory e-filing of return

Following taxpayers shall file their return of income only through e-filing mode:

- (1) From the assessment year 2015-16 onwards any assessee filing ITR 1/2/2A (other than an individual of the age of 80 years or more at anytime during the previous year) having a refund claim in the return or having total income of more than Rs. 5,00,000 is required to furnish the return of income electronically with or without digital signature or by using electronic verification code.
- (2) Every company shall furnish the return of income electronically under digital signature. In other words, for corporate taxpayer e-filing with digital signature is mandatory.
- (3) A firm or an individual or a Hindu Undivided Family (HUF) whose books of account are required to be audited under section 44AB shall furnish the return of income electronically under digital signature. In other words, in such a case, e-filing with digital signature is mandatory.
- (4) A resident assessee having any assets (including financial interest in any entity) located outside India or signing authority in any account located outside India shall furnish the return of income electronically with or without digital signature or by using electronic verification code.

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(5) Taxpayers claiming relief under section 90, 90A or 91 shall furnish the return of income electronically with or without digital signature or by using electronic verification code.

(6) A person who is required to file ITR - 5 shall file the same electronically with or without digital signature. However, a firm liable to get its accounts audited under section 44AB shall furnish the return electronically under digital signature.

(7) A taxpayer who is required to furnish a report of audit shall furnish the report electronically on or before the date of filing the return.

(8) Return Form ITR- 3 is to furnish electronically in the following modes:

- (i) by furnishing the return electronically under digital signature;
- (ii) by transmitting the data in the return electronically under electronic verification code;
- (iii) by transmitting the data in the return electronically and thereafter submitting the verification of the return in Return Form ITR-V.

(9) Return Form ITR-4 is to be furnish electronically in the following modes:

- (i) by furnishing the return electronically under digital signature;
- (ii) by transmitting the data in the return electronically under electronic verification code
- (iii) by transmitting the data in the return electronically and thereafter submitting the verification of the return in Return Form ITR-V;

However, where the books of accounts are required to be audited under section 44AB, the return is required to be furnished in the manner provided at (i) i.e. e-filing with digital signature.

(10) Return Form ITR - 7 is to be furnished electronically in the following modes

- (i) by furnishing the return electronically under digital signature
- (ii) by transmitting the data in the return electronically under electronic verification code

(iii) by transmitting the data in the return electronically and thereafter submitting the verification of the return in Return Form ITR-V

No documents to be attached along with the return of income

ITR return forms are attachment less forms and, hence, the taxpayer is not required to attach any document (like proof of investment, TDS certificates, etc.) along with the return of income (whether filed manually or filed electronically). However, these documents should be retained by the taxpayer and should be produced before the tax authorities when demanded in situations like assessment, inquiry, etc.

POSSIBLE QUESTIONS

PART - A (1 Mark)

(Online Examinations)

PART- B (8 MARKS)

1. What are the authorities provided by Income tax Act for the administration of the tax?
2. Discuss briefly the powers of Income tax officer.
3. Explain the assessment procedure as per Income Tax Act.
4. Discuss the powers and functions of Central Board of Direct Taxes.
5. Explain the authorities under income tax Act, 1961.
6. Discuss the powers and functions of chief commissioner of income tax.
7. Narrate the functions and powers of joint commissioner and director of income tax.
8. Discuss the functions and powers of Central Board Of Direct Taxes.
9. Who is an assessing officer? Discuss their functions and powers.
10. Enumerate the functions and powers of the Board.
11. Discuss the powers and functions of joint director of income tax.
12. Explain the powers and functions of additional commissioner of income tax
13. Discuss the procedure for assessment as per Act.
14. Under what circumstances the BJA can be implemented by the authorities of IT department?
15. Bring out the important functions of CBDT as per Act.

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(Deemed to be University)

(Established Under Section 3 of UGC Act 1956)

Department of Commerce

Subject: INCOME TAX LAW AND PRACTICE- II

CLASS : III B.COM

Semester: VI

SUB CODE: 15CMU602

PART – A (ONE MARK)

POSSIBLE QUESTIONS - UNIT –I

QUESTION	OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
Income tax act passed in the year	1956	1959	1961	1964	1961
The direct tax Laws (amendment) Act passed in the year	1990	1999	1987	2005	1987
In the administrative setup of the Income tax department , the highest authority is the ---	Commissioner	Director	CBDT	Assessing Officer	CBDT
The Central board of revenue act passed in the year ----	1956	1959	1961	1963	1963
The CBDT functions under the control of	ministry of external affairs	ministry of Legal	Ministry of Finance	Ministry of corporate laws	Ministry of finance
The jurisdiction of CBDT is ----	whole of India	part of India	Whole of Tamil nadu	Whole of Kerala	whole of India
The ----- is empowered to appoint the members of CBDT	State Government	central Govt	Union territory	Local authority	Central Government
At present there are -- members including the chairman of CBDT	2	3	4	5	5
The ----- is the primary authority who initiates the proceedings and is directly connected with the public	Commissioner	Director	CBDT	Assessing Officer	Assessing officer
The ----- can declare any association or not,	Commissioner	Director	CBDT	Assessing Officer	CBDT

as compaqny under the provision of Sec 2(17)					
The ----- has the power to determine the jurisdiction of various authorities as mentioned in the Act	Commissioner	Director	CBDT	Assessing Officer	CBDT
Director general of income tax is appionted by the -----	State Government	central Govt	Union territory	Local authority	Central Governme nt
The jurisdiction of chief commissioner shall be determined by the ----- -	Ministry of finance	Board	Commissioner	Government	board
The ----- may be empowered by the board to appoint income tax authorities below th rank of an assistant commissioner.	Joint Commissioner	Director General	Chief commissioner	Assessing Officer	Chief commissio ner
The jurisdiction of additional commissioner is determined by -----	Commissioner	Director	CBDT	Assessing Officer	CBDT
Under the direction of the board a ----- may exercise the powers of an assessing officer	AO	Deputy director	joint commissioner	Commissioner	a commissio ner
Joint Commissioner of Income Tax is appointed by the	central Govt	State government	Union territory	Local authority	central governme nt
The -----is the only authority to collect tax	assessing officer	Deputy director	joint commissioner	Commissioner	Assessing officer
The jurisdiction of Assessing officer shall be determined by the ---- -----	CBDT	Director	Supreme courst	Appleate tribunal	CBDT
The ----- is the authority who comes into contact with the public	central Govt	State government	Assessing officer	Board	Assessing officer
Which of the following are the powers of assessing officer?	Power of civil court	Power of search and seizure	power of assessment	all of the above	all of the above
The authority authorised to issue orders regarding	Joint director	assessing officer	Income tax officer	income tax inspector	joint director

search and seizure					
New income tax authorities includes,	Principal director general of income tax	commissioner of income tax	joint director of income tax	director of income tax	principal director general of income tax
Every person to submit particulars of the income relating to the particular accounting period to the income tax officer in the prescribed form is known as	revised return	belated return	return of income	return of loss	return of income
Due date of filing of return for company assessee is ----- of the assessment year	30th June	31st July	31-Aug	31 sep	31 sep
Due date of filing of return for all non corporate person whose accounts are subject to audit is	30th June	31st July	31-Aug	31 sep	31 sep
In case assessee has failed to file the return or has filed the return late, interest ----- % per month is to be charged	1%	2%	3%	4%	1%
A person fails to submit his return u/s 139(1) or under 1/6 scheme on or before due date, a penalty of Rs----- shall be imposed on such person	Rs.4,000	Rs.5,000	Rs.10,000	Rs.15,000	Rs.5,000
In case as assessee has not furnished a return within the time allowed to him is called -----	return	belated return	revised return	proforma	belated return
If any person who has furnished return 139(1) or in response to notice u/s 142 (1) discovers any omission or any wrong statement there in, he may be furnish -----	loss return	belated return	revised return	proforma	revised return

---- return					
A belated return can not be -----	revised	belated	proforma	loss	revised
There is no need to take any permission from an authority before submitting a -----	belated return	loss return	income return	revised return	revised return
The authority authorised to issue orders regarding search and seizure	Joint director	assessing officer	Income tax officer	income tax inspector	joint director
An individual having income from salary / pension / one house property is liable to submit the return for income in form No -----	ITR -1	ITR -2	ITR-3	ITR-4	ITR-1
For firms , AOP, BOI and other persons are liable to submit the return of income in form No	ITR -3	ITR -4	ITR-5	ITR-6	ITR-6
Expand PAN	Permanent account number	personal account number	Permanent assessee number	personal assessee number	Permanent account number
A ----- is code number issued by the IT department to every assessee	PAN	TAN	TIN	PIN	PAN
The PAN is a ----- code	Alpha	numeric	Alpha numeric	Special characters	alpha numeric
PAN code having ----- characters and issued in the form of a laminated card	5	10	15	20	10
A ----- means assessment on his total income and tax liability is calculated by the assessee on his own	self assessment	enquiry before assessment	summary assessment	BJA	self assessment
Before finalising the assessment for assessee , the assessing officer may be interested to go through the books ,	best judgement assessment	re assessment	enquiry before assessment	self assessment	enquiry before assessment

accounts documents and statements is called ----					
Assessment on the basis of return filed is otherwise called as	self assessment	self assessment	summary assessment	Best judge assessment	summary assessment
If an assessee fails to furnish the details, as per the notices issued by the authority, the Assessing officer has the power to make his own assessment called as -----	best judgement assessment	re assessment	enquiry before assessment	self assessment	best judgement assessment
Best judgement assessment otherwise called as ----- assessment	exparte	re assessment	self assessment	BJA	
There are ----- types of Best judgement assessment	2	3	4	5	2
As assessment made u/s 144 is known as -----	Assessment BJA	discretionary BJA	Compulsory BJA	exparte assessment	compulsory BJA
Income escaping assessment is otherwise called as	self assessment	enquiry before assessment	summary assessment	re-assessment	re-assessment
If the assessing officer has reason to believe that any income chargeable to tax has escaped assessment for any assessment year, subject to the provision assess or reassess such income is called -----	belated assessment	best judgement assessment	enquiry before assessment	income escaping assessment	income escaping assessment
A regular assessment u/s 143 or BJA u/s 144 is required to be completed within ----- months	12	18	24	36	24
Income tax Act is applicable to -----	whole of India	whole of tamilnadu	whole of India except Jammu Kashmir	whole of India except Delhi	whole of India
Re-assessment is otherwise known as	income escaping	best judgement	enquiry before	belated return	income escaping

	assessment	assessment	assessment		assessment
Exparte assessment has - -----types	2	3	4	5	2
Exparte assessment otherwise called as ----- -	self assessment	discretionar y BJA	Compulsory BJA	BJA	BJA
If an assessee made his assessment on his own is called -----	summary assessment	enquiry before assessment		self assessment	self assessment
An individual having income from salary / pension / one house property is liable to submit the return fo income in form No ----- --	ITR -2	ITR -4	ITR-1	ITR-3	ITR-1
Every person to submit particulars of the incoem relating to the particular accounting period to the income tax officer in the prescribed form is known as	revised return	belated return	return of income	return of loss	return of income
If an assessee fails to furnish the details, as per the notices issued by the authority, the Assessing officer has the power to make his own assessment called as ----- ---	best judgement assessment	re assessment	enquiry before assessment	self assessment	best judgement assessment
In case assessee has failed to fule the return or has filed the return lare , intrest ----- % per month is to be charged	4%	3%	2%	1%	1%
The CBDT functions under the control of	ministry of external affairs	ministry of Legal	Ministry of Finance	Mininstry of corporate laws	Ministry of finance
The ----- is empowred to appoint the members of CBDT	State Government	central Govt	Union territory	Local authority	Central Governme nt

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UNIT II

Individuals and HUF: Assessment of individuals – Assessment of Hindu Undivided Family
--

I. ASSESSMENT OF INDIVIDUALS

Section 4 of Income Tax Act, 1961 read with section 2(31) provides the different units of assessment. There are,

1. Individuals
2. Hindu undivided Family
3. Firm
4. Association of Persons
5. Local Authority
6. Company
7. Artificial Juridical Person

Individual includes both male and female assesses. Every individual is supposed to pay tax on his or her individual total income at a graded scale of tax rates ruling during that assessment year.

An individual may have income under any or all the five heads of income.

1. Income from salary
2. Income under the head house property
3. Income under the head Profits and gains of business or profession
4. Income under the head Income from capital gain and
5. Income under the head Income from other sources

Tax treatment of income received from different institutions:

1. As a member of Hindu Undivided Family.

Any sum received by an individual as a member of H.U.F. out of family income is not

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to be included in his total income, because the share of income received from the H.U.F. is exempted in the hands of such individual, the family may or may not have paid tax on that income. If the member earns his own income, besides being the member of H.U.F. he will pay tax on his own earned income.

2. Income received as share from AOP.

The share from AOP is treated in following manner:

1. Compute total income of AOP.

2. For computing tax on total income rates to be applied are to be determined in following manner

A. For determining rates of tax, the individual income of each member or partner is to be taken into account as under :

(i) If individual income of all partners/members does not exceed Rs. 2,00,000 (for a female Rs. 2,50,000 and for a senior citizen Rs. 5,00,000) each, the AOP shall pay tax at the rates applicable to an individual.

(ii) Share from such AOP is fully added in the individual income of each partner and is fully taxable again as partner's individual income.

(iii) Out of the tax a rebate of tax on share from AOP is allowed at average rate.
Average rate is = $\frac{\text{Total Tax}}{\text{Total Income}} \times 100$.

(iv) No rebate of tax if total income of such AOP does not exceed Rs. 2,50,000.

If Total income of any one or more partners/members of AOP exceeds Rs. 2.50,000, the AOP shall pay tax at MMR i.e. 30% on whole of its total income.

Share from such AOP shall be fully exempted while calculating individual income of partners. Partners are not allowed any rebate u/s 86. This has been explained in detail in part III of this book under the chapter 'Computation of Tax'.

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3. As a partner of firm assessed as firm assessed u/s 184.

The share received by an individual from a firm shall not be included in his total income irrespective of the fact, whether the firm has paid the tax or not. Any salary or other remuneration and interest on capital is taxable under the head Profits and Gains to the extent above remuneration and interest are allowed as deduction to the firm.

4. Share of income from firm assessed u/s 185.

Share of income received by a partner from a firm which has been assessed to tax u/s 185 as it has not submitted a copy of its instrument of partnership is fully exempted u/s 10(2A). The following sums received by partner from such firm shall also be exempted in the hands of the partner

- (a) Any remuneration, bonus, fees, commission etc.
- (b) Interest on loan/capital from such firm.

Note. The above exemptions are applicable because firm covered u/s 185 is not allowed to charge these items as expense.

5. As a shareholder of a company.

The gross amount of dividend received by an individual is to be included in his total income. The gross amount means, the net dividend received plus tax deducted at source. The shareholder is liable to pay tax on whole of his income from dividend i.e., the gross amount of dividend declared by the company. The assessee shall get credit of the tax deducted at source out of his final tax liability. The individual shall be entitled to the deduction as provided by the different sections of Income-tax Act.

With effect from assessment year 1998-99 dividend received from or declared or distributed by an Indian company on or after 1-6-97 shall be fully exempted and shall not form part of total income.

Note : Dividend from foreign company is fully taxable as income from other sources.

Incomes of Other Persons To Be Included In The Total Income Of An Individual

Under the provisions of section 60 to 64 of the Income-tax Act, 1961, in the following cases some incomes although accruing to other persons, but to prevent tax-evasions, are included in the total income of individual assessee.

1. Transfer of income without transfer of asset.

The income shall be included in the total income of transferor.

2. Revocable transfer of assets.

The income from such assets is also included in the total income of the transferor. If the asset is not revocable during the life time of the transferor, it shall be regarded as irrevocable transfer for this purpose.

3. Income of a minor child.

With effect from assessment year 1993-94 income of a minor from whatsoever sources shall be added in the income of that parent whose other income is higher. In case income is included in the income of one parent it shall always be included in the income of that parent. Income of a minor handicapped or mentally retarded child shall not be clubbed.

4. Income from assets transferred to the spouse, daughter-in-law by an individual

Without adequate consideration shall be included in the income of that individual. The relationship must exist on the date on which asset is transferred. On a particular date on which transferor and transferee have no relationship with each other, but subsequently such relationship is formed, the income from such asset shall remain to be the income of transferee.

5. Income from the assets transferred by an individual.

Where the assets are transferred by an individual in such a way that the benefits of assets accrue directly or indirectly to the spouse or minor child of the transferor, the income from such transferred assets shall be included in the total income of the transferor.

6. Share of income arising to spouse for being member of a trust or to minor child who is beneficiary under a trust.

The Finance Act, 1979 provides that any income arising to the spouse or minor child from a trust shall be deemed to be the income accruing indirectly to the spouse or minor child of such individual from the membership of the spouse to or from the admission of minor to the benefits of a firm in which such individual is partner.

Computation Of Tax Liability of Individual

After computing the total income, next step is to compute the tax liability. Detailed treatment of computation of tax and rates of tax are given in Chapter 5 part III of this book. Briefly these steps are :

Steps to compute tax liability of Individuals

1. Round off total income to the nearest multiple of 10.
2. Divide the total income into four parts
 - (a) Long term capital gain. Calculate tax at the rate of 20%.
 - (b) On short term capital gains on shares subject to STT—Calculate tax @15%.
 - (c) Winning from lotteries, puzzles, races, card games, gambling and

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betting. Calculate tax at the rate of 30%.

(d) Balance is total income which will be rounded off. Calculate tax at scheduled rates.

3. Tax calculated as above is added up.

4. Rebate u/s 87 A- In case of resident individuals, a rebate shall be allowed provided their total income does not exceed Rs.5,00,000. Rebate will be,

i) Rs.5,000

ii) Tax as calculated above, whichever is less

5. If total income of an individual exceeds Rs1 crore surcharge 15% of tax shall be added.

6. On the amount of tax calculated above, add

(i) Education cess @ 2% of tax and surcharge, if any.

(ii) Secondary and Higher education cess @ 1% of tax and surcharge, if any.

7. After adding surcharge and education cess following rebates are allowed

(a) Rebate u/s 86 for share from AOP :

(b) Relief u/s 89(1): For arrears

8. Balance is tax payable which will be rounded off to the nearest multiple of 10.

ASSESSMENT OF INDIVIDUALS

Ultimate tax liability of individual

1. Regular income tax payable as per normal provisions of IT Act or
2. Tax 18.5% on adjusted total income .

Whichever is higher.

II. ASSESSMENT OF HINDU UNDIVIDED FAMILY

Schools of Hindu law

1. Mitakshara School.

Under this school of law the male child acquires a right in the family property as soon as he is born in the family. As soon as a male child is born, the Hindu Undivided Family comes into existence. The father gets the status of 'Karta'—the manager of the family. On the death of father this status goes to eldest son in the family till partition of the property takes place. In this school of law, share of each member is not defined. No member can ask what his share is.

2. Dayabhaga School.

Under this school of law the male child does not acquire a right in the family property during the life time of his father. During the life time of the father, the income from ancestral property is included in his individual income. On the death of father, the coparceners get his definite share. Coparcenary comes into existence only on the death of the father if there are two coparceners at the time of death. In this school of law, even the females can become the members of the undivided family.

The coparcenary will come into existence even if there are female members, **i.e.**, widow and an unmarried daughter to succeed him. But if the father leaves only a son behind him, the son cannot form a coparcenary and he will be taxable as individual. Under this school of law, the concept of Hindu undivided Family comes into existence only on the death of father and remains into existence only up to the time of partition of common property.

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Assessment of Hindu Undivided Family.

The Hindu Undivided Family is a separate unit of assessment and is taxable through its manager or Karia. A single person, male or female, does not constitute a family. The following rules are to be observed while making the assessment of Hindu Undivided Family

1. Once a family is accorded the status of Hindu Undivided Family, it shall continue to enjoy this status till partition takes place and I.T.O. accepts the partition u/s 171.
2. The share of income received by a member of H.U.F. from the income of family is not to be included in his individual income being exempted in the hands of the coparcener of H.U.F. even though the family may not have paid the tax on such income.
3. The income received by a member from an asset which was previously owned by him but has been put into common pool of H.U.F. shall remain as his individual income.
4. Salary paid out of the fund of H.U.F. to a member is allowed as the legitimate expenditure of the H.U.F., if the member has rendered some service to the H.U.F. [Jugul Kishore Baldeo Sahai v. C.I.T. (U.P) Supreme Court 1966].
5. A member can carry on any business in his own name and the income from such business shall be included in his individual total income. It is immaterial that the funds were provided by H.U.F.
6. Jam and Sikh families are also treated as Hindu Undivided Families.

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7. A gift of property to the wife out of the family property is a bonafide transfer and as such income from such property shall belong to the wife.

8. On the death of manager, the succeeding manager— not the member of family or wife, shall be his legal representative.

9. In case any H.U.F. holds shares in a company and any loan is advanced to members of H.U.F., it will not be deemed as dividend u/s 2 (22) (e) because individual members are not shareholders of that company.

Partition of Hindu Undivided Family

Total Partition.

It means a physical partition of the property of the family, i.e. where property admits of a physical division. But mere division of the income from the family property without division of property shall not be considered as a partition.

In case property does not admit the physical division, such division as the property admits or mere severing of relationship shall not be considered as partition. If a joint family has come to an end, in fact and in law but no physical division of the property has taken place, the family will be deemed to continue as Hindu Undivided Family.

Partial Partition.

Where the joint family continues but only some properties are partitioned by physical division and other continue to be owned by Hindu undivided family. H.U.F. shall be assessable for the income of the properties still owned by it.

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Assessment on Partition.

In case I.T.O. is satisfied that the partition has taken place during the previous year and records his findings to this effect, in such an event the total income to the H.U.F. up to the date of partition shall be assessed in the hands of H.U.F. as if no partition has taken place. Each member of the family shall be liable jointly and severally for the tax liability of H.U.F.

Impartible Estate. In certain cases a person holds some property which is family property but is still not divisible among other members. The income from such property belongs absolutely to the person who holds it. The income from such property shall not be included in the total income of H.U.F. It will be included in the total income of individual who holds property.

Income not treated as family income

- I. Income earned by a member of H.U.F. in his individual capacity with his own efforts shall be his individual income.
2. Income of the father from property other than ancestral inherited property, shall be his individual income and not the income of H.U.F.
3. Income from impartible estate shall be the income of individual who holds it.
4. Income from a business carried on by a member of H.U.F. in his individual capacity is assessable in his hands. It is immaterial whether the capital for business was provided by the family.
5. Income received by a member of H.U.F. for acting as director of company in his individual capacity and when he is not representing H.U.F. is individual income.
6. On the death of father if there is sole surviving male member he will not constitute H.U.F. Instead he will be assessable as individual.
7. Income of a member received by way of profits from firm in which he is partner in

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his individual capacity shall be his own income.

Individual Income or Family Income

In case Karta of H.U.F derives some salary, commission etc. from company, firm etc. in which the funds of the family were invested, such remuneration received shall be taxed in the hands of the H.U.F. and not in the individual capacity of the Karta. It is contented in this case that the income is primarily earned by investing family funds on assets and the amount of personal efforts or services rendered by the Karta shall not alter character of the income. However, in case the circumstances of the case state that the remuneration received was for services rendered by him and there was no real and sufficient connection between the investment of family funds and the remuneration paid to manager, the remuneration received by the Karta shall be assessed as individual income of Karta and not that of the H.U.F.

ASSESSMENT OF AGRICULTURE INCOME

Need for Assessment of Agricultural Income

Agriculture is the main part of the Indian economy. 70% of Indian population is based upon agriculture and derives its income from agricultural operations. But u/s 10(1) of the Act agricultural income is fully exempted from tax. As a result agricultural income does not form part of total income. The agricultural income is exempted from tax as under Article 270 of Indian Constitution. Central Government cannot levy any tax on such income because agriculture is a State subject. In a case *J. Ragho Rama Reddy v. I.T.O.* (1988) 169 I.T.R. 174 (A.P.) it has been held that Parliament is not competent to tax agricultural income. The State governments are free to levy any tax on agricultural income.

Due to green revolution, the agricultural incomes increased and a demand was

raised to levy tax on agricultural incomes. A committee on taxation of agricultural income and wealth was set up under the chairmanship of Dr. K.N. Raj. This committee also recommended that agricultural income must remain exempted from tax. On the other hand, it suggested a system of integration of agricultural income with non-agricultural income in certain cases. From assessment year 1974-75, this scheme of assessment of agricultural income was introduced and which is known as present treatment or its assessment.

Tests To Determine Agricultural Income

The three basic tests which must be satisfied to treat a particular income as agricultural income are given below. It is essential that all the following three tests must be fulfilled

Test (A) —Income derived from land

It is essential that for any income to be termed as agricultural income land must be effective and source of income and not indirect and secondary. As a result, interest on arrears of land revenue, dividend paid by a company out of its profits which included agricultural income and salary paid to a manager for managing agricultural farms are not agricultural incomes because in all these cases land is not the effective and immediate source of income.

Test (B)—Land is used for agricultural purposes

To term any income as agricultural income, it is necessary that income must be the result of agricultural operations performed on agricultural land. Agriculture means performance of some basic operations—ploughing, sowing, irrigating and harvesting and some subsequent operations—weeding, digging, pruning cutting etc. It involves employment of some human skill, labour and energy to get some income from land.

Test (C)—Land is situated in India

To qualify for exemption u/s 10(1) of the Act, it is necessary that agricultural income must be derived from land situated in India. In case income is derived from agricultural land situated outside India or is from any non-agricultural land, it will not be exempted u/s 10(1). It is taxable income under the head “Income from other Sources.”

Types Of Agricultural Income

On the basis of definition of agricultural income given above, it can be classified into five broad categories. These types of agricultural incomes are :

1. Any income received as rent or revenue from agricultural land

Rent can very simply be defined as a payment in cash or in-kind which the owner of the land receives from another person in consideration of a grant of a right to use land. When the owner of land is not performing agricultural operations himself but gives his land on contract basis, any amount received from the actual cultivator by the owner of the land shall be agricultural income. Such rent may be in cash or in-kind, i.e., a share in the produce grown by the cultivator.

2. Income derived from Agriculture

Income derived from land situated in India by applying agricultural operations shall be agricultural income. If all the basic operations like preparation of land for sowing, planting, watering, harvesting etc. are applied, any income resulting from such operations shall be agricultural income. On the other hand, if grass, trees etc. have grown spontaneously or without the aid of human skill, effort, labour etc., any income resulting from the sale of such grass, trees or lease rent of such land shall not be agricultural income.

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3. Any income accruing to the person by the performance of any process to render the produce marketable

If, in the ordinary course, a process is to be employed by the cultivator himself or the landlord who receives the produce as rent-in-kind, any income derived from such a process shall be agricultural income. Such a process must be employed to render the produce fit for marketing. The process may be manual or mechanical. It should be noted that the produce should not change its original character in spite of the processing unless the produce cannot be sold in that form or condition.

Following points are to be noted in this connection :

- (a) The process must be one which is ordinarily employed by the cultivator.
- (b) The process is employed to render the produce fit to be taken to the market.
- (c) The produce must retain its original character in spite of process unless the produce is having no market if offered for sale in its original condition.

4. Any income received by the person by the sale of produce raised or received as rent-in kind

Any income derived by any person by the sale of agricultural produce raised by him or received as rent-in-kind shall also be agricultural income. Sometimes such person puts some extra effort by selling the produce through his own shop, any extra profit raised due to shopping activities shall not be agricultural income.

5. Income from buildings used for agriculture

Any income derived from a building used for agricultural operations shall be agricultural income, provided

- (a) The building from where the income is received is in the immediate vicinity of the

land and is occupied by the owner, or by the cultivator or by the receiver of rent-in-kind.

(b) Building is used as a dwelling house or a store house or other out-building. The cultivator or the receiver of the rent-in-kind, by reason of his connection with the land, is in need of the house as a dwelling house or as a house to store the goods required for agricultural operations.

(c) The land if assessed to land revenue in India or is subject to a local rate assessed and collected by officers of the Govt. and in case the land is not assessed to land revenue or to local rate, it should not be situated within the urban areas.

Partly Agricultural and Partly Non-agricultural Income

Sometimes, income comprises of both agricultural as well as non-agricultural income. Such a situation arises in case of certain 'Agro based industries where agricultural produce is used as raw material and it (i.e., raw material) is produced by the same person (i.e., industrialist) who manufactures industrial product by using such raw material. Such industries (i.e., persons), earn income by selling the industrial product manufactured from self grown agricultural raw material. For example, Mr. X is the owner of agricultural land in India and produces sugarcane by spending Rs. 2,00,000. Further, X set up an industrial undertaking to manufacture sugar from sugarcane so produced. Accordingly, he uses the whole quantity of sugarcane for producing sugar and spends Rs, 2,50,000 as industrial expenses. He ultimately sells the sugar so produced for Rs. 7,00,000.

In this case, the total income of Mr. X shall be calculated as follows :

$$\begin{aligned}\text{Total Income} &= \text{Sale proceeds of sugar} - \text{Cost of cultivation} - \text{Industrial expenses} \\ &= \text{Rs. } (7,00,000 - 2,00,000 - 2,50,000) \\ &= \text{Rs. } 2,50,000\end{aligned}$$

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The above total income of Mr. X is the composite income comprising of agricultural income and non-agricultural income. The income attributable to agricultural operations (i.e., raising of sugarcane) is agricultural income and the income attributable to industrial operations (i.e., manufacturing sugar from sugarcane) is non-agricultural income.

In such a situation, it becomes necessary to disintegrate (bifurcate) the two incomes because agricultural income is exempt from tax and non-agricultural income is taxable.

1. Rule 7—General Rule [Applicable to all except Tea, Coffee and Rubber]

As per Rule 7, while calculating non-agricultural income, the market value of the agricultural produce raised by the assessee or received as rent-in-kind and utilized as raw material, will be deducted out of the total profits (composite income) of such assessee and not the actual cost of cultivation. However, difference between the market value of such produce (used as raw material) and the cost of cultivation shall be treated as agricultural income. Then

Non-agricultural Income = Sale proceeds of industrial product (e.g., Sugar) - M.V. of agricultural used as raw material - Industrial Expenses

Note : . Cost of cultivation is not to be charged as expenses.

Agricultural Income = M.V. of Agricultural produce used as raw material - Cost of cultivation

2. Meaning of ‘Market Value’ [Rule 7(2)].

Market value means,

- (i) Average selling price in the relevant previous year, if the produce is ordinarily sold

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in the market.

(ii) If the agricultural produce is not ordinarily sold in the market, the total of followings shall be treated as 'market value' :

- (a) the expenses of cultivation;
- (b) the land revenue or rent of the land on which the produce is grown;
- (c) a reasonable amount of profit which in the opinion of Assessing Officer is considered proper.

3. Rule 7A—Growing and manufacturing of Rubber in India

Income derived from the sale of centrifuged latex or cenex or latex based crops.

In other words, first of all, Total Income/Composite income shall be calculated as follows:

Composite Income or Total Income = Sale proceeds of Rubber (i.e., Industrial product)
- Cost of cultivation (i.e., Agricultural expenses)
- Industrial expenses

Now, Agricultural income = 65% of composite income
and Non-agricultural income = 35% of composite income

Then, 35% of total income of such rubber industries will be chargeable to tax under the head 'Profit and Gains of Business or Profession.'

While computing such income, an allowance shall be made in respect of the cost of planting rubber plants in replacement of plants that have died or became permanently useless in an area already planted, if such area has not previously been abandoned. For the purpose of determining such cost, no deduction shall be made in respect of the amount of any subsidy which is exempt from tax u/s 10(31).

4. Rule 7B—Growing and manufacturing of coffee in India

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Any income derived by a person from selling coffee (in India) manufactured from self-grown coffee (in India) shall also be composite income comprising of agricultural income and nonagricultural income.

In such a case also, first of all total income/composite income shall be calculated as follows: Composite income or Total income = Sale proceed of coffee (i.e., Industrial product) - Cost of cultivation (i.e., Agricultural expenses)- Industrial expenses

TABLE - PARTLY AGRICULTURAL AND PARTLY BUSINESS INCOME

Crop	Rule	Agricultural Income	Business Income
Growing and Manufacture of Tea	8	60%	40%
Rubber manufacturing business	7A	65%	35%
Coffee grown and cured by seller	7B(1)	75%	25%
Coffee grown, cured, roasted and grounded by the seller in India with or without mixing chicory or other flavouring ingredients	7B(1A)	60%	40%

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What to Integrate?

- (a) **Non-agricultural Income.** It is the computed total income of assessee as per the provisions of Income-tax Act, 1961.
- (b) **Net Agricultural Income.** It is the agricultural income computed in accordance with the rules laid down under section 2(IA) of the Income-tax Act, 1961 and rules 7 and 8 of the Income-tax Rules 1962. These rules are
1. Rent or revenue derived from agricultural land will be computed on the same basis as adopted for computation of income under the head “income from other sources” under sections 57 to 59 of the ‘Income-tax Act’.
 2. Income derived from agricultural operations will be computed as if it is income chargeable to tax under the head “Profit & Gains of Business or Profession”. All the provisions of sections 30, 31, 32, 34, 36, 37, 38, 40, 40A, 41, 43, and 43A of this Act shall be applicable. Depreciation and loss on the death of animals used in agricultural operations are allowed as expenses.
 3. Income derived from agricultural house property will be computed as if such income is chargeable to tax under the head “Income from house property” and provisions of sections 23 to 27 shall be applicable.
 4. For computing share of income from tea business income as computed under rule 8, shall be considered to be agricultural income.
 5. For computing share of income or loss from the agricultural income of an AOP same rules are applicable as are provided in Income-tax Act for computing the share of profits or losses from an AOP.
 6. Loss incurred in agriculture will be allowed to be set off only against gains from agriculture. The share of loss of a member from an AOP shall not be allowed to

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be set off from his own agricultural income.

7. Any sum payable by the person on account of any tax levied by State Government on Agriculture will be allowed as deduction.
8. Where the net result of agricultural income from the various sources stated above in a particular previous year is loss, the loss will be disregarded and net agriculture income shall be taken to be nil.

When to Integrate?

- (a) Integration is done only in case of (i) Individuals, (ii) Hindu Undivided Families, (iii) Association of persons, (iv) Bodies of individuals, and (v) Artificial juridical persons.
- (b) Integration is done only if Non-agricultural income of all persons mentioned above exceeds exempted limits, [i.e., Rs. 1,50,000 in case of an individual, Rs. 1,80,000 in case of a female below the age of 65 years and Rs. 2,25,000 in case of a senior citizen in the relevant previous year.
- (c) Integration is done only if Net Agricultural income of all these persons exceeds Rs. 5,000 in the relevant previous year.

When not to Integrate?

- (a) Integration is not done in case of (i) firms ; (ii) Companies ; (iii) Co-operative Societies; and (iv) Local authorities.
- (b) No integration if Non-agricultural income of all persons mentioned earlier does not exceed Rs. 1,50,000, in the relevant previous year.
- (c) No integration if the Net agricultural income does not exceed Rs. 5,000 in the relevant previous year.

How to Integrate?

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1. Net Agricultural income is added with the Non-agricultural income if conditions given above are fulfilled.
2. Tax is calculated on this total at current rates of tax.
3. Net Agricultural income is added with the exempted limit. i.e. Rs. 1,50,000.
4. Tax is calculated on this total at current rates of tax.
5. Tax calculated at point (4) is deducted out of tax calculated at point (2) above.
6. On balance tax add surcharge @ 10% of such tax if non-agricultural income exceeds Rs. 10,00,000.
7. Add education cess @ 2% + Secondary and Higher Education cess @ 1% of such tax + surcharge, if any.
8. Total is tax payable.
9. Tax payable to be rounded off to the nearest multiple of ten

POSSIBLE QUESTIONS

PART - A (1 Mark)

(Online Examinations)

PART- B (8 MARKS)

1. Explain the procedure for computation of total income and tax liability of an individual.
2. Mr. X started construction of 3 equal and independent units of house property on 01.04.2012 and completed them on 28.03.2013. These were let out from 01.04.2013. The particulars are given below:

Nature of occupation self occupied let out for residence used for own Business

Rs.

Rs

Rs.

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Actual rent received	nil	84,000p.a	nil
Fair rental value	72,000	72,000	72,000
Municipal taxes			
a. Paid by owner	7,200 p.a	4,200p.a	9,000p.a
b. Paid by tenant	--	4,200 p.a	----
Ground rent Due	3,000 p.a	3,000 p.a	3,000 p.a
Land revenue due	3,600 p.a	4,200 p.a	4,500p.a

Land revenue was paid on 13.07.2017 (date of filing of return is 31.07.2017)

For construction of these units he took a loan of Rs.10,00,000 on 01.04.2014. Rate of interest is 12%. The total cost of construction of all these units is Rs.24,00,000. His business profit without debiting the expenses of unit III is Rs.1,80,500. Compute his total income in relation to previous year 2016-17.

3. The following details of income have been supplied by Karta of HUF. You are required to compute the total income and tax of HUF. It has deposited Rs.10,000 in PPF.

- i) Profit from business Rs, 1,92,000
- ii) Salary received by a member of HUF Rs.8,000
- iii) Directors fee received by Karta Rs. 6,000
- iv) Rental value of the property let Rs. 12,000
- v) Municipal Taxes Rs. 600
- vi) Bank interest Rs. 450

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4. Elaborate the general format for computation of total income and tax liability of HUF.

5. Mr.I.M. Verma is the manager of Punjab cotton mills ltd. He draws a salary of

Rs.20,000 p.m. his other items of income are:

- a. Interest on fixed deposits with Andhra bank Rs.10,800 and interest credited in the saving account in the bank Rs.2,000
- b. Winning from lottery Rs.60,000
- c. Dividends from on Indian company Rs.3,600
- d. Long term capital gain from the sale of his residential house occupied for the last 20 years, Rs.1,15,000. He purchased another house for his residence for Rs. 1,05,000 within four months of the transfer of his residential house.
- e. Short term capital loss Rs.10,000
- f. Long term capital loss from gold brought forward from the assessment year 2012-11 Rs.20,000

The following deductions are claimed

1. Life insurance premium (policy for Rs. 1,00,000)Rs. 14,500
2. Donation for Punjab university Rs.10,000

Compute his total income and tax payable for the assessment year 2017-18

6. 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 bungalow 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

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- 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.

7. X is the Karta of a HUF , Y and Z are his two major sons. From the following particulars, compute the total income and tax of HUF.

- (i) The HUF runs a business in cotton textiles. The net profit of the business was Rs.1,61,000 after charging Rs. 11,000 paid as salary to Y and Z for their help in running the business.
- (ii) Profit and loss account shows an entry drawing of Rs.20,000
- (iii) The assessee has failed to furnish satisfactory explanation regarding a deposit of Rs.20,000 in the name of X
- (iv) Remuneration received by Karta for acting as director of a company in which HUF holds shares worth Rs. 2 lakhs : Rs. 10,000
- (v) Interest on debentures received by HUF Rs.6,944 tax deducted at source Rs. 1,736
- (vi) Sale proceeds of a shop acquired in 1978, sold on 31.12.2016 for Rs.2,70,000. Fair market value on 1.4.81 estimated to be Rs.25,000 (CII for 1981-82 is 100 and for 2013-14 is 932 2016-17 is 1125)

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- (vii) HUF has paid Rs.12,000 as premium on the Life insurance policies of Y and Z for Rs.2,00,000.
- (viii) One of his major son is working as manager in a private limited company and is getting a salary of Rs.60,000 p.a.
- (ix) Deposited Rs.2,000 in PPF on the name of Z

8. The following are the particulars of the income of the Amrister university teacher during the year ending 31st March 2017

- l. Salary Rs. 40,000 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.
 - m. Wardnership allowance Rs.2000 per month
 - n. Income from house property (computed) Rs 29,560
 - o. He received Rs.3,500 for writing articles in a journal
 - p. He paid Rs.2,000 (by cheque) to GIC under mediclaim
 - q. Interest in postal savings bank deposit Rs.6,500
 - r. Interest gross Rs2,500
 - s. Examiner ship remuneration Rs.3,500
 - t. During the year, he sold shares of reliance industrial ltd and earned a long term capital gains of Rs.60,000
- Find out his total income, tax and exempted income. Population of Amristsar is 12 lakhs.

9. The following particulars have been submitted by Mr. Ram Lal in the capacity of Karta of a HUF for the assessment year

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- a. Profit from the family business Rs. 2,00,000 after charging an amount of Rs.60,000 given as salary to Karta's brother who has been activity participating in it.
- b. Salary income of Karta's another brother who is a manager in a cooperative bank, Rs.11,000 p.m.
- c. Directors fees received by Karta , Rs.5,000 (HUF holds 20% shares in this company)
- d. Bank interest Rs. 24,000
- e. Long term capital gain from the transfer of building Rs. 28,000
- f. Long term capital gain from the transfer of investments Rs. 28,000
- g. Donation to a college which is an approved institution , Rs.40,000
- h. Rental value of the property let, Rs.36,000, municipal tax paid in respect of the house, Rs.4,500. Interest on loan taken for repair of house is Rs. 12,000

You are required to calculate total income and tax liability of the family for the assessment year 2017-18

10. From the particulars given below compute the total income and tax payable of Mr Deb, a central government employee working at Chandigarh

1. 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.

2. He owns two houses, one of which is let out at a rent of Rs. 400 p.m. and other (whose annual value is Rs.1,000) remained vacant throughout the year on

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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.

3. During the year he sold shares of Hero Honda ltd. And earned a short term capital gain of Rs. 50,000 (STT paid)

4. 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.

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

11. The following details of income have been supplied by Karta of HUF . You are required to compute the total income and tax of HUF. It has deposited Rs.20,000 in PPF.

- a. Profit from business Rs. 3,50,000
- b. Salary received by a member of HUF Rs. 18,000
- c. Directors fee received by Karta Rs. 12,000
- d. Rental value of the property let Rs. 15,000
- e. Municipal Taxes Rs. 1000
- f. Bank interest on a fixed deposit Rs. 1,450
- g. Long term capital gain on transfer of building Rs.10,500
- h. Long term capital gain on transfer of investment Rs. 15,000
- i. Donation to a college which is an approved institution Rs.4,000

12. Discuss the deductions under section 80C of income tax Act.

13. The total income of an individual (45 years old) computed under the normal provisions of Income Tax Act is RS 1,00,000. However, the 'adjusted total income' of

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the individual [computed as per section 115JC(2)] amounted to Rs. 30,00,000.
Calculate the final Tax liability of the individual for Assessment Year 2017-18

14. The following particulars re given below by M.D. Mathur, Madras, in respect of his annual income for the year ended 31 st March 2017 :

- (i) Consolidated salary till 30-9-16 at rs 13,500 p.m. and after Rs 14,000 p.m.
- (ii) House rent allowance at 20% of salary.
- (iii) Actual house rent paid Rs 3,500 p.m.
- (iv) Contribution to recognized Provident Fund by self and employer- each 12% of salary.
- (v) Life Insurance Premium paid Rs 1,200. (Sum assured Rs 20,000 and policy taken on 1-4-2016).
- (vi) Leave Travel Allowance received Rs 22,700 was spent on travel to home district under LTC.
- (vii) Interest and dividend incomes :

	Rs
Interest on Term Deposits with Punjab National Bank	29,000
Income from units of Unit Trust of India	3,000
Interest on debentures of Ponds India Ltd	21,750
Dividend from a co-op. society	15,000
Interest on Govt. securities	13,000
- (viii) Long term capital gains 30,000
Short term capital gains on sale of shares (STT paid) 20,000
- (ix) Medical expenses incurred in private hospital for treatment of self and family Rs 5,000. His employer reimbursed Rs2,500.
- (x) Rent received from tenant of own house property Rs 9,600. Municipal taxes paid Rs 600.

Prepare Mathur's statement of income showing computation of taxable income giving such explanation as necessary and liability. Salary is due on last date of the month.

15. Dr . Singh is a practitioner. Besides his own practice, he works as a part-time physician in a private hospital for which he receives a monthly remuneration . He is also consultant – physician of ABC Co. Ltd. On a monthly retainer fee.

The doctor maintains a record of his receipts and payments and for the year ended 31 st March, 2017 the following information is abstracted therefrom :

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Receipts:	Rs
Consultation fee receipts	1,70,000
Gross remuneration from the private hospital	1, 30,000
Retainer fee from ABC Co. Ltd	24,000
Interest on bank fixed deposits (nationalized bank)	18,000
Long term capital gain on sale of shares (STT paid)	50,000
Short term capital gain on sale of shares (STT paid)	60,000
Payments:	
Rent and electricity charges for the clinic	17,000
Telephone charges	7,400
Printing and stationery	500
Car maintenance expenses	9,000
Wages of clinical assistant	6,600
Driver's salary	3,600
Life Insurance Premium	12,400

The written down value of the car purchased in January 1990 and the future at the clinic as on 1-4-2016 are noted to be Rs 40, 000 and Rs 2,000 respectively. 30% of the use of the car and the telephone is attributable to personnel and private purposes.

Prepare a statement showing the total income and tax payable of the doctor for the assessment year 2017-18.

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

- Basic salary Rs. 15,000 pm ;
- DA (given as the terms of employment) Rs 5,000 pm ;
- Entertainment allowance Rs. 1,000 pm ;
- Medical allowance Rs. 500 pm ;
- House rent allowance Rs. 4,000 pm ;
- Rent paid for the house Rs. 5,000 pm ;
- Car of 1.2 lt capacity provided by the employer for private and official use
employer meets all expenses of car.
- He and his employer (each) contribute 15% of salary to RPF.
- Mr. M had taken interest free loan of Rs. 15,000 to purchase refrigerator.

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Compute his income under the head salary for the assessment year 2017-18

17. 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 2016-17. He furnishes the following particulars of his income for the year ending 31-3-2015 and asks you to compute his total 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.

Also compute the tax liability.

18. What are the incomes not treated as family income while computing assessment of HUF?

19. State the deductions u/s 80 G of income tax Act.

20. Compute tax liability of an individual if total income of the family is Rs. 5,25,056

21. How do you compute the tax liability of an individual?

22. From the following information compute the total income of a HUF.

- a. Profit from business Rs. 1,00,000
- b. Salary received by a member of HUF Rs.8,000

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- c. Long term capital gain of Buildings Rs.9,500
23. Compute Alternate Minimum Tax if adjusted total income of an individual as per sec 115JC(2) is Rs.30,00,000.
24. The total income of a HUF. Computed under adjusted total income of the HUF u/s (115 JC 2) amounted to Rs.10,00,000. Calculate the tax liability as per Alternate Minimum Tax.
25. Bring down the procedure for computation of total income and tax liability of a HUF.
26. Compute tax liability of an individual if total income of Mr. V (age 85) is Rs.9,73,843.
27. List any four fully taxable allowances.
28. Compute tax liability if total income of an assessee is Rs. 5,70,000
29. What are the incomes not treated as family income of HUF?
30. Write down the format for computation of total income of an individual.

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Department of Commerce

Subject: INCOME TAX LAW AND PRACTICE- II

CLASS : III B.COM

Semester: VI

SUB CODE: 15CMU602

PART – A (ONE MARK)

POSSIBLE QUESTIONS - UNIT – II

QUESTION	OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
Every individual is liable to pay tax on his ----- --	Total income	GTI	Surplus	Net worth	Total income
While computing tax liability , total income is rounded off the nearest multiples of	100s	50s	10s	500s	10s
Give the full form of STT-	Security Transaction Tax	State Toll Tax	Share Transfer Tax	Security Transmission Tax	security transaction tax
Clubbing of income means-	Addition income of two partners	Inclusion of income of other person in assessee's income	Total of income of various heads	Collection of income	
Total income of an individual does not includes-	Foreign company dividend	Salary of a partner in a firm	Commission	Agricultural income	agricultural income
Gross total income means-	Sum of heads of income	Total income after deducting deductions	Income on which tax calculated	total income	sum of heds of income
. Sum of various heads called-	Taxable income	Total income	Gross total income	Adjusted income	gross total income
The tax rate of long term capital gain is-	10%	15%	20%	25%	20%
The income tax rate on STCG on shares sold through stock exchange is-	10%	15%	20%	25%	15%

Tax deducted on lottery is-	20%	25%	30%	35%	30%
Education cess is calculated on-	Total income	Tax on total income	Taxable income	Agricultural income	tax on total income
Rate of education cess on total income is-	2%	3%	2.50%	4%	2%
Minimum age for super senior citizen is-	65	70	75	80	80
Items are taxed at special rates-	Long-term capital gains	Short -term capital gains on shares	Lottery & horse race	All of above	all of above
This is rounded off for tax purpose-	Total income	Gross income	Net income	Agricultural income	total income
Rebate u/s 87A shall be	Rs.3,000	Rs.2,000	Rs.1,000	Rs.500	Rs. 2,000
If total income of an individual exceeds Rs. 1 crore surcharge at ----- of tax is to be charged	5%	10%	15%	20%	10%
Tax payable will be rounded off to the nearest multiples of	10s	50s	100s	500s	10s
The provision of alternate minimum tax shall be applicable to an individual whose adjusted total income exceeds ----	Rs. 5,00,000	Rs. 10,00,000	Rs. 15,00,000	Rs. 20,00,000	Rs. 20,00,000
Rate of tax for adjusted total income is @	15.80%	16.80%	18.50%	16.50%	18.50%
The types of partition of a HUF includes-	Complete	Partial	A AND B	Not allowed	A and B
Partial partition in HUF affected after which year is not recognized for tax purpose -	31 march, 1960	31 march, 1970	31 march, 1978	31 march, 1982	31st March 1978
What is the place of Karta in HUF-	Major member	Minor member	Male member only	any one of above	Major member
Interest of member in HUF is decided by-	Hindu law	Indian constitution	Muslim law	Income tax authority	Hindu Law
Tax-free limit to HUF is-	1,00,000	1,60,000	1,80,000	1,90,000	1,00,000

Under which section HUF is not entitle to deduction from GTI-	80C	80G	80E	80DD	80C
Who is liable to pay tax in HUF-	Karta	Coparceners	Minor member	None of the above	Karta
Income included in the income of family-	Only family business income	Only ancestral property income	Income from other head except salary	Karta's income	Only family business income
Income tax is a -----	direct tax	indirect tax	business tax	not a tax	direct tax
The sum of five heads of income is called -----	Gross total income	net total income	total income	exempted income	gross total income
Employer contribution to Recognized provident fund shall be -----	fully exempt	fully taxable	exempt upto 12% p.a	exempted upto 15% of salary	exempt upto 12% of salary
Interest credited to Recognized Provident fund shall be -----	Fully exempt	fully taxable	exempt upto 9.5% p.a	.Exempted upt 14% of salary	exempt upto 9.5 % of salary
Children education allowance is exempted upto ----- per child upto the maximum of two children.	Rs.100p.m	Rs.200 p.m	Rs.300 p.m	RS. 400 pm	Rs.100 p.m.
Hostel expenditure allowance is exempted upto ----- per child upto the maximum of two children.	Rs.100p.m	Rs.200 p.m	Rs.300 p.m	Rs.400 pm	Rs.300 p.m.
Annual rental value minus municipal taxes = -----	Gross rental value	Net annual value	Fair rental value	MRV	Net annual Value
Allowable standard deduction from net annual value u/s 24 is --- -----	30%	40%	50%	60%	30%
In house property income , joint expenses will be apportioned on the basis of -----	FRV	ARV	MRV	ERV	MRV
Income received as rent from sub letting would be taxable under the head -----	Other sources	House property	Business income	Capital gain	other sources
House used for the assesses own business,	Let out property	nil	Self occupied	full	Nil

then the annual value is taken as -----			property.		
If loan is taken for construction on or after 1-4-99 and construction is completed within 3 years, the allowable deduction will be -----	Rs.30,000	Rs1,50,000	Rs.1,80,000	Rs.1,50,000	Rs.30,000
----- refers to those activities where the livelihood is earned by the person through their intellectual or manual skill.	Business	Trade.	Profession	none	business
Rate of depreciation on neon sign board is @ ----	10%	15%	20%	40%	10%
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
Expenses allowed as deduction for the purpose of computation of income from business or profession are -----	Admissible expenses	Inadmissible expenses	Not an expenses	none	inadmissible expenses
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
Income tax wealth tax and advance income tax are -----	disallowed expenses	Allowed expenses	Deductions	rebate	deductions
Cultivation expenses are -----	disallowed expenses	Allowed expenses	Deductions	rebate	allowed expenses
What is the maximum income tax rate for H.U.F?	10%	20%	30%	40%	
The cost inflation index number of the previous year 2014-15 is -----	447	859	939	1024	1024
A capital asset held by an assessee for not more	Short term capital asset	Long term capital asset	medium capital asset	total capital gain	Short term capital

than 36 months immediately preceding the date of transfer is called as -----					asset
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
In case of short term capital asset -----	No indexing	to be indexed	Conversion required	none	No indexing
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
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
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
Interest on securities after deducting the tax at source is -----	Net interest	Gross interest	Total interest	Net worth	Net interest
Interest on securities before deducting the tax at source is -----	Net interest	Gross interest	Total interest	Nil value	gross interest
Adjustment of any loss against any income with the previous year is called as ----- of losses	Set off	Carry forward	Both	none	set off
Speculation loss can be set off from -----	Speculation gain	capital gain	Business income.	salary income	Speculation gain
Short term capital loss can be carried forward for -----	4 years	8 years	12 years	4 years	8 years

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UNIT: III – Assessment of Firms and Association of Persons

Unit –III

Syllabus

**Partnership firms and Association of Persons: Assessment of Partnership Firms –
Assessment of Association of Persons – Deductions allowable from Gross Total
Income in respect of certain Receipts and Payments**

ASSESSMENT OF FIRMS

Meaning and definitions of partnership:

Partnership gets the same meaning as defined in Section 4 of the Indian Partnership Act 1932. Partnership firm is taxed as a separate entity. There is no difference in calculation for registered firms and unregistered firms. A partnership firm should submit its partnership deed in the first year of its assessment and later on only when there is any change in the terms and constitution of partnership.

The terms ‘Partnership’, ‘Partner’ and ‘Firm’ as defined under section 2 (23) of Income Tax Act, have the same meaning as assigned to them in the Indian Partnership Act, 1932.

Section 4 of the India Partnership Act has defined the word ‘Partnership’ as “the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all”.

From this definition, the following points emerge

- (a) That partnership is an association of two or more persons.
- (b) There must be an agreement entered into by all persons.
- (c) The agreement is to carry on some business.
- (d) The business to be carried on by all or by any one of them acting on behalf of all and for the benefit of all.
- (e) The agreement is to share the profits and losses of business.

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The term ‘partner’ is defined as any person who has entered into partnership. Partners entering into a contract with one another are called individually as partners and collectively ‘a firm’ and the name under which their business is carried on is called the firm’s name. The word ‘partner’ shall also include any person who, being a minor has been admitted to the benefits of partnership.

The term ‘firm’ means the entity which comes into existence as a result of partnership agreement.

A. FIRM IS TO BE ASSESSED AS FIRM [SECTION 184]

A firm shall be assessed as firm for its assessment under this Act if —

A partnership is evidenced by an instrument, and

The individual shares of the partners are specified in that instrument.

Instrument of partnership.

It is the written partnership agreement entered into by partners. It has to be signed and certified by all the existing partners (except minors). In case firm has been dissolved before filing of return of income—it should be signed by all those persons who were partners in the firm immediately before its dissolution and in case partner has died the instrument must be signed by his legal representatives immediately before its dissolution as in case partner has died the instrument must be signed by his legal representatives.

Instrument of partnership is to be submitted

The Section 184(2) of the Act provides that a certified copy of the instrument of partnership must accompany the return of the income of the firm of the previous year relevant to the assessment year 1993-94 or the assessment year in respect. of which assessment as a firm is first sought.

Change in Constitution

When a firm is assessed as firm for any assessment year it shall be assessed in same capacity for every subsequent year unless there is change in the constitution of firm or in the share of partners as evidenced by the instrument of partnership submitted along with return for first assessment. [Section 184(3)]. In case any change has taken place during the previous year the firm shall furnish a certified copy for the previous year in which such change takes place. In such case the firm will continue to be assessed as firm. [Section 184(4)]

Meaning of Change in Constitution [Section 187]

In following two circumstances a change can occur in the constitution of firm:

- (a) If one or more of the partners cease to be partners (one or more partners quit or retire from the firm) or one or more new partners are admitted but one or more of the old partners are still continuing with the firm after the change.
- (b) Where all the partners continue with a change in their respective shares or in the shares of some of them. In other words, if during the previous year one or more partners but not all have retired or one or more partners have joined the partnership or there is a change in the profit sharing ratio of the partners, it amounts to a change in the constitution of the firm.

Succession of One Firm by Another Firm (Sec. 188)

When a firm is succeeded by another firm it results into the finishing of the firm or predecessor firm gives birth to a new firm. As it is not covered by section 187, so separate assessments shall be made on the predecessor firm on its income earned before the transfer of ownership and the successor firm shall be assessed on its income after the transfer. of ownership.

Liability of partners for tax payable by firm [Section 188A]

It is the joint as well as several liability of all those persons who were partners of the firm during relevant previous year or in case of death of a partner their legal representatives to pay the amount of tax, interest or penalty or other sum payable by the firm for the relevant assessment year under all the provisions of this Act.

Firm Dissolved or Business Discontinued

Where any firm is dissolved or business discontinued, the firm shall be assessed by the Assessing Officer on its total income as if no such discontinuance or dissolution had taken place. The notices . may be issued in the name of the dissolved firm and the assessment be made in the name of the discontinued firm. [Section 189(1)]

In case during the proceedings before Assessing officer, or the Deputy Commissioner (Appeals) or the Commissioner (Appeals) the firm is found guilty of any acts as given u/s 271 to 275 the penalty can be imposed on such firms. [Section 189(2)]. Every person who at the time of such discontinuance or dissolution was a partner of the firm, or the legal representative of any such person who is deceased, shall be jointly and severally liable for the amount of tax, penalty and any other sum payable under the provisions of this Act. [Section 189(3)]

Where such discontinuance or dissolution takes place after any proceedings in respect of an assessment year have commenced the proceedings may be continued for the persons referred above from the stage at which they stood at the time of such dissolution or discontinuance. [Section 189(4)]

Book Profit

‘Book Profit’ means the net profit of the firm calculated after taking into account all provisions provided in sections 28 to 44D. While calculating book profit, following points

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are to be kept in mind.

- (i) First of all find out the profit as per given in the Profit and Loss Account.
- (ii) Deduct all other incomes credited to P & L A/c but are to be treated under other heads of incomes.
- (iii) Add all payments or remunerations like salary, commission etc. given to all partners of the firm if already debited to P. & L. A/c.
- (iv) Add interest on capital given to all partners in excess of 12%.

Any interest on drawings charged by the firm from its partners shall be treated as 'Business Income' of the firm. It shall not be adjusted against interest on capital paid to that partner or to any other partner.

A) Deduction on Account of Interest to Partners on Capital

Though, any amount of interest can be paid to the partners on their capital and can be booked as business expenditure but as per Indian Income Tax Act, interest is allowed only at the rate of 12% per annum. It means if the interest is paid more than this permissible limit, the extra payment will be disallowed while calculating the income of partnership firm.

B) Salary & Other Remuneration to the Working partners

Partnership is an independent entity and is run by the partners. Therefore, the working partners are entitled for remuneration by way of salary, commission, bonus or whatever name called. Though, any amount can be given to partners as remuneration and can be booked in profit and loss account but for income tax purpose, there are certain restrictions in respect of remuneration paid to partners, according to Indian Income Tax Act. These restrictions are defined below:-

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Particulars	Remuneration Allowed
In case of loss before booking the partner's remuneration.	Maximum of Rs.150000/=
For the first Rs.300000/= of book profit	90% of the book profit or Rs.150000/= which ever is more
On the balance of book profit	60% of book profit

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Notes:-

1. Remuneration will be allowed to working partners only.
2. Remuneration must be according to partnership deed only.
3. Book Profit means profit before remuneration to partners and interest paid on capital in excess of 12% per annum.

Rates of Income Tax for Partnership Firm for financial year

- Partnership firms shall be taxed at flat rate 30%.
- Long Term Capital gain shall be taxed @ 20%.
- Short Term Capital gains from shares, mutual funds subject to Security Transaction Tax, shall be taxed @ 15%.
- Surcharge is payable for financial year 2017-18 @ 10% in case of firm having its total income above Rs, 1 crore.. The rate of surcharge is 12% for financial year 2017-18.
- Education Cess will be charged @ 2% on Income tax plus surcharge payable.
- Secondary & Higher Education Cess will be charged @ 1% on Income Tax plus surcharge payable.

Filing of Income Tax Return by Partnership Firm

Partnership firm will have to file income tax return irrespective its income.

Assessment of Income of Partners

Any amount of interest, salary, commission, bonus and other remuneration, received by the partners from partnership firm, shall be shown by the partners under the head of “Income from business or profession”.

Note:

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1. Salary received from partnership firm shall not be shown by partner under the head “Income from Salary”.
2. Any expenditure incurred by partner in respect of arranging money for his capital or loans to firm, shall be deducted from his income. For example interest paid by partner for borrowed money for investing in partnership firm.
3. Any interest, salary, remuneration, commission or bonus which is disallowed at the time of calculation of income tax of partnership firm, shall not be added in the income of partners.
4. Any share of the partner in the income of firm shall be fully exempt from income tax.
5. In case of share of loss from partnership firm, can not be set off against any other business income of partner. It is simply ignored.
6. Partnership firm is not liable to deduct the tax at source on interest on capital, salary, bonus, commission and remuneration paid to partner. However, the partners are liable to pay advance tax on the remuneration or interest etc, received by them from partnership firm, if payable.

Partner’s share of profit in the firm (exempt from income tax)

The share of profit from partnership firm is tax free in hands of partner and no tax shall be paid on it. The logic of non-payment of income tax by partners on their share from taxable income from partnership firm is that the firm has already paid income tax on that amount and that is the highest income tax slab under all categories of the income tax payers and also to avoid the double taxation of income.

Note: Income of partners only includes only the allowed payment to partners only.

B. ASSESSMENT OF FIRMS U/S 185

Computation of firm's business income

When a partnership firm has not submitted a copy of its partnership deed duly signed by all partners it is assessed u/s 185 in following manner

I. Computation of business income

- (i) It is computed in the same manner as under the head 'Profits and Gains'.
- (ii) Any payment to a partner under whatsoever name it is disallowed.
- (iii) Rent paid to a partner for the premises used by firm is allowed.
- (iv) Partnership deed expenses are disallowed.
- (v) In case interest on capital is paid to partners it is fully disallowed. Any interest on drawings received from partners is deemed as income of the firm and is fully taxable
- (vi) Remuneration paid to partners u/s 40(b) is not allowed.

II. Computation of total income

- (i) Income is to be calculated headwise.
- (ii) Firm cannot have any income under the head 'salaries'.
- (iii) Firm can have house property, which is let out but not a self occupied one.
For let out house property income is to be computed in the same manner as is given under the head Income from House Property.
- (iv) Profits and Gain from business or profession are to be computed in the same manner as given earlier in this chapter.
- (v) Capital Gains are to be computed in the same manner as given under the head "Capital Gains" but exemptions u/s 54, 54B and 54F are not allowed.
- (vi) Income from other sources is to be computed in the same manner as is given under the head "Income from other sources".
- (vii) Set off of losses is to be done as per rules given u/s 70 and 71 of the Act.

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The carry forward of losses is also to be done.

(viii) Deductions out of Gross total income : A firm can claim following deductions

u/s 80G for donations

u/s 80 GGA for contribution to certain funds

u/s 80 GGB for donation to political parties

u/s 80 IA for infrastructure project

u/s 80 JAB for setting up industry in Special Economic Zones

u/s 80 IB for new industrial undertaking

u/s 80 IC for setting up industry in backward states

u/s 80 JJA for use of bio waste, and

Firm is not allowed any other deduction.

III. Computation of firm's Tax

- (a) It pays tax at flat rate of 30% with no exemption limit.
- (b) On long term capital gain rate of tax is 20%.
- (c) On short term capital gain on securities covered under STY rate of tax is 15%.
- (d) On winnings from lotteries, crossword puzzle, races, card games, gambling and betting rate of tax is 30%.
- (e) Surcharge is added @ 10% of tax as calculated above only if total income of the firm exceeds Rs. 1 crore. So no surcharge, if total income does not exceed Rs. 1 crore.
- (f) It is further increased by education cess @ 2% of tax and surcharge plus Secondary and Higher education cess @ 1%.

IV. Treatment of Share of Income from firm

It is fully exempted from tax u/s 10(2A) and as such is not added in individual income of partners.

V. Treatment of remuneration and interest received from firm

It is not added in individual income of partners.

COMPUTATION OF AOP'S BUSINESS INCOME

[ASSESSMENTS OF 'ASSOCIATION OF PERSONS']

Upto assessment year 1992-93 the Income-tax Act 1961 provided for treatment of two types of firms— Registered under Income-tax Act as regd. Firm and not registered under income-tax Act as Unregistered firm. But with effect from assessment year 1993-94 the Act provides only one type of firms—firms assessed as firm u/s 184. All other such entities are to be treated as A.O.P. Hence a firm which is not assessed as firms u/s 184 will be called as P.F.A.O.P. and treated alike for assessment purposes.

While calculating the business income of A.O.P., the provisions as given u/s 28 to 44 in chapter Profits & Gains of Business or Profession I and II (See. Part II of this book) are applicable. Section 40 (ba) lays down following rules disallowing payment of interest, salary, bonus, commission or remuneration by what ever name called:

- (a) In case an A.O.P. makes payment of any interest, salary, bonus, commission or remuneration by whatever name called, such payments are fully disallowed.
- (b) In case any interest is paid to a member of firm assessed as AOP and some amount of interest is received from such member, only difference is disallowed.
- (c) In case an individual is a member (member in representative Capacity) A.O.P. on behalf of or for the benefit of any other person (person so represented)

(i) Interest paid by firm assessed as AOP to such individual, or by such individual to firm assessed as AOP otherwise than in representative capacity, the above clauses (a) and (b) shall not be applicable.

(ii) Interest paid by a firm assessed as AOP to such individual or by such individual to or firm assessed as AOP in representative capacity classes (a) and (b) shall be applicable.

- (d) In case an individual is member of firm assessed as AOP on behalf of another person

but not in representative capacity, interest paid to him will not come under the classes (a) and (b) above.

Computation of AOP's Total income"

(i) Income of A.O.P. is calculated head wise. It cannot have any income under the head "Salaries".

(ii) In case of house property rules given under the head "Income from House Property" are applicable. It cannot have self occupied house.

(iii) Profits & Gains from Business or Profession are to be computed in the same manner as given earlier in this chapter.

(iv) Income under the head "Capital Gains" is to be computed in the same manner as given in the chapter Capital Gains but exemptions u/s 54, 54B and 54F are not allowed.

(v) Income from other sources is to be computed in the same manner as given under the head "Income from other Sources".

(vi) Set off and carry forward and set off of losses is to be done as per provisions of section 70 to 74 of the Act.

(vii) Deductions u/s 80 can be claimed.

The deductions which can be claimed by P.F.A.O.P. are u/s 80 G, u/s 80 GGA, u/s 80 HHB, u/s 80 HHC, u/s 80 HHD, u/s 80 HHE, u/s 80 IA, u/s 80 IB, u/s 80 JJA, and u/s 80 0. Other deductions u/s 80 are not allowed.

Rates Of Tax For PFAOP/AOP [u/s 167B]"

A. Where shares of members of PFAOP/AOP are not known or are indeterminate:

1. In case PFAOP/AOP (excluding a company, a co-operative society or a society registered under Societies Act 1860) where shares of its members are not known or are indeterminate and it does not have any such member whose income is taxable at a rate higher than MMR (Maximum Marginal Rate)—the total income of such PFAOP/AOP

shall be taxable at MMR i.e. 30.00 %.

2. In the above case if PFAOP/AOP has any member whose individual income is taxable at a rate higher than MMR—the total income of such PFAOP/AOP shall be taxable at such higher rate.

B. Where shares of members of PFAOP/AOP are known or are determinate:

1. In case total income [excluding share from PFAOP/AOP] of any member of PFAOP/AOP does not exceed the exempted limit—the total income of such PFAOP/AOP shall be assessed to tax at same rates as are applicable to an individual.

2. In case total income of any member of PFAOP/AOP exceeds the exempted limit—the total income of such PFAOP/AOP shall be assessed at MMR.

3. In case PFAOP/AOP has any member whose total income (in case of companies only) is taxable at a rate higher than MMR, the total income of such PFAOP/AOP shall be split up in two parts—

(i) The share of income of the member whose income is assessable at a rate higher than MMR, this part of total income of PFAOP/AOP shall be taxable at such higher rate. –

(ii) And balance total income of PFAOP/AOP shall be assessed to tax at MMR.

Allocation Of P.F.A.O.P's Total Income

1. (a) Any interest, salary, commission or other remuneration paid to any member in respect of the previous year, shall be deducted from the total income of the P.F.A.O.P. and the balance ascertained is apportioned amongst the members in the profit sharing ratio.

(b) In case any interest on capital is paid to partners and interest on drawings is

received from partners, only difference of these two is to be allocated.

(c) Where the amount apportioned to the member is a profit, any salary, interest, commission or other remuneration paid to the member by the P.F.A.O.P. shall be added to that amount (profit apportioned) and the total of all these amounts shall be treated as that member's share in the Income of the P.F.A.O.P.

(d) Where the amount apportioned comes to be a loss, any salary, interest, commission or other remuneration paid to the partners of the P.F.A.O.P. shall be adjusted against the amount of loss so apportioned. If after the adjustment the result is positive, it shall be treated as the members share in the income of the P.F.A.O.P.

(e) P.F.A.O.P's tax is not to be deducted out of total income for allocation purposes.

2. The share of a member whether income or loss as computed under sub-section (1) shall, for the purposes of assessment, be apportioned under the various heads of income in the same manner in which the income or loss of the P.F.A.O.P. has been determined under each head of income.
3. Any interest paid by a partner on capital borrowed by him for the purpose of investment in the P.F.A.O.P., shall be deducted from the share of his income computed under the head 'Profits and Gains' of business or profession. –

Treatment of Share of Income Received By Members Of P.F.A.O.P. "

The share of income received by a member from a P.F.A.O.P. shall be treated as under

1. In case a firm assessed as AOP is chargeable to tax on its total income at maximum marginal rate or any other higher rate, the share of members firm such firm assessed as AOP shall not be included in their individual income. It happens only when shares of members are unknown or indeterminate.
2. In case share of members of firm assessed as AOP are known or can be

determined, the share received by members from such firm assessed as AOP shall be fully added in their individual income.

In case no income-tax is payable on firm assessed as AOP's total income, the share of income of members of such firm assessed as AOP shall be fully added in their individual income.

Rebate of Tax u/s 86

1. In case total income of PFAOP/AOP is not taxable at MMR or any other rate higher than MMR—the share of income of a member of PFAOP/AOP shall be added in his total income and shall be eligible for rebate of tax at average rate on such share.
2. In case total income of PFAOP/AOP is taxable at MMR or a higher rate —the share of income of a member from such PFAOP/AOP shall not be included in the total income of such member.
3. In case total income of PFAOP/AOP (which does not have any member whose individual income exceeds Rs. 50,000) is not taxable at all—the share of income of a member from such PFAOP/AOP shall be fully added in the individual income of such member and is fully taxable. No rebate of tax in this case.
4. The term average rate of income-tax means the rate computed in following manner [Section 2(10)] :

$$\text{Average rate} = \frac{\text{Total Income Tax} \times 100}{\text{Total Income}}$$

Ultimate tax liability of AOP/ BOI

1. Regular income tax payable as per normal provisions of IT Act or
2. Tax @ 18.5% on adjusted total income

Whichever is higher

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 disease or ailment 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**).

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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**.

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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 **five 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

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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

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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

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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

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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.

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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. Individual/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

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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 Central 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 assesseees [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).

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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;
- (vi) An approved university/educational institution of National eminence;
- (vii) The Maharashtra Chief Minister's Relief Fund
- (viii) Chief Minister's Earthquake Relief Fund, Maharashtra;
- (ix) Any fund set up by the State Government of Gujarat exclusively for providing relief to the victims of earthquake in Gujarat;

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(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.

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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 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).

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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 assesseees:

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];

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6. Any sum paid to a rural development 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 trust.

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.

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POSSIBLE QUESTIONS

PART - A (1 Mark)

(Online Examinations)

PART- B (8 MARKS)

1. Explain the deductions u/s 80 of Income tax Act .
2. Discuss the provisions regarding computation of total income and tax liability of a firm.
3. B, N and A are partners of a firm assessed u/s 185 sharing profit and loss equally. The following is the profit and loss account.

PROFIT AND LOSS ACCOUNT

RS		RS	
Sundry expenses	22,000	Gross profit	22,000
Office expenses	3,000	interest on securities(Gross)	3,000
Rent of premises	1,000	Net loss	
Commission to N	2,000	B	7,000
Interest on capital		N	7,000
B	3,000	A	7,000
N	3,000		
A	3,000		
Salary to B	6,000		
Charity	1,000		

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Advertisement expenses	2,000	
	-----	-----
	46,000	46,000
	-----	-----

Calculate the total income of the firm.

4. Given below is the profit and loss account of shri Rajaram for the year ended 31.03.2017.

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Dr.			Cr.
To salaries	7,000	By Gross profit	50,000
To drawings	8,000	By interest in post office saving	
To insurance premium on his life	1,000	bank account	100
To depreciation	4,500	By proceeds from life insurance	
To donations	500	policy	6,900
To general expenses	2,600	By interest on bank deposits	3,600
To education expenditure on his three			
Dependent sons in England	6,600		
To provision for doubtful debts	1,500		
To income tax	2,000		
To rent	1,700		
To net profit	25,200		
	-----		-----
	60,600		60,600
	-----		-----

Compute his taxable income for current assessment year after taking the following information into consideration:

- The amount of depreciation allowable is Rs.4,00
- General expenses include Rs.600 for his private expenses.

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5. A firm which consists of P,Q,R as partners has submitted its authenticated copy of partnership deed to the assessing officer along with its return submits following information.

- a. Net profit as per profit and loss account Rs.90,000 after debiting the following

Salary To P	1,20,000
Salary to Q	60,000
Interest on capital @ 15%	
To P	19,000
To Q	9,500
To R	7,600

Donations to National foundation for communal harmony 4,000

- | | |
|--------------------------------------|--------|
| b. Interest on government securities | 15,000 |
| c. Income from house property | 24,000 |
| d. Interest on bank deposit | 6,000 |

Compute firms total income if the instrument of partnership provides for payment of salary to P Rs. 1,20,000 and Q Rs.60,000. Also compute firms tax for the assessment year 2017-18 and partners income taxable under the head profits and gains.

6. The profit and loss account of a firm in which the partner X,Y and Z share profits and losses in the ratio of 5:4:1 respectively discloses profit of Rs.80,525 for accounting year ending 31st March 2017

Debits	RS	Credits	RS
Donation to National		Capital gain on sale of scrap	
Defence fund	11,000	Machinery	5,000

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Salary to Partners		Interest on debentures (after	
X	RS.15,000	deductions of tax at source	
Y	RS.19,000	Rs. 5,000)	20,000
Z	RS.22,000	56,000	Interest on securities (Gross) 3,500
Commission to X	6,000		
Office rent (paid to Y)	12,000		

Compute the total income of the firm for the assessment year 2017-18
The form has submitted certified copy of instrument of partnership along
with return and it provides for payment of salary, commission to working
partners X,Y and Z as per above.

7. Discuss the deductions allowable from gross total income in respect of total
income.

8. A, J and R are partners in a firm covered u/s 185 sharing profits and losses in the
ratio of 5:3:2 profit and loss account for the year ending on 31.3.2017 was as
follows

Profit and loss account

Particulars	RS	Particulars	Rs
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To rent and taxes	6,000	By Gross profit	40,000
To salaries	9,000	By interest on securities	3,000
To electric charges	1,200		
To interest on capital			
A	2,000		
J	1,500		
R	1,000		
To depreciation	2,500		
To reserve for bad debt	500		
To interest on loan from john	300		
	1,000		
To commission to Rahim	9,000		
To balance	5,400		
A	3,600		
J			
R			
	43,000		43,000

a. Salary includes Rs.2,000 paid to Rahim

b. Depreciation allowance amounts to Rs.2,400

Compute the business income of firm.

9. Mr.R. and Mr. Z are the members of an AOP sharing profits and losses equally. During the year ending 31.03.2017 total income of AOP was Rs.2,70,000. The details of individual incomes of its members are given below:

Mr.R -Rent from house property 60,000

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Interst on deposits with HDFC

66,000

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Mr.Z (Age 67years) - Pension from Govt. -1,60,000

Interest accrued on NSC VIII issue 10,600

Interest on govt. securities 16,000

Compute the tax liabilities of AOP and its members.

10. B, N and A are partners of a firm assessed u/s185 sharing profit and loss equally.

The following is the profit and loss account.

PROFIT AND LOSS ACCOUNT

	RS		RS
Sundry expenses	22,000	Gross profit	22,000
Office expenses	3,000	interest on securities(Gross)	3,000
Rent of premises	1,000	Net loss	
Commission to N	2,000	B	7,000
Interest on capital		N	7,000
B	3,000	A	7,000
N	3,000		
A	3,000		
Salary to B	6,000		
Charity	1,000		
Advertisement expenses	2,000		
	-----		-----
	46,000		46,000
	-----		-----

Calculate the total income of the firm.

11. Write the list of deductions under 80 C of Income Tax Act 1961.

12. Write the rules in respect of deduction u/s 80G

13. Mr. A got medical insurance of all family members and paid premium in the previous year 2016-17 as under:

(i) Medical insurance of self paid by cheque Rs.12,000.

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- (ii) Medi – claim premium of wife paid in cash Rs.5,000.
- (iii) Medical insurance premium of 16 years old son paid by cheque to a private insurance company approved by Insurance Regulatory and Development Authority Rs.5,000.

14. Write any fifteen deductions under Income tax Act 1961.

15. A firm which consists of A,B, C as partners has submitted its authenticated copy of partnership deed to the assessing officer along with its return submits following information.

- a. Net profit as per profit and loss account Rs.90,000 after debiting the following

Salary To A	1,20,000
Salary to B	60,000
Interest on capital @ 15%	
To A	19,000
To B	9,500
To C	7,600

Donations to National foundation for communal harmony 4,000

- b. Interest on government securities 15,000
- c. Income from house property 24,000
- d. Interest on bank deposit 6,000

Compute firms total income if the instrument of partnership provides for payment of salary to A Rs. 1,20,000 and B Rs.60,000. Also compute firms tax for the assessment year 2016-17 and partners income taxable under the head profits and gains.

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16. Rahim. and Zavir are the members of an AOP sharing profits and losses equally.

During the year ending 31.03.2017 total income of AOP was Rs.2,70,000. The

details of individual incomes of its members are given below:

Rs.

Rahim - Rent from house property	60,000
Interst on deposits with HDFC	86,000
Short term capital gain	60,000
Zavir (Age 67years) - Pension from Govt.	-1,60,000
Interest accrued on NSC VIII issue	10,600
Interest on govt. securities	16,000

Compute the tax liabilities of AOP and its members.

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PART – A (ONE MARK)

POSSIBLE QUESTIONS - UNIT – III

QUESTION	OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
Expand AOP	Association of Persons	Association of peoples	Alteration of people	Alteration of persons	association of Persons
Expand BOI	Bureau of Income tax	Body of individuals	British of Intelligence	Bharath of Indians	body of individual
The term ----- means the entity which comes into existence as a result of partnership agreement.	company	co-operatives	firms	AOP	firms
A ----- is any person who has entered into partnership	individual	co-parceners	partners	members	partners
The ----- as the relationship between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all.	soletradership	company	partnership	society	partnership
A ----- is an association of two or more persons.	individual trader	soletrader	AMT	partnership	partnership
A written agreement among partners are called -----	prospectus	MoA	AoA	partnership deed	partnership deed
LLP Expand -----	Limited Liability Partnership	Limited Partnership	Limited Liability persons	Limit Liabile Persons	limited Liability Partnership

Limited Liability Partnership Act passed in the year -----	2006	2007	2008	2009	2008
The liability of the partners of LLP is -----	limited	unlimited	not controlled by act	upto private sources	limited
The share of income received by partners from the firm is ----- in the hands of partners.	Fully taxable	partially taxable	fully exempt	taxable only for specified persons	fully exexmpt
An instrument of partnership is called -----	prospectus	MoA	AoA	partnership deed	partnershi p deed
A----- means the net profit of the fimr calculated after taking into account all provisions provided in the sec 28to 44D	Net Profit	gross profit	book profit	notional profit	book Profit
Limits on payment to remuneration to working partner if the book profit is upto Rs.3,00,000 is --- ----- whichever is less	Rs.1,50,000 or 90% of book profit	Rs.1,10,000 or 80% of book profit	Rs.1,50,000 or 80% of book profit	Rs.1,10,000 or 90% of book profit	Rs.1,50,000 or 90% of Book Profit
Limits on payment to remuneration to working partner if the book profit exceeds Rs.3,00,000 is - -----	40 % of book Profit	50% of book Profit	60% of book Profit	70% of book Profit	60% of book Profit
In case there is a loss to a firm or book profit is less and actual remuneration given to working partner is more than R.1,50,000, then a maximum of ----- ----- shall be allowed as deduction from book profit.	Rs.1,20,000	Rs. 1,30,000	Rs.1,40,000	Rs.1,50,000	Rs.1,50,000
Firm cannot have ----- income	House property	salary	business	capital gain	salary
Firm cannot have ----- income	interest	capital gain	business	self occupied income	self occupied house

The firm can claim which of the following deductions?	u/s 80C	u/s 80D	u/s 80B	u/s 80G	u/s 80G
Deduction u/s 80G is meant for -----	Infrastructural projects	Donations	Political parties	Bio – waste	donations
Deduction u/s 80IA is meant for -----	Infrastructural projects	Donations	Political parties	Bio – waste	infrastructural projects
Deduction u/s 80JJA is meant for -----	Infrastructural projects	Donations	Political parties	Bio – waste	bio waste
Deduction u/s 80GGC is meant for -----	Infrastructural projects	Donations	Political parties	Bio – waste	political parties
The rate of tax to firm at a flat rate of ----- with no exemption	20%	30%	40%	50%	30%
On Long Term Capital Gain the rate of Tax is -- --	10%	20%	30%	40%	20%
On Short Term Capital Gain the rate of Tax is -- --	5%	10%	15%	20%	15%
On casual income , the rate of Tax is ----	10%	20%	30%	40%	30%
Surcharge at 10% of tax, if total income of the firm / LLP exceeds Rs--- -----	Rs.1,00,000	Rs.10,00,000	Rs1,00,00,000	Rs.10,00,00,000	RS.10,00,00,000
Education cess is levied at ----- of tax	1%	2%	3%	4%	1%
While calculating firms tax liability , Higher education cess is calculated at ----- of tax.	1%	2%	3%	4%	2%
When a partnership firm has not submitted a copy of its partnership deed duly signed by all partners it is assessed u/s -----	183	184	185	186	185%
Any payment to partner is disallowed as per section ----- of the act	182	183	184	185	185%
Rent paid to a partner for the premises used by firm is ----- as per	allowed expenses	disallowed expenses	Allowed income	disallowed income	allowed expenses

Act					
Share of income received by each partner from the firm shall be --- -----u/s 10(2A)	fully exempted	fully taxable	partially taxable	partially exempted	fully exexmpt
Normal rate of TDS on interest on debentures by the paying company is -- -----	10%	20%	30%	40%	10%
Any payment to its member of AOP is ----- -----	allowed expenses	disallowed expenses	Allowed income	disallowed income	allowed expenses
An AOP cannot have any income under the head -----	salary	house property	business income	capital gain	salary
Expand MMR	Minimum Marginal Rate	Maximum Marginal Rate	Minimum Marginal Rebate	Maximum Marginal Rebate	maximum marginal rate
The total income of AOP shall be payable at MMR @ -----	10%	20%	30%	40%	30%
In case total income of any member of AOP does not exceed the exemption limit, such AOP shall be assessed to tax at same rates as are applicable to -----	AOP	BOI	Company	Individual	Individual
In case total income of any member of AOP exceeds the exemption limit, such AOP shall be assessed to tax at same rates as are applicable to -----	MMR	ATI	AMT	ART	MMR
The provisions of Alternate Minimum Tax shall apply to an AOP/ BOI whose adjusted total income is upto ----- -----	Rs.10,00,000	Rs.20,00,000	Rs.30,00,000	Rs.40,00,000	Rs. 20,00,000
Rate of Tax under AMT is -----	15.80%	16.70%	18.50%	19.30%	18.50%
If adjusted total income does not exceed Rs. 1	10%	20%	30%	nil	nil

Cröre, the surcharge on AMT is -----					
If adjusted total income exceeds Rs. 1 Crore, the surcharge on AMT is --- -----	10%	20%	30%	nil	20%
The Income tax payable for a previous year by an AOP/ BOI in its total income accordance with the provisions of Income tax Act 1961 is called --- -----	Regular income tax	adjusted income tax	Marginal tax	Alternate minimum tax	Regular income tax
Amount of tax credit = -- ----- minus Tax payable on total income as per Act.	Regular income tax	adjusted income tax	Marginal tax	Alternate minimum tax	Alternate minimum tax
The Tax credit for any assessment year can be carried forward upto the -----assessment year.	5 years	8 years	10 years	12 years	10 years
----- shall be allowed in any assessment year in which the regular income tax exceeds the alternate minimum tax.	Tax rebate	Tax credit	Tax exemption	Deduction	Tax credit
.Integration is done only if non – agri income of all persons exceeds the - -----	Rs.2,50,000	Rs.3,00,000	Rs.3,50,000	Rs.4,00,000	Rs.2,50,000
Integration is done only if net income of all persons exceeds ----- ----- in the relevant previous year.	Rs.3,000	Rs.4,000	Rs. 5,000	Rs.6,000	Rs.5,000
Integration of agriculture income with non-agriculture income is not done in case of—	Firms	Companies	co-operative societies	all of the above	all of the above
Tax payable to be rounded off to the nearest multiples of ----- -----	10s	50s	100s	500s	10s
A ----- is any person who has entered	individual	co-parceners	partners	members	partners

into partnership					
The ----- as the relationship between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all.	soletradership	company	partnership	society	partnership
In case total income of any member of AOP does not exceed the exemption limit, such AOP shall be assessed to tax at same rates as are applicable to -----	AOP	BOI	Company	Individual	Individual
In case total income of any member of AOP exceeds the exemption limit, such AOP shall be assessed to tax at same rates as are applicable to -----	MMR	ATI	AMT	ART	MMR
An AOP cannot have any income under the head -----	salary	house property	business income	capital gain	salary
Limits on payment to remuneration to working partner if the book profit is upto Rs.3,00,000 is --- ----- whichever is less	Rs.1,50,000 or 90% of book profit	Rs.1,10,000 or 80% of book profit	Rs.1,50,000 or 80% of book profit	Rs.1,10,000 or 90% of book profit	Rs.1,50,000 or 90% of Book Profit
The Tax credit for any assessment year can be carried forward upto the -----assessment year.	5 years	8 years	10 years	12 years	10 years

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UNIT: IV – Assessment of Companies and Co-operative Societies

Unit IV

Syllabus

Companies and co-operative societies: Assessment of Companies - Assessment of co-operative societies

I. ASSESSMENT OF COMPANIES

"Company Taxation"

Corporate sector is the most widely used form of business Organisation particularly for medium and large scale business. Under corporate sector, a business is carried on by floating a company duly registered with appropriate authority. Corporate taxation refers to taxation of companies (as defined under Income Tax Act, 1961) and is a major source of revenue to the Government. Under Income Tax Act, 1961, a company is liable to pay tax on its income at a flat rate (just as partnership firm) without any basic exemption limit as applicable to an individual.

Corporate Tax

The tax collected from companies (as defined under the Income Tax Act, 1961) is called 'Company Tax' or 'Corporate tax'. It is interesting to note that the proceeds of corporate tax are retained by the Central Government and are not shared with state governments.

Important Definitions

- Person [Section 2(31)]
- Company [Section 2(17)]
- A person having substantial interest in the company [Section 2(32)]
- Principal Officer [Section 2(35)]

As we all know that the Income Tax Act, 1961 provides for levy of income tax on

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every person, subject to rules contained therein. The term ‘person’ has been defined under Income Tax Act, 1961 as follows

Person [Section 2(31)]

The term ‘Person’ includes

- (a) an individual
- (b) a Hindu undivided family
- (c) a Company
- (d) a firm
- (e) an association of persons or its body of individuals, whether incorporated
- (f) a local authority
- (g) every artificial juridical person, not falling within any of the person referred above
- (h) Association of Persons or Body of Individuals or a Local authority or Artificial Juridical Person shall be deemed a person whether or not such persons are formed or established or incorporated with the object of deriving profits or gains or income.

Company [Section 2(17)]

Thus, a Company is also one of the ‘persons’ liable to pay income tax under Income Tax Act, 1961.

Meaning of a company

1. As per Companies Act, 1956

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According to Section 3 (1), “ A company means a company formed and registered under this Act or an existing company”.

2. Under Section 2 (17) of Income Tax Act, 1961 a Company means,

- (i) Any Indian company ; or
- (ii) Any body corporate incorporated by or under the law of a country outside India ; or
- (iii) Any institution or association or body which was assessed under Income Tax Act 1961 is a company for any assessment year up to and including the assessment year 1970-71 ; or
- (iv) Any institution, association or body whether incorporated or not and whether Indian or non Indian which is declared by Central Board of Direct Taxes to be a company.

Thus the definition of company under the Income Tax Act is much broader than the definition under the Companies Act, 1956. Under Clause (iv) of Section 2 (17), the Central Board of Direct Taxes (CBDT) has been given power to declare any institution as a ‘company’ under certain situations.

A person having substantial interest in the company [Section 2(32)]

A person is deemed to have substantial interest in the affairs of the company if he is the beneficial owner of equity shares, carrying not less than 20% of the voting power.

Principal Officer [Section 2(35)]

“Principal Officer” means

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- (i) The secretary, treasurer, manager or agent of the company, or
- (ii) Any person connected with the management or administration of the company upon whom the Assessing officer has served a notice of his intention of treating him as the Principal Officer thereof.

3. Types Of Companies

1. Indian Company [Section 2(26)]
2. Company in which public are substantially interested [Section 2(18)]
3. Widely Held Company
4. Closely held Company
5. Domestic Company [Section 2(22A)]
6. Meaning of “the prescribed arrangement for declaration and payment of dividends within India” (Rule 27)
7. Foreign Company [Section 2(23A)]
8. Investment Company [Section 109 (ii)(i)]
9. Consultancy Service Company
10. Trading Company [Section 109(iia)]
11. Banking Company

Types Of Companies

1. Indian Company [Section 2(26)]

“Indian Company” means a company formed and registered under the Companies Act, 1956 and includes :

- (i) A company formed and registered under any law relating to companies formerly in force in any part of India other than the State of Jammu and Kashmir or and the specified Union Territories; [Sec. 2 (26) (i)]

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- (ii) A corporation established by or under Central, State or provincial Act ; [Sec. 2(26) (ia)]
- (iii) Any institution, association or body which is declared by the Board to be a company: [Sec. 2 (26) (ii)]
- (iv) In the case of Jammu & Kashmir, a company formed and registered under any law for the time being in force in that State ; [Sec. 2 (26) (ii)]
- (v) In the case of any of the Union territories of Dadra and Nagar Haveli, Goa, Daman and Diu, and Pondicherry, a company formed and registered under any law for the time being in force in that Union Territory. [Sec. 2 (26) (iii)]

In all the above cases, the Principal office of the company, corporation, institution, association or body must be situated in India.

2. Company in which public are substantially interested [Section 2(18)]

A company is said to be a company in which public are substantially interested, if:

- (i) It is a company owned by the Central or State government or the Reserve Bank of India [Section 2(18)(i)] ; or
- (ii) At least 40% of its shares (by monetary value) are held (singly or jointly by the Govt. or the Reserve Bank of India or a corporation owned by that Bank (Section 2 (18) (a)] or
- (iii) It is a company which is registered under section 25 of the Companies Act, 1956 (Sec. 2 (18)(aa)] ; or
- (iv) It is a **company having no share** capital and if, having regard to its objects, the nature & composition of the membership and other relevant considerations, it is declared by order of the Board to be a company in which the public are substantially interested provided that such order shall hold good for only such assessment year or

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years specified in the declaration [Section 2(18)(ib) ; or

- (v) **It is a mutual benefit finance company.** It is a company, which carries on, as its principal business, the business of acceptance of deposits from its members and which is declared by the Central Government under section 620 A of the Companies Act, 1956 to be a Nidhi or Mutual Benefit Society, [Section 2(18)(ic) ; or
- (vi) **Society participating company.** It is a company wherein shares (not being shares entitled to a fixed rate of dividend) carrying 'at least 50% of the voting power have been held by one or more cooperative society, throughout the relevant previous year; [Section 2(18)(ad)1 or
- (vii) It is a company which is not a private company (as defined in the Companies Act, 1956) fulfilling any one of the following two conditions namely [Section 2(18)(b)J
 - (a) Its equity shares were, as on last day of relevant previous year listed in recognised Stock Exchange in India.
 - (b) Its equity shares carrying not less than 50% of voting power (40% in case of Indian industrial company) have been allocated unconditionally to or acquired unconditionally by and were held throughout the relevant previous year beneficially by
 - (i) the Government, or
 - (ii) corporation established by a Central State or Provincial Act, or any company in which public are substantially interested or its 100% Subsidiary company.
- (viii) **Indian Industrial Company.** It means an Indian company whose

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business consists wholly of the construction of ships or in the manufacture or processing of goods or in the mining or in the generation or distribution of electricity or any other form of power.

The income attributable to any or more of the aforesaid activities included in the total income of the previous year is not less than 51% of such total income.

3. Widely Held Company

A company in which the public are substantially interested is known as Widely held company.

4. Closely held Company

A company in which the public are not substantially interested is referred to as a Closely held company.

5. Domestic Company [Section 2(22A)]

Domestic company means an Indian company, or any other company, which, in respect of its income liable to tax under this Act, has made the prescribed arrangements for the declaration and payment, within India of the dividends (including dividends on preference shares) payable out of such income.

6. Meaning of “the prescribed arrangement for declaration and payment of dividends within India” (Rule 27)

The share register of the company for shareholders shall be regularly maintained at its principal place of business within India in respect of any assessment year from a

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date not later than 1St day of April of such year.

(i) The general meeting for passing the account of the previous year relevant to the assessment year for declaring any dividends in respect thereof shall be held only at a place within India

(ii) The dividends declared, if any, shall be payable only within India to all shareholders.

7. Foreign Company [Section 2(23A)]

A company which is not a domestic company.

8. Investment Company [Section 109 (ii)(i)]

Investment company is a company whose gross total income consists mainly of income chargeable to tax under the heads 'Income from House Property, Capital Gains' and 'Income from Other Sources'.

9. Consultancy Service Company

Means an Indian Company whose business consists wholly of the provision of technical know-how or in rendering of services in connection with the provision of technical know-how, to other persons.

10. Trading Company [Section 109(ia)]

It means a company whose business consists wholly or mainly in dealing with goods or merchandise manufactured, produced or processed by a person other than that company and whose income attributable to such business included in its gross total income is not less than 51% of the amount of such gross total income.

11. Banking Company

Banking company means a company to which the Banking Company Regulation

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Act, 1949 applies and includes any Bank or banking institution referred to in Section 51 of that Act.

Residential Status Of A Company [Section 6(4)]

(a) Resident Companies [Section 6(3)]

(b) Non Resident [Section 2(30)]

Residential Status Of A Company [Section 6(4)]

Determination of total income of a company depends upon its residential status during the relevant previous year. The residential status of the company is determined either

(i) on the basis of its incorporation (Registration) ; or

(ii) on the basis of the control and management of its affairs.

On the basis of residential status, companies can be classified into two categories

(a) Resident Companies

(b) Non Resident Companies.

(a) Resident Companies [Section 6(3)]

A company is said to be resident in India in any previous year

(i) It is an Indian Company ; or

(ii) during the relevant previous year the control and management of its affairs is situated wholly in India.

1. An Indian company is always a resident company for income tax purposes even if the control and management of its affairs is situated outside India
2. A non-Indian company or a foreign company will be treated as resident of India for any previous year only if the entire control and management of

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affairs of such company, during the relevant previous year is situated in India.

(b) Non Resident Company [Section 2(30)]

A company shall be ‘non-resident’ if it is not resident in India during the relevant previous year.

It means a foreign company whose control and management is situated wholly or partially outside India will be a non-resident company. For example an American company holds 8 meetings in India out of total of 12 meetings held during the previous year such company will be non-resident for income tax purposes for such previous year.

Incidence Of Tax—Scope Of Total Income

A. Resident : U/s 5(1)

B. Non Resident. U/s 5(2)

Incidence Of Tax—Scope Of Total Income

A. Total Income of Resident Company : U/s 5(1) the total income of a resident shall include

(a) Any income, which is received or is deemed to be received in India during relevant previous year

(b) Any income, which accrues or arises or is deemed to accrue or arise in India during relevant previous year

(c) Any income, which accrues and is received outside India during relevant

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previous year.

B. Total Income of Non Resident Company U/s 5(2) the total income of a non-resident shall include :

- (a) Any income, which is received or is deemed to be received in India during relevant previous year
- (b) Any income, which accrues or arises or is deemed to accrue or arise in India during relevant previous year.

6. Types of incomes

- 1. Income received in India
- 2. Deemed to be received in India
- 3. Income accruing or arising in India
- 4. Income deemed to accrue or arise in India
- 5. Any income accruing and received outside India
- 6. Past Untaxed Income

Types of Income

1. Income received in India.

The source of income may be situated anywhere in the world but if its first receipt is in India, it is taxable for all. Income may be received by the assessee himself or by his agent on his behalf or is actually received by him or it might be credited to his account.

2. Deemed to be received in India.

These incomes are actually not received by assessee instead these are credited to his account to be 'paid at a later date or are appropriated against future liability e.g.

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- (a) Employer's contribution to provident fund.
- (b) Interest accrued on provident fund balance.
- (c) Interest accrued on N.S.C. VIII issue.
- (d) Tax deducted at source. [Taxable for R and NR]

3. Income accruing or arising in India.

The terms accrue or arise have the same meaning i.e. to grow, to originate. Income accrues where source is situated. Salary accrues where service is rendered. Rent accrues where house property is located. Business Profit or professional gain arises where business is carried on or profession is set up. Capital gain accrues where asset is located. Dividend, Bank interest etc. accrue where investment is made. If source of any of these incomes is situated in India then income from these sources will be accruing in India.

4. Income deemed to accrue or arise in India.

These incomes actually accrue outside India but u/s 9 these are deemed to accrue in India. These incomes are,

- (a) Salary paid by govt. to its employees posted abroad,
- (b) Pension paid outside India but for services rendered in India,
- (c) Income from a capital asset located in India although transaction has taken place outside India,
- (d) Dividend paid by Indian company outside India,
- (e) Apportionment of profits : In case a part of transaction takes place in India and the other part outside India, proportionate profits from such transaction relating to Indian part shall be deemed to accrue in India, [Taxable for R and NR]

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- (f) Income from shooting of a film in India by a non-resident shall not be deemed to accrue in India, hence taxable only for residents.

5. Any income accruing and received outside India

It shall be taxable for Resident only.

6. Past Untaxed Income

Any income, which was exempted earlier but is brought to India in current PIY shall be exempted for all.

Computation Of Gross Total Income Of A Company

1. Head wise calculation
2. Agricultural Income of a Company

Table - Splitting Tip Of Composite Income In Certain Specified Cases

Set off and Carry Forward of Losses of Companies

Carry Forward of Losses

1. House property
2. Profits and gains of Business or Profession
3. Loss under the head capital gains
4. Other sources

Special Provisions Regarding Losses Relating To Companies Only

Accumulated Loss

Unabsorbed Depreciation

Carry forward and Set-off losses of certain companies [Section 79]

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SEMESTER - VI

UNIT: IV – Assessment of Companies and Co-operative Societies

Deductions Out Of Gross Total Income

Company assesseees are entitled to claim following deductions u/s 80 out of gross total income

- (i) Deduction u/s 80G for donations
- (ii) Deduction u/s 80GGA for certain payments
- (iii) Deduction u/s 80GGB for donation to political parties
- (iv) Profits from new infrastructure undertakings u/s 801A
- (v) Profits from developing of Special Economic Zones u/s 80IAB
- (vi) Profits from new Industrial undertaking u/s 801B
- (vii) Deduction for setting up undertakings in special states u/s 801C
- (viii) Business of Hotels and convention Centres oat special area [Sec.80-ID]
- (ix) Deduction to certain undertakings set-up in North Eastern States [Sec. 80-TE]
- (x) Profits from processing of bio-degradable waste u/s 80JJA
- (xi) Deduction in respect of employment of new workers u/s 80JJAA
- (xii) Deduction for income of offshore funds u/s 80LA

Special provision for payment of income tax by certain companies or minimum alternate tax (MAT) on companies [Section 115JB)

Credit of tax paid under mat [Section 115JAA (la)]

Necessity of preparing Profit & Loss Account in accordance with the provisions of Companies Act, 1956

Points to be kept in mind while preparing Annual Accounts by the Companies

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UNIT: IV – Assessment of Companies and Co-operative Societies

Calculation of Book Profits [Explanation to Sec. 115JB(2)]

Explanation of Certain Items of Statutory Additions:

- (a) Income tax paid or payable or any provision thereof
- (b) Transfer to any reserve
- (c) Provisions for unascertained liabilities
- (d) An ascertained liability
- (e) An unascertained liability

Treatment of Certain Statutory Deductions

- (i) Withdrawal from any Reserve or Provision [Section 11 5JB(2)(i) (explanation)]
- (ii) Case A. If reserve was created before 1-4-97
- (iii) Case B. (1) If reserve was created on or after 1-4-97
- (iv) B/F loss or Unabsorbed depreciation
- (v) MAT Provisions not to affect c/f & set off provision provided under Income Tax Act.
- (vi) Furnishing of report from Chartered Accountant [Section 115JB(4)]

Dividend Tax—Special Provisions Relating To Tax On Distributed Profits Of Domestic Companies

1. Tax on distributed profits of companies [Section 115-0]
2. Treatment of dividend received by a domestic company from its subsidiary company [Section 115-O(1A) [Inserted by the Finance Act, 2008, with retrospective effect from Assessment Year 2008-09]
3. Responsibility to deposit tax
4. Final payment
5. No deduction
6. Interest payable for non-payment of tax by domestic companies [Section 115P)

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7. Assessee in default [Section 115Q]

Credit of Tax paid under MAT [Section 115JAA(1A)]

1. Amount of Tax Credit
2. Year in which tax credit shall be available [Section 115JAA(4)]
3. Period for which tax Credit is available [Section 115JAA(3A)]
4. Increase/Decrease of Tax Credit

II. ASSESSMENT OF CO-OPERATIVE SOCIETIES

Meaning of Co-operative Society

Co-operative society means a society registered under the co-operative societies Act , 1912 or any of other law for the time being in force in any state for the registration of co-operative societies.

Urban consumer co-operative society

It has been defined as , ‘a society for the benefit of the consumers within the limits of a municipal corporation, municipality, municipal committee, notified area committee, town, area or cantonment’.

Consumer co-operative society

It means a society for the benefit of consumers.

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UNIT: IV – Assessment of Companies and Co-operative Societies

Computation of total income

The total income of the co-operative society is to be computed in accordance with the different provisions of the Income Tax Act 1961. The income to be computed head wise.

Deductions out of Gross Total Income

- (i) Deduction u/s 80G for donations
- (ii) Deduction u/s 80GGA for certain payments
- (iii) Deduction u/s 80GGB for donation to political parties
- (iv) Profits from new infrastructure undertakings u/s 801A
- (v) Profits from developing of Special Economic Zones u/s 80IAB
- (vi) Profits from new Industrial undertaking u/s 801B
- (vii) Deduction for setting up undertakings in special states u/s 801C
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- (xi) Deduction in respect of employment of new workers u/s 80JJAA
- (xii) Deduction for income of offshore funds u/s 80LA

Concession u/s 27(iii) ; Co-operative Housing Society

If a house is allotted or leased out by the co-operative housing society to its member but the ownership remains with co-operative society the income from such house property shall form a part of the total income of the individual.

Rate of Tax

A. Normal Incomes

Total income

Rate of Tax

17/23

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On 1 st Rs. 10,000	10%
On next Rs. 10,000	20%
On balance income	30%

B. On Special income

Total income	Rate of Tax
(a) Long term capital gain. Calculate tax at the rate of	20%.
(b) On short term capital gains on shares subject to STT	15%.
(c) For casual income	30%.

Rate of Surcharge :12% of tax if total income exceeds Rs. 1 crore

Education cess ; 2% of Tax and surcharge

Secondary and higher education cess: 1% of Tax and surcharge

Ultimate tax liability of individual

1. Regular income tax payable as per normal provisions of IT Act or
2. Tax 18.5% on adjusted total income .

Whichever is higher.

Surcharge: Surcharge on AMT for the assessment year 2017-18 shall be as under,

1. If total income does not exceeds Rs. 1 crore - Nil
2. If total income exceeds Rs. 1 crore - 12% of Tax

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UNIT: IV – Assessment of Companies and Co-operative Societies

POSSIBLE QUESTIONS

PART - A (1 Mark)

(Online Examinations)

PART- B (8 MARKS)

1. What are the salient features of assessment of Joint Stock Companies?
2. Explain in brief the various deductions u/s 80 which can be claimed by a company
3. Discuss in detail provisions of minimum Alternate Tax u/s 115JB
4. Write a detailed note on section 115 O
5. Discuss in detail the provisions of sections 70 regarding carry forward and set off of losses by the closely held companies.
6. Explain the provisions of law regarding companies in which public are substantially interested.
7. Write short note on a. Company b. Indian Company c. Residence of a Company
d. Corporation tax
8. Compute the tax payable by a company for the Assessment year 201-18 if:
A) Its total income is Rs4,00,000 and book profit is Rs. 15,00,000 and
B) Its total income is Rs.6,20,000 and book profit is Rs.10,00,000.
9. The total income of XYZ Ltd,a domestic company, computed under the normal provisions of Income Tax Act is Rs.2,50,000.However,the book profits of the

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UNIT: IV – Assessment of Companies and Co-operative Societies

company (calculated as per section 115JB) amount to Rs.8,15,000. Calculate the tax liability of company for Assessment Year 2017-18.

10. Rao Ltd. a domestic ltd. company, provides you following profit loss Account for computation of tax liability for Assessment Year 2017-18.

	Rs.		Rs.
To purchases	18,75,000	By Sales	75,25,000
To Direct wages	8,45,000	By Closing stock A/c	1,10,000
To Freight	12,500		
To G.P c/d	49,02,500		
	<hr/>		<hr/>
	76,35,000		76,35,000
	<hr/>		<hr/>
To Salaries	8,50,000	By G.P b/d	49,02,500
To General exp.	4,35,000	By Dividends from Indian domestic co.	17,500
To sales expenses	2,15,000		
To Director's remn.	8,22,000		
To Income Tax	1,80,000		
To penalty(excise)	10,000		
To proposed dividend	3,20,000		
To provision for losses of Subsidiary company	2,00,000		
To Net profits	18,88,000		
	<hr/>		<hr/>
	49,20,000		49,20,000
	<hr/>		<hr/>

Additional Information:

1. Purchases include one bill of Rs. 60,000 against which payment was made in cash.
2. General expenses include Rs.15,000 as interest on loan taken from scheduled Bank. This interest has not been paid so far.

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3.	As per I.T. Act	As per Books of A/c
Brought forward losses	2,80,000	1,40,000
Unabsorbed depreciation	1,70,000	50,000
Calculate tax Liability.		

11. Following is the P.and L. A/c of RP Ltd,an india company for the previous year 2016-17.

PROFIT AND LOSS ACCOUNT

	Rs.		Rs.
To Raw material	15,00,000	By Sales	60,0,000
To Wages and expenses	25,00,000		
To Advertisement Expenses	2,50,000		
To Insurance	35,000		
To Audit fees	80,000		
To Depreciation	70,000		
To Provision for Income Tax	50,000		
To Provision for contingent liabilities	45,000		
To Transfer to general reserve	1,00,000		
To Proposed dividend	2,00,000		
To Office expenses	3,00,000		
To Losses of Subsidiary Co.	2,00,000		
To Legal charges	75,000		
To Repairs to Machinery	55,000		
To Balance c/d	5,40,000		
	<hr/> 60,00,000		<hr/> 60,00,000

Additional Information:

i)The above P and L .A/c has been prepared as per Companies Act,1956.

ii)Brought forward lossess and depreciation.

	As per Books of A/c	As per I.Tax
Act		
Brought forward business loss	2,00,000	2,50,000
Unabsorbed Depreciation	1,00,000	2,00,000

Calculate:

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UNIT: IV – Assessment of Companies and Co-operative Societies

- i) Total income tax liability as per normal provisions of I.T. Act.
- ii) Book profits and Tax liability as per sec 115 JB.
- iii) Ultimate Tax liability of the company.

12. How the assessment of co-operative society is made?

13. What are the tax incentives available to cooperative types of assesses?

14. Describe in details the provisions of income tax act regarding the assessment of co-operative societies.

15. The total income of a cooperative society computed under the normal provisions of Income tax Act is Rs.3,00,000. However, the adjusted total income of the cooperative society computed as per sections 115JC(2) amounted to Rs. 30,00,000. Calculate the final tax liability of the cooperative society for the assessment year 2017-18.

16. The Government college cooperative society Ltd has the following incomes during the previous year.

	Rs.
Income from college canteen and mess	20,000
Income from college book shop	8,000
Interest on securities (Gross)	8,000
Income from house property computed	5,000
Dividend on shares of another cooperative society	13,000

Compute the total income of the society.

17. The Ludiana Co-operative marketing society is a society registered under the co-operative societies Act 1912 and is engaged in the business of purchase of agricultural implements and seeds for to the purpose of supplying them to its members. From this business it earned an income of Rs.50,000

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UNIT: IV – Assessment of Companies and Co-operative Societies

In May 1981 it opened a consumers store for selling groceries and this venture netted aprofit of Rs.55,000 during the year 2016-17. Compute the total income of society and tax payable by it for the assessment year 2017-18

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Department of Commerce

Subject: INCOME TAX LAW AND PRACTICE- II

CLASS : III B.COM

Semester: VI

SUB CODE: 15CMU602

PART – A (ONE MARK)

POSSIBLE QUESTIONS - UNIT – IV

QUESTION	OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
Tax collected from company is called----- ----	Income tax	wealth tax	Corporation Tax	sales tax	Corporation tax
A Indian company means a company formed and Register under companies Act_____.	1950	1952	1954	1956	1956
A company in which the public are Substantially Interested is known as -- ----- Company.	Widely held	closely held	firm	AOP	widely held
A company in which the public are not substantially intrerested is referred to as a ----- -----company.	Firm	closely held	widely held	Corporation	closely held
Domestic company means an_____.	Indian Company	foreign company	not a company	Firm	Indian Company
A----- means the prescribed arrange means for declaration and payment of dividends with in India.	Firm	AOP	Domestic company	Indian company	Domestic Company
A company which is not a domestic company is called_____.	BOI	indian company	Company	foreign Company	Foreign company
On the basics of Residential status,companies can be	1	2	3	4	2

classified into _____ categories.					
An Indian company is always a _____ company for income tax purpose.	NOR	Non - resident	resident	Not a resident	Resident
Agriculture income of a company is totally _____-from tax.	exempt	not exempted	included	excluded	exempt
Speculation loss can be set off from _____ only.	Business Profit	speculation gain	Capital gain	salary	speculation gain
_____ loss can be set off from long term capital gain and short term capital gain	Short term capital Loss	Longterm capital loss	other loss	house property loss	Short term capital Loss
_____ can be set off only from Long term capital gain only.	speculation loss	salary loss	Business loss	Long term capital loss	Long term capital loss
House property loss can be carry forward for _____ succeeding previous year.	6	8	10	12	8
Speculation loss can be forward for ----- succeeding previous years.	4	6	8	10	4
In case of domestic company , the rate of tax for income on STC gain covered under STT is _____.	12%	14%	15%	16%	15%
In case of non-domestic company is the tax rate of LTCgain is _____.	20%	22%	24%	15%	20%
If total income of a company extends Rs. 1 crore but does not exceed Rs. 10 crores of a domestic company charge is _____ of tax.	11%	6%	9%	7%	7%
If total income of a company exceeds Rs.1 crore but does not exceed Rs. 10 crores of a Foreign company ,	1%	3%	2%	4%	2%

surcharge ----- of tax.					
If total income of a domestic company exceeds Rs. 10 crores, surcharge is _____ of tax.	12%	14%	10%	13%	12%
If total income of a foreign company exceeds Rs. 10 crores foreign company _____ of tax.	3%	5%	15%	20%	5%
Education cess is to be levied on ----- of tax.	1%	2%	3%	4%	3%
Expand MAT _____.	Minimum Alternate Tax	Maximum Alter Tribunal	Minimum Alteration tax	Maintenance Alternate Tax	Minimum Alternate Tax
Tax liability of a company @----- on book profit.	16.80%	14.80%	17.50%	18.50%	18.50%
Tax rate on profits declared/distributed as dividend u/s 115D is _____.	15%	20%	22%	10%	15%
The principal officer of a domestic company is liable to deposit tax to central government within ----- days of declaration of dividend.	10 days	14 days	25 days	20 days	14 days
On the basis of Residential status, companies cannot have ----- status	resident	NOR	Non resident	Not a resident	NOR
In case of companies deductions u/s 80 GGB is meant for	Donations	certain payments	political parties	Infrastructure	political parties
Speculation loss can be set off from _____ only.	Business Profit	speculation gain	Capital gain	salary	speculation gain
In case of domestic company, the rate of tax for income on STC gain covered under STT is _____.	12%	14%	15%	16%	15%

Co operative societies Act was passed in the year -----	1950	1975	1912	1910	1912
Consumer cooperative society means a society for the benefit of -----	Consumers	producers	dealers	manufacture s	consumers
Rate of tax for housing cooperative society , If total income upto Rs.10,000 is -----	8%	12%	4%	10%	10%
Rate of tax for housing cooperative society , If total income exceeds Rs.20,000 is -----	50%	30%	20%	10%	30%
In cooperative housing society , rate of tax for Long term capital gain is -----	25%	15%	12%	20%	20%
In cooperative housing society , rate of tax for short term capital gain is -----	25%	15%	12%	20%	15%
In cooperative housing society , rate of tax for casual income is -----	30%	15%	12%	10%	30%
In cooperative housing society, surcharge if total income exceeds Rs. 1 crore at	8%	10%	12%	14%	12%
In Cooperative housing society , AMT is applicable if total income exceeds Rs.-----	20Lakhs	10lakhs	5Lakhs	15lakhs	20lakhs
A cooperative society is entitled to claim ----- --- u/s 80 out of gross total income	Political parties	Donations	Profit from new infrastructure undertaking	Alternate Minimum Tax	donations
In cooperative housing society , deductions u/s 80GGA meant for donation to -----	Donations	Profit from new infrastructure undertaking	Political parties	MAT	Political parties
In cooperative housing society , deductions u/s	Profit from new	Political parties	Donations	AMT	Profit from new

80IA meant for -----	infrastructure undertaking				undertakings
In cooperative housing society , AMT stands for-----	Alternate Minimum Time	Alternate Minimum Tax	Alter Maximum tax	Alteration maximum Tax	Alternate minimum tax
A Deduction of Rs.----- shall be allowed in case of all cooperative societies.	Rs.20,000	Rs.30,000	Rs.40,000	Rs.50,000	Rs. 50,000
A Deduction of Rs.----- shall be allowed in case of consumer cooperative societies.	Rs. 1,50,000	Rs. 1,00,000	Rs.75,000	Rs.50,000	Rs. 1,00,000
A ----- means a society registered under co-operative societies Act 1912	Firm	AOP	Co-operative society	BOI	Co-operative society
A----- means a society having its area of operation confined to a taluk.	Primary co-operative bank	Bank	Secondary bank	Land development bank	Primary co-operative bank
Profit from processing of bio-degradable waste is given u/s	80A	80K	80U	80JJA	80JJA
Deductions for setting up undertakings in special states u/s ----	80B	80IB	80JJJ	80K	80IB
In cooperative housing society, surcharge if total income does not exceeds Rs. 1 crore at	nil	Rs.5,000	Rs.1,000	Rs.2,000	nil
A ----- means the income tax payable by a cooperative society on its total income in accordance with the provisions of Income tax Act	AMT	Regular income tax	Income	MAT	Regular income tax
In cooperative housing society Tax liability as per normal provisions of income tax Act of total income on first 10,000 is	5%	10%	8%	12%	10%
In cooperative housing society Tax liability as	15%	17%	20%	25%	20%

per normal provisions of income tax Act of total income on Rs 10,001 to 20,000 is					
In cooperative housing society Tax liability as per normal provisions of income tax Act of total income exceeds Rs. 20,000 24	25%	30%	10%	15%	30%
In cooperative housing society, tax liability under AMT is	16.50%	20.50%	18.50%	30.50%	18.50%
In cooperative housing society, education cess is levied at -----	5%	3%	10%	2%	3%
Time limit to carry forward tax credit in co-operative housing society will be -----	3Years	5Years	10 years	12years	10 years
In cooperative housing society Tax liability as per normal provisions of income tax Act of total income is below Rs. 10,000 is	Nil	10%	20%	30%	nil
In normal provisions of income tax Act was passed in the year -----	1962	1961	1965	1964	1961
In cooperative housing society , rate of tax for short term capital gain is -----	5%	10%	15%	20%	15%

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SEMESTER - VI

UNIT: V – Collection of Taxes and Penalties

UNIT – V

Syllabus

Collection and Recovery of Taxes: Deductions of Tax At Source – Advance Tax – Direct Payment of Tax – Payment of Tax – Methods of Recovery of Tax- Penalties and Prosecution

COLLECTION OF TAXES

The tax on total income is collected in three ways,

1. Tax Deducted at source (TDS)
2. Advance Payment of Tax
3. Tax on Assessment Through Demand notice i.e. Direct payment of tax

1. DEDUCTION OF TAX AT SOURCE

Tax deducted at source (TDS), as the very name implies aims at collection of revenue at the very source of income. It is essentially an indirect method of collecting tax which combines the concepts of “pay as you earn” and “collect as it is being earned.” Its significance to the government lies in the fact that it propounds the collection of tax, ensures a regular source of revenue, provides for a greater reach and wider base for tax. At the same time, to the tax payer, it distributes the incidence of tax and provides for a simple and convenient mode of payment.

The concept of TDS requires that the person, on whom responsibility has been cast, is to deduct tax at the appropriate rates, from payments of specific nature which are being made to a specified recipient. The deducted sum is required to be deposited to the credit of the Central Government. The recipient from whose income tax has been deducted at source, gets the credit of the amount deducted in his personal assessment on the basis of the certificate issued by the deductor.

Deduction of TDS

The statute requires deduction of tax at source from the income under the head salary. As such the existence of “employer-employee” relationship is the “sine-qua-non” for taxing a particular receipt under the head salaries. Such a relationship is said to exist when the employee not only works under the direct control and supervision of his employer but also is subject to the right of the employer to control the manner in which he carries out the instructions. Thus the law essentially requires the deduction of tax when;

- (a) Payment is made by the employer to the employee.
- (b) The payment is in the nature of salary and
- (c) The income under the head salaries is above the maximum amount not chargeable to tax.

Rate at which TDS is deducted

As per Section 192, the employer is required to deduct tax at source on the amount payable at the average rate of income tax. This is to be computed on the basis of rates in force for the financial year in which payment is made.

The Finance Act of each financial year specifies the *rates in force* for deduction of tax at source.

The procedure for refund of TDS

In case of excess deduction of tax at source, claim of refund of such excess TDS can be made by the deductor. The excess amount is refundable as per procedure laid down for refund of TDS. The difference between the actual payment made by the deductor and the tax deducted at source or deductible, whichever is more will be treated as the excess payment made. This amount is to be first adjusted against any existing tax

liability under any of the Direct Tax Acts. After meeting such liability, the balance amount is to be refunded.

Person required to issue a TDS Certificate

Every person deducting tax at source is required as per Section 203 to furnish a certificate to the payee to the effect that tax has been deducted along with certain other particulars. This certificate is usually called the TDS certificate. Even the banks deducting tax at the time of payment of pension are required to issue such certificates. In case of employees receiving salary income including pension, the certificate has to be issued in form No.16. The certificate is to be issued in the deductor's own stationery. However, there is no obligation to issue TDS certificate in case of tax at source is not deducted /deductible by virtue of claims of exemptions/ deductions.

Issue of duplicate TDS certificate

Where the original TDS certificate is lost, the employee can approach the employer for issue of a duplicate TDS certificate. The employer may issue a duplicate certificate on a plain paper giving the necessary details as contained in Form No. 16 (Relevant Rule-31(4)). However such a certificate has to be certified as duplicate by the deductor. Further the assessing officer before giving credit of the tax on basis of duplicate certificate is required to get payment certified from the assessing officer concerned and also obtain an indemnity bond from the assessee employee.

Due dates for filing tax returns

Tax to be paid during the financial year on the basis of pay as you earn such payments have to be made in installments' and are known as 'Advance-Tax' payments. However the liability for payment of advance tax arises only where the amount of such tax payable by the assessee during that year is Rs. 5,000 or more.

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UNIT: V – Collection of Taxes and Penalties

II. ADVANCE PAYMENT TAX

The due dates and the percentage of installments of Advance Tax for assesseees other than Companies are as below

Due Date of installments	Amount payable
On or before 15 th June	Amount not less than 15% of advance tax
On or before 15th September.	Amount not less than 45% of such advance tax.
On or before 15th December.	Amount not less than 75% of such advance tax after deducting amount paid in earlier installment.
On or before 15th March.	Entire balance amount of such advance tax.

In case of companies, there are 4 installments of advance tax payable

On or before 15th June (15%);

On or before 15th Sept. (45%);

On or before 15th Dec. (75%); &

Balance amount of Advance Tax payable by 15th March.

Also, any amount paid by way of Advance Tax on or before the 31st March of that year, is treated as Advance Tax Paid during that Financial Year. The percentages of 45% and 75% specified with reference to dates of 15th Sept. and 15th Dec. include the amount of advance tax paid earlier during the year.

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UNIT: V – Collection of Taxes and Penalties

Interest on deferment of advance-tax

If advance tax paid upto	Rate of Interest and Period	Amount on which interest is to be calculated
June 15, of assessment year is less than 12%	Simple interest @1% p.m. for 3 months	Differences between 15% of advance tax due on returned income and tax so deposited
Sept. 15, of assessment year is less than 36%	Simple interest @1% p.m. for 3 months	Differences between 45% of advance tax due on returned income and tax so deposited upto sep.15
Dec. 15, of assessment year is less than 75%	Simple interest @1% p.m. for 3 months	Differences between 45% of advance tax due on returned income and tax so deposited upto Dec.15
March. 15, of assessment year is less than 36%	Simple interest @1% p.m. for 3 months	Differences between 45% of advance tax due on returned income and tax so deposited upto Mar.15

The documents to be enclosed with the return

The documents to be enclosed with the return are as follows:

1. Acknowledgment slips in duplicate.
2. Statement of Computation of Income and Tax.
3. Ensure that Challan Identification Number (CIN) is mentioned in your Income-tax Challan. Attach copy of the acknowledgment of Challan.
4. Attach original T.D.S. Certificate in Form No. 16 or 16A or 16AA as applicable.

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Prepared by,

Dr.K.Jothi, Department of Commerce, KAHE.

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5. Certificates/Receipts of payment of insurance premium, provident fund, purchase of NSCs, new equity shares, mutual fund, NSS, medical insurance, donations etc. in support of deductions/rebates claimed. Requisite evidence where ever prescribed by law in support of your claim for any deduction/exemption, must be attached alongwith the return. Failure to do so may deprive you of the deduction and such evidence, even if produced later may not be entertained by the Assessing Officer.

6. Certificate of interest on housing loan from the lender, in support of deduction from house property income.

7. Other documents/statements as specified in the return itself and in support of income.

8. Quote your PAN clearly and correctly.

9. In case the assessee has applied for PAN but has yet not received allotment, a copy of PAN application form filed earlier and its acknowledgment should be enclosed with the return.

10. The name of the employer needs to be mentioned. Salaried employees to mention whether they are pensioners/Sr. Citizens.

11. Details of bank account to be mentioned to help in issue of electronic refunds.

It may, however, be noted that the new return forms are not required to be filed in duplicate and no annexures are to be filed with such forms.

Interest calculated for non-payment of advance tax

The Income Tax Act provides for charging of interest for non- payment/short payment/deferment in payment of advance tax which is calculated as below:

(i) INTEREST U/S 234A: For late or non furnishing of return, simple interest @ 1% for every month or part thereof from the due date of filing of return to the date of furnishing of return, on the tax as determined u/s 143(1) or on regular assessment as reduced by TDS/advance tax paid or tax reliefs, if any, under Double Tax Avoidance Agreements with foreign countries.

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(ii) INTEREST U/S 234B: For short fall in payment of advance tax by more than 10%, simple interest @ 1% per month or part thereof is chargeable from 1st April of the assessment year to the date of processing u/s 143(1) or to the date of completion of regular assessment, on the tax as determined u/s 143(1) or on regular assessment less advance tax paid/ TDS or tax reliefs, if any, under Double Tax Avoidance Agreements with foreign countries.

(iii) INTEREST U/S 234C: For deferment of advance tax. If advance tax paid by 15th September is less than 30% of advance tax payable, simple interest @ 1% is payable for three months on tax determined on returned income as reduced by TDS/TCS/Amount of advance tax already paid or tax relief, if any, under Double Tax Avoidance Agreement with forgoing contribution. Similarly, if amount of tax paid on or before 15th December is less than 60% of tax due on returned income, interest @ 1% per month is to be charged for 3 months on the amount stated as above. Again, if the advance tax paid by 15th March is less than tax due on returned income, interest @ 1% per month on the shortfall is to be charged for one month.

(iv) INTEREST U/S 234D: Interest @ 0.5% is levied under this Section when any refund is granted to the assessee u/s 143(1) and on regular assessment it is found that either no refund is due or the amount already refunded exceeds the refund determined on regular assessment. The said interest is levied @ 0.5% on the whole or excess amount so refunded for every month or part thereof from the date of grant of refund to the date of such regular assessment.

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PAN (OR) Permanent Account Number

Permanent Account Number is a number allotted to a person by the Assessing Officer for the purpose of identification. P.A.N. of the new series has 10 alphanumeric characters and is issued in the form of laminated card.

To apply PAN

Section 139A of the Income Tax Act provides that every person whose total income exceeds the maximum amount not chargeable to tax or every person who carries on any business or profession whose total turnover or gross receipts exceed Rs.5 lakhs in any previous year or any person required to file a return of income u/s 139(4A) shall apply for PAN. Besides, any person not fulfilling the above conditions may also apply for allotment of PAN.

Requirement of PAN Card

A: Transactions in which quoting of PAN is Mandatory

1. Purchase and sale of immovable property.
2. Purchase and sale of motor vehicles.
3. Transaction in shares exceeding Rs.50,000.
4. Opening of new bank accounts.
5. Fixed deposits of more than Rs.50,000.
6. Application for allotment of telephone connections.
7. Payment to hotels exceeding Rs.25,000.
8. Provided that till such time PAN is allotted to a person, he may quote his General Index register Number or GIR No.

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To apply PAN

Application for allotment of PAN is to be made in Form 49A. Following points must be noted while filling the above form:-

- i) Application Form must be typewritten or handwritten in black ink in BLOCK LETTERS.
- ii) Two black & white photographs are to be annexed.
- iii) While selecting the “Address for Communication”, due care should be exercised as all communications thereafter would be sent at indicated address.
- iv) In the space given for “Father’s Name”, only the father’s name should be given. Married ladies may note that husband’s name is not required and should not be given.
- v) Due care should be exercised to fill the correct date of birth.
- vi) The form should be signed in English or any of the Indian Languages in the 2 specified places. In case of thumb impressions attestation by a Gazetted Officer is necessary.

The benefits of having a PAN Card

A PAN number has been made compulsory for every transaction with the Income Tax department. It is also mandatory for numerous other financial transactions such as opening of bank accounts, availing institutional financial credits, purchase of high-end consumer item, foreign travel, transaction of immovable properties, dealing in securities etc. A PAN card is a valuable means of photo identification accepted by all government and non-government institutions in the country.

Income–Tax Deduction TDS From Salaries

CBDT has issued complete a Guide to TDS on salaries with example vide circular 1/2010 on 11.01.2010. This circular has covered all the aspects of tax deduction (TDS) on salary Income and Income tax calculation along with example. Further unlike

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other circular language of the circular is very simple and easy to Under stand.This Circular covers following topics.

1. General
2. Finance Act, 2009 3-5
3. Section 192 of Income-tax Act 1961 5-9
4. Persons responsible for deducting tax and their duties 9-14
5. Estimation of income under the head “Salaries” 14
 - 5.1 Income chargeable under the head “Salaries” 14-20
 - 5.2 Incomes not included in the head “Salaries” (Exemptions) 20-26
 - 5.3 Deductions u/s 16 of the Act (Standard Deduction) 26
 - 5.4 Deductions under Chapter VI-A of the Act 26-37
6. Calculation of Income-tax to be deducted
7. Clarification on TDS on arrears of salary 38
8. Miscellaneous 39-44

Further Income from self occupied House ,New pension scheme, deduction under section 80C like insurance premium ,tuition fees etc ,section 80D Medical Insurance ,80DD disability ,80G donation ,80GG rent paid where no hra received along with form 10BA,80U disability has been very well explained DDO responsibilities and what to do has also been explained ,Tax deposit Form ,procedure ,calculation of average tax ,tax rates,penalty on late deposit of tds ,filing of EDS return ,due date procedure ,notification has also been given in this circular.

TDS on Interest Other Than Interest on Securities – SEC 194A

Persons liable to deduct TDS

Any person (other than individual or HUF who is not liable to audit under section 44AB in the preceding year) who is responsible for paying to a resident any interest other than interest on securities is liable to deduct TDS under this section.

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Time of deduction

Tax is to be deducted at the time of payment or credit to the account of the payee, whichever is earlier. Where any amount of interest is credited to any account whether called Interest payable account or suspense account or any other name, provisions of this section shall apply and tds is to be deducted.

Rate of deduction

TDS is to be deducted at the rate of 10%. If the recipient of income doesn't furnish his PAN to deductor then TDS is to be deducted @ 20%.

TDS is not required to be deducted in following cases –

1. Amount of such interest paid or credited, or is likely to be paid or credited in a financial year doesn't exceed

- 10,000 where the payer is a banking company, any bank, banking institution, co-operative society engaged in the business of banking, post office (on deposit under scheme framed and notified by Central Government). Such amount is calculated branch wise if such institution adopted core banking solutions.
- 5,000 in any other case.

2. Interest credited or paid by a firm to a partner of the firm.

Interest is paid or credited to any banking company, co-operative society engaged in banking business, public financial institutions, LIC, Unit Trust of India (UTI), a company or co-operative society carrying on the business of insurance or any institution Central Government notifies. Interest is paid by a co-operative society (other than a co-operative bank) to a member thereof or to such income credited or paid by a co-operative society.

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Interest is paid or credited in respect of deposits under scheme framed by Central Government and notified in official Gazette. To such income credited or paid in respect of deposits (other than time deposits) with a banking company or co-operative society carrying on business of banking. Interest is paid by Central Government under any provisions of the income tax act or wealth tax act.

Income credited or paid in respect of deposits with primary agricultural credit society or co-operative land mortgage bank or co-operative land development bank. Interest paid on compensation awarded by the Motor Accidents Claims Tribunal where the amount of such income or the aggregate of the amounts of such income credited or paid during the financial year does not exceed Rs. 50,000. Such interest if credited and not paid then whole amount of such interest credited without any condition.

Interest is in relation to zero coupon bonds. Interest referred to in section 10(23FC). Discounting charges on export bill discounted is not treated as interest and thus not liable for tax deduction u/s 194A.

III. DIRECT PAYMENT OF TAX

Sec. 191. In the case of income in respect of which provision is not made under this Chapter for deducting income-tax at the time of payment, and in any case where income-tax has not been deducted in accordance with the provisions of this Chapter, income-tax shall be payable by the assessee direct.

Payment of advance tax by the assessee of his own accord or in pursuance of order of Assessing Officer.

(1) Every person who is liable to pay advance tax under section 208 (whether or not he has been previously assessed by way of regular assessment) shall, of his own accord, pay, on or before each of the due dates specified in section 211, the appropriate

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percentage, specified in that section, of the advance tax on his current income, calculated in the manner laid down in section 209.

(2) A person who pays any instalment or instalments of advance tax under sub-section (1), may increase or reduce the amount of advance tax payable in the remaining instalment or instalments to accord with his estimate of his current income and the advance tax payable thereon, and make payment of the said amount in the remaining instalment or instalments accordingly.

(3) In the case of a person who has been already assessed by way of regular assessment in respect of the total income of any previous year, the Assessing Officer, if he is of opinion that such person is liable to pay advance tax, may, at any time during the financial year but not later than the last day of February, by order in writing, require such person to pay advance tax calculated in the manner laid down in section 209, and issue to such person a notice of demand under section 156 specifying the instalment or instalments in which such tax is to be paid.

Other Modes of Recovery of Tax

(1) Where no certificate has been drawn up under section 222, the Assessing Officer may recover the tax by any one or more of the modes provided in this section.

(1A) Where a certificate has been drawn up under section 222, the Tax Recovery Officer may, without prejudice to the modes of recovery specified in that section, recover the tax by any one or more of the modes provided in this section.

(2) If any assessee is in receipt of any income chargeable under the head "Salaries", the Assessing Officer or Tax Recovery Officer may require any person paying the same to deduct from any payment subsequent to the date of such requisition any arrears of tax due from such assessee, and such person shall comply with any such

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requisition and shall pay the sum so deducted to the credit of the Central Government or as the Board directs :

(3) (i) The Assessing Officer or Tax Recovery Officer may, at any time or from time to time, by notice in writing require any person from whom money is due or may become due to the assessee or any person who holds or may subsequently hold money for or on account of the assessee to pay to the Assessing Officer or Tax Recovery Officer either forthwith upon the money becoming due or being held or at or within the time specified in the notice (not being before the money becomes due or is held) so much of the money as is sufficient to pay the amount due by the assessee in respect of arrears or the whole of the money when it is equal to or less than that amount.

(ii) A notice under this sub-section may be issued to any person who holds or may subsequently hold any money for or on account of the assessee jointly with any other person and for the purposes of this sub-section, the shares of the joint holders in such account shall be presumed, until the contrary is proved, to be equal.

(iii) A copy of the notice shall be forwarded to the assessee at his last address known to the Assessing Officer or Tax Recovery Officer, and in the case of a joint account to all the joint holders at their last addresses known to the Assessing Officer or Tax Recovery Officer.

(iv) Save as otherwise provided in this sub-section, every person to whom a notice is issued under this sub-section shall be bound to comply with such notice, and, in particular, where any such notice is issued to a post office, banking company or an insurer, it shall not be necessary for any pass book, deposit receipt, policy or any other document to be produced for the purpose of any entry, endorsement or the like being made before payment is made, notwithstanding any rule, practice or requirement to the contrary.

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(v) Any claim respecting any property in relation to which a notice under this sub-section has been issued arising after the date of the notice shall be void as against any demand contained in the notice.

(vi) Where a person to whom a notice under this sub-section is sent objects to it by a statement on oath that the sum demanded or any part thereof is not due to the assessee or that he does not hold any money for or on account of the assessee, then nothing contained in this sub-section shall be deemed to require such person to pay any such sum or part thereof, as the case may be, but if it is discovered that such statement was false in any material particular, such person shall be personally liable to the Assessing Officer or Tax Recovery Officer to the extent of his own liability to the assessee on the date of the notice, or to the extent of the assessee's liability for any sum due under this Act, whichever is less.

(vii) The Assessing Officer or Tax Recovery Officer may, at any time or from time to time, amend or revoke any notice issued under this sub-section or extend the time for making any payment in pursuance of such notice.

(viii) The Assessing Officer or Tax Recovery Officer shall grant a receipt for any amount paid in compliance with a notice issued under this sub-section, and the person so paying shall be fully discharged from his liability to the assessee to the extent of the amount so paid.

(ix) Any person discharging any liability to the assessee after receipt of a notice under this sub-section shall be personally liable to the Assessing Officer or Tax Recovery Officer to the extent of his own liability to the assessee so discharged or to the extent of the assessee's liability for any sum due under this Act, whichever is less.

(x) If the person to whom a notice under this sub-section is sent fails to make payment in pursuance thereof to the Assessing Officer or Tax Recovery Officer, he shall be deemed to be an assessee in default in respect of the amount specified in the notice and further proceedings may be taken against him for the realisation of the amount as if it were an

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arrear of tax due from him, in the manner provided in sections 222 to 225 and the notice shall have the same effect as an attachment of a debt by the Tax Recovery Officer in exercise of his powers under section 222.

(4) The Assessing Officer or Tax Recovery Officer may apply to the court in whose custody there is money belonging to the assessee for payment to him of the entire amount of such money, or, if it is more than the tax due, an amount sufficient to discharge the tax.

(5) The Assessing Officer or Tax Recovery Officer may, if so authorised by the Chief Commissioner or Commissioner by general or special order, recover any arrears of tax due from an assessee by distraint and sale of his movable property in the manner laid down in the Third Schedule.

Refunds of Tax

If any person satisfies the Assessing Officer that the amount of tax paid by him or on his behalf or treated as paid by him or on his behalf for any assessment year exceeds the amount with which he is properly chargeable under this Act for that year, he shall be entitled to a refund of the excess.

Person entitled to claim refund in certain special cases.

(1) Where the income of one person is included under any provision of this Act in the total income of any other person, the latter alone shall be entitled to a refund under this Chapter in respect of such income.

(2) Where through death, incapacity, insolvency, liquidation or other cause, a person is unable to claim or receive any refund due to him, his legal representative or the trustee or guardian or receiver, as the case may be, shall be entitled to claim or receive such refund for the benefit of such person or his estate.

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Form of claim for refund and limitation.

(1) Every claim for refund under this Chapter shall be made in the prescribed form and verified in the prescribed manner.

(2) No such claim shall be allowed, unless it is made within the period specified hereunder, namely :—

- (a) where the claim is in respect of income which is assessable for any assessment year commencing on or before the 1st day of April, 1967, four years from the last day of such assessment year;
- (b) where the claim is in respect of income which is assessable for the assessment year commencing on the first day of April, 1968, three years from the last day of the assessment year;
- (c) where the claim is in respect of income which is assessable for any other assessment year, one year from the last day of such assessment year;
- (d) where the claim is in respect of fringe benefits which are assessable for any assessment year commencing on or after the first day of April, 2006, one year from the last day of such assessment year.

Refund on appeal, etc.

Where, as a result of any order passed in appeal or other proceeding under this Act, refund of any amount becomes due to the assessee, the Assessing Officer shall, except as otherwise provided in this Act, refund the amount to the assessee without his having to make any claim in that behalf:

Interest on refunds.

(1) Where refund of any amount becomes due to the assessee under this Act, he shall, subject to the provisions of this section, be entitled to receive, in addition to the said amount, simple interest thereon calculated in the following manner, namely :—

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- (a) where the refund is out of any tax paid under section 115WJ or collected at source under section 206C or paid by way of advance tax or treated as paid under section 199, during the financial year immediately preceding the assessment year, such interest shall be calculated at the rate of one-half per cent for every month or part of a month comprised in the period from the 1st day of April of the assessment year to the date on which the refund is granted:
- (b) in any other case, such interest shall be calculated at the rate of one-half per cent for every month or part of a month comprised in the period or periods from the date or, as the case may be, dates of payment of the tax or penalty to the date on which the refund is granted.
- — — — —
- (2) If the proceedings resulting in the refund are delayed for reasons attributable to the assessee, whether wholly or in part, the period of the delay so attributable to him shall be excluded from the period for which interest is payable, and where any question arises as to the period to be excluded, it shall be decided by the Chief Commissioner or Commissioner whose decision thereon shall be final.
- (3) of section 245D, the amount on which interest was payable under sub-section (1) has been increased or reduced, as the case may be, the interest shall be increased or reduced accordingly, and in a case where the interest is reduced, the Assessing Officer shall serve on the assessee a notice of demand in the prescribed form specifying the amount of the excess interest paid and requiring him to pay such amount; and such notice of demand shall be deemed to be a notice under section 156 and the provisions of this Act shall apply accordingly.
- (4) The provisions of this section shall apply in respect of assessments for the assessment year commencing on the 1st day of April, 1989, and subsequent assessment years.

Certificate to Tax Recovery Officer

(1) When an assessee is in default or is deemed to be in default in making a payment of tax, the Tax Recovery Officer may draw up under his signature a statement in the prescribed form⁶⁴ specifying the amount of arrears due from the assessee (such statement being hereafter in this Chapter and in the Second Schedule referred to as "certificate") and shall proceed to recover from such assessee the amount specified in the certificate by one or more of the modes mentioned below, in accordance with the rules laid down in the Second Schedule—

- (a) Attachment and sale of the assessee's movable property;
- (b) Attachment and sale of the assessee's immovable property;
- (c) Arrest of the assessee and his detention in prison;
- (d) Appointing a receiver for the management of the assessee's movable and immovable properties.

(2) The Tax Recovery Officer may take action under sub-section (1), notwithstanding that proceedings for recovery of the arrears by any other mode have been taken.

Income-tax Settlement Commission.

(1) The Central Government shall constitute a Commission to be called the Income-tax Settlement Commission for the settlement of cases under this Chapter.

(2) The Settlement Commission shall consist of a Chairman and as many Vice-Chairmen and other members as the Central Government thinks fit and shall function within the Department of the Central Government dealing with direct taxes.

(3) The Chairman, Vice-Chairman and other members of the Settlement Commission shall be appointed by the Central Government from amongst

persons of integrity and outstanding ability, having special knowledge of, and, experience in, problems relating to direct taxes and business accounts.

Penalties and Prosecutions

Default in complying with provisions of or with conditions prescribed under the Income-tax Act would attract certain penalty and in critical cases prosecutions as well. The document will provide you information about the punishable offences, prosecutions and the quantum of penalties that can be imposed under the law.

There are three modes built in the fiscal legislation for encouraging tax compliance: (a) Charge of Interest, (b) imposition of penalty (c) launching of prosecution against tax delinquents. While charging of interest is compensatory on character, the imposition of penalty and institution of prosecution proceedings act as strong deterrents against potential tax delinquents.

The defaults which invite levy of penalty.

Chapters XVII and XXI of Income-tax Act, 1961, contain various provisions empowering an Income-tax Authority to levy penalty in case of certain defaults. The following defaults may invite levy of penalty:

(i) When the assessee is in default or is deemed to be in default in making payment of tax, including the tax deducted at source, advance tax and the self assessment tax. [Section 221 read with Sec.201(1)]

(ii) Failure to pay the advance tax as directed by the Assessing Officer or as estimated by the assessee. [Section 273(1)]

(iii) Failure to comply with a notice issued under section 142(1) or 143(2) or failure to comply with the direction issued under section 142(2A) to get the accounts audited. [Section 271(1)(b)]

(iv) Concealment of particulars of income or furnishing of inaccurate particulars of income. [Section 271(1)(c)]

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(v) Failure to maintain books of accounts and documents by persons carrying on profession or business as prescribed under section 44AA. [Section 271A]

(vi) Failure to get the accounts audited in prescribed circumstances or failure to obtain the prescribed audit report within prescribed time period of failure to furnish the audit report along with the return, as required under section 44AB. [Section 271B]

(vii) Failure to subscribe to the eligible issue of capital [Section 271BB]

(viiia) Penalty for failure to deduct tax at source. [Section 271C]

(viii) Accepting of any loan or deposit or repayment of deposit of Rs.20,000 or more otherwise than by account payee cheque or account payee draft, in contravention of the provisions of Section 269SS. [Section 271D]

(viiia) Repayment of loan in contravention of the conditions imposed in section 269T. [Section 271E]

(viiib) A. Failure of file the return of income as required under Section 239 (1), shall entail imposition of penalty. [Section 271F]

(ix) Refusal to answer in contravention of legal obligation. [Section 272A(1)(a)]

(x) Refusal to sign any statement made in the course of income-tax proceedings. [Section 272A(1)(b)]

(xi) Failure to attend or give evidence or produce books of accounts and documents in compliance with the requirements of summons under section 131(1). [Section 272A(1)(c)]

(xii) Failure to comply with the provisions of section 139A dealing with the application for and allotment of Permanent Account Number or General Index Register Number. [Section 272A(1)(d)]

(xiii) Failure to furnish information regarding securities. [Section 272A(2)(a)]

(xiv) Failure to give notice of discontinuance of business or profession. [Section 272A(2)(b)]

(xv) Failure to furnish in due time information sought under section 133 of Income-tax Act. [Section 272A(2)(c)]

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(xvi) Failure to furnish in due time prescribed returns/statements. [Section 272A(2)(c)]

(xvii) Failure to allow inspection or take copies of registers of registers of companies. [Section 272A(2)(d)]

(xviii) Failure to furnish in due time the return of income by charitable or religious institutions. [Section 272A(2)(e)]

(xix) Failure to deliver in due time a copy of declaration of non-deduction of tax at source u/s.197A. [Section 272A(2)(f)]

(xx) Failure to furnish a certificate of tax deducted at source to the person on whose behalf tax has been deducted or collected as required by Section 203 or Section 206C. [Section 272A(2)(g)]

(xxi) Failure to deduct and pay tax from salary payable to an employee as directed by the Assessing Officer or the Tax Recovery Officer as required by Section 226(2). [Section 272A(2)(h)]

(xxii) Failure to allow an Income-tax Authority to collect any information useful or relevant to the purposes of Income-tax Act u/s.133B. [Section 272AA)]

(xxiii) Failure to comply with the provisions of section 203a dealing with tax Deduction Account Number [Section 272BB]

The Levy of Penalty Automatic

No penalty under the Income-tax Act is imposed unless the person concerned has been given reasonable opportunity of being heard.

The Minimum and Maximum Penalty leviable

The quantum of penalty leviable depends upon the nature of default. The relevant section of Income-tax Act prescribe the minimum and maximum penalties which can be levied.

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The penalty be reduced or waived

The Commissioner of Income-tax may reduce or waive the amount of any penalty imposed or imposable, if prescribed conditions are satisfied. The assessee should voluntarily and in good faith make full and true disclosure of income prior to the detection of concealment by the Assessing Officer. In certain cases of genuine hardship, the penalty levied can be reduced/waived if the assessee has co-operated in any enquiry relating to the assessment and recovery of taxes. The waiver/reduction of penalties is discretionary and dependent upon satisfaction or prescribed conditions. No assessee can, a matter of right, claim waiver or reduction of penalty imposed or imposable upon him. [Section 273A]

Office and Prosecution under the Income Tax Act.

In the fight against tax evasion, the imposition of monetary penalty alone is not sufficient. A calculating tax evader finds it profitable to evade tax for years, if he knows that he may get away with it by paying penalty in the year in which he is caught. However, the prospect of landing in jail is a far more dreaded consequence and works as a deterrent. Further, for more serious defaults, sometimes launching of prosecution is prescribed without prescribing monetary penalties.

The Parliament has, therefore, been enacting deterrent laws for effective implementation of tax laws. The Income-tax Act contains a separate chapter XXII wherein offences have been defined and punishment provided.

The offences punishable under the income tax act

The following offences committed by a person are punishable:

- (i) Removal, parting with or otherwise dealing with books of accounts, documents, money, bullion, jewellery or other valuable article or thing put under restraint during the search.

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- (ii) Fraudulent removal, concealment, transfer or delivery of any property or any interest in the property with the intention to thwart recovery of tax. [Section 276]
- (iii) Failure on the part of a liquidator or receiver of a company to give notice of his appointment to the Assessing Officer or failure to set apart amount notified by the Assessing Officer, or parting away of company's properties in contravention of income-tax provision. [Section 276A]
- (iv) Failure to enter into written agreement or failure to furnish the statement of immovable property intended to be transferred u/s.269UC, or failure to surrender or deliver the property u/s.269UE, purchased by the Appropriate Authority or doing or omitting to do anything u/s.269UL, which will have the effect of transfer of property without the permission of the Appropriate Authority (under the provisions of Chapter XX-C) [Section 276AB]
- (v) Failure to pay to the credit of the Central Government the tax deducted at source. [Section 276B]
- (vi) Willful attempt to evade any tax, penalty or interest [Section 276C(1)]
- (vii) Willful attempt to evade the payment of any tax, penalty or interest levied under Income Tax Act. [Section 276C(2)]
- (viii) Willful failure to furnish in due time return of income. [Section 276CC)]
- (ix) Willful failure to produce accounts and documents as directed by issue of notice under section 142(1) [Section 276D]
- (x) Willful failure to get the accounts audited as directed by the Assessing Officer under section 142(2A). [Section 276D]
- (xi) Making of a statement in verification or delivery of an account or statement which is false and which the concerned person knows or believes to be false or does not believe to be true. [Section 277]
- (xii) Abetting or inducing another person to make and deliver an account or statement or declaration relating to any taxable income which is false and which he either knows or believes to be false. [Section 278]

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UNIT: V – Collection of Taxes and Penalties

(xiii) Punishment for 2nd & subsequent offences in cases of certain defaults. [Section 278A]

Persons liable to be prosecuted

Any person, committing the offence is liable to be prosecuted. In this connection it is not necessary that the person should be an assessee under the Income-tax Act. In the case of an offence committed by a Company, Firm, Association of Persons or Body of Individuals, every person in charge of or responsible for the conduct of the business of the concern as well as the concern are deemed to be guilty. Similarly, in the case of an offence by a Hindu Undivided Family, the karta thereof is deemed to be guilty of the offence.

Penalties

Updated with Amendment made vide Finance Act, 2017 and applicable for A.Y. 2017-18 and Onwards

Nature of default/failure	Sections	Penalty
Default in payment of any tax due	Section 221(1)	Such an amount as the Assessing Officer may impose but not exceeding the amount of tax.
Determination of undisclosed income of block period	Section 158BFA(2)	Minimum : 100 per cent of tax leviable in respect of undisclosed income Maximum : 300 per cent of tax leviable in respect of undisclosed income.
Failure to comply with notice issued under section 142(1) or section 143(2) and direction for	Section 271(1)(b)	Rs. 10,000 for each failure.

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audit under section 142(2A).		
Concealment of income or furnishing inaccurate particulars of income	Section 271(1)(c)	100% to 300% of the tax evaded.
Distribution of profits by registered firm otherwise than in accordance with result of which partner has returned income below the real income partnership deed and as a	Section 271(4)	Not exceeding 150 per cent of difference between tax on partner's income assessed and tax on income returned, in addition to tax payable
Failure to keep, maintain or retain books of account, documents, etc., as are required under section 44AA	Section 271A	Rs. 25,000
Failure to keep and maintain information and documents required in respect of international transaction or specified domestic transaction, failure to report such transaction, etc.	Section 271AA	2% of the value of each international transaction or specified domestic transaction entered into by the taxpayer.
Penalty in case of search	Section 271AAB	10%, 20% and ranging from 30% to 90% of the undisclosed income.
Failure to get accounts audited or furnish a report of audit as required under section 44AB	Section 271 B	One-half per cent of total sales, turnover or gross receipts, etc., or Rs. 1,50,000, whichever is less
Failure to furnish a report from an accountant as required by section 92E	Section 271BA	Rs. 1,00,000

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Failure to deduct tax at source, wholly or partly or failure to pay wholly or partly tax under section 115- O(2)	Section 271C	An amount equal to tax not deducted (in case of TDS) or tax not paid (in case of dividend distribution tax)
Failure to collect tax at source	Section 271CA	An amount equal to tax not collected.
Taking or accepting certain loans or deposits or specified sum* in contravention of provisions of section 269SS *“Specified sum” means any sum of money receivable, whether as advance or otherwise, in relation to transfer of an immovable property, whether or not the transfer takes place. Please note that Advance in cash for Property Covered by Section 269SS & 269T wef 01.06.2015	Section 271D	An amount equal to loan or deposit or specified sum so taken or accepted
Repaying loans or deposits or specified advance* in contravention of provisions of section 269T *“Specified advance” means any sum of money in the nature of advance, by whatever name called, in relation to transfer of an immovable property, whether or not transfer takes place. Please note that Advance in cash for Property Covered by Section 269SS & 269T wef 01.06.2015	Section 271E	An amount equal to loan or deposit or specified advance so repaid
Failure to furnish the return of income before the end of the	Section 271F	Rs. 5,000

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assessment year		
Failure to furnish statement of financial transaction or reportable account (previously called as Annual Information Return) as required under section 285BA(1)	Section 271FA	Rs. 100 or Rs.500, as the case may be, per day of default
Failure to furnish an accurate statement of financial transaction or reportable account	Section 271FAA	Rs. 50,000
Failure to furnish statement or information or document [as required under Section 9A(5)] by an eligible investment fund within the prescribed time-limit.	Section 271FAB	An amount equal to Rs. 5,00,000
Failure to furnish any information or document as required by section 92D(3)	Section 271G	2% of the value of the international transaction or specified domestic transaction for each such failure
Failure to furnish information or document under section 285A* by an Indian concern. *Section 285A provides that where any share or interest of foreign company derives its value substantially from assets located in India, and such company holds such assets in India through Indian Concern then such Indian concern shall furnish the prescribed	Section 271GA	A sum equal to 2% of the value of the transaction in respect of which such failure has taken place, if such transaction had the effect of directly or indirectly transferring the right of management or control in relation to the Indian concern; An amount equal to Rs. 5,00,000 in any other case

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information to the income-tax authority.		
Failure to file the TDS/TCS return	Section 271H	Not less than Rs.10,000 and upto Rs. 1,00,000
Failure to furnish information or furnishing of inaccurate information under Section 195(6) in respect of payment made to non-residents.	Section 271-I	An amount equal to Rs. 1,00,000
Failure to co-operate with the tax authorities, i.e., not answering any question, not signing statements, etc.	Section 272A(1)	Rs. 10,000 for each failure/default
Penalty under section 272A(2)	Section 272A(2)	Rs. 100 per day for every day during which the default continues.
Failure to comply with section 133B	Section 272AA(1)	An amount not exceeding Rs. 1,000
Failure to comply with provisions relating to Permanent Account Number (PAN)	Section 272B	Rs. 10,000
Failure to comply with provisions relating to Tax Deduction Account Number or Tax Collection Account Number	Section 272BB(1)	Rs. 10,000
Failure to comply with the provisions relating to Tax Collection Account Number	Section 272BBB	Rs. 10,000

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Section 273AA provides that a person may make application to the Principal Commissioner/Commissioner for granting immunity from penalty, if (a) he has made an application for settlement under section 245C and the proceedings for settlement have abated; and (b) penalty proceeding have been initiated under this Act. The application shall not be made after the imposition of penalty after abatement.

Offences and Prosecutions

Updated with Amendment made vide Finance Act, 2015 and applicable for A.Y. 2016-17 and Onwards

Section	Nature of default	Punishment (rigorous imprisonment)	Fine
(1)	(2)	(3)	(4)
275A	Contravention of order made under section 132(1) (Second Proviso) or 132(3) in case of search and seizure	Up to 2 years	No limit
275B	Failure to afford necessary facility to authorised officer to inspect books of account or other documents as required under section 132(1)(iib)	Up to 2 years	No limit
276	Removal, concealment, transfer or delivery of property to thwart tax recovery	Up to 2 years	No limit
276A	Failure to comply with provisions of section 178(1) and (3) re : company in liquidation	6 months to 2 years	—
276AB	Failure to comply with provisions of sections 269UC, 269UE and 269UL re : purchase of	6 months to 2 years	No limit

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	properties by Government ⁵		
276B	Failure to pay to credit of Central Government (i) tax deducted at source under Chapter XVII-B (non-cognizable offence under section 279A), or (ii) tax payable u/s 115-O(2) or second proviso to section 194B	3 months to 7 years	No limit
276BB	Failure to pay the tax collected under the provisions of section 206C	3 months to 7 years	No limit
276C(1)	Wilful attempt to evade tax, penalty or interest (non-cognizable offence under section 279A)—		
	(a) where tax sought to be evaded exceeds Rs. 1 lakh (Rs. 25 lakh w.e.f. 1-7-2012)	6 months to 7 years	No limit
	(b) in other cases	3 months to 3 years (2 years w.e.f. 1-7-2012)	No limit
276C(2)	Wilful attempt to evade payment of any tax, penalty or interest (non-cognizable offence under section 279A)	3 months to 3 years (2 years w.e.f. 1-7-2012)	No limit
276CC	Wilful failure to furnish returns of fringe benefits under section 115WD/115WH or return of income under section 139(1) or in response to notice under section 142(1)(i) or section 148 or section 153A (non-cognizable offence under section 279A)—		
	(a) where tax sought to be evaded exceeds Rs. 1 lakh (Rs. 25 lakh w.e.f. 1-7-2012)	6 months to 7 years	No limit
	(b) in other cases	3 months to 3 years	No limit

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		(2 years w.e.f. 1-7-2012)	
276CCC	Wilful failure to furnish in due time return of total income required to be furnished by notice u/s 158BC(a)	3 months to 3 years	No limit
276D ⁶	Wilful failure to produce accounts and documents under section 142(1) or to comply with a notice under section 142(2A)	Up to 1 year	⁷ Rs. 4 to Rs. 10 for every day of default
277	False statement in verification or delivery of false account, etc. (non-cognizable offence under section 279A)		
	(a) where tax sought to be evaded exceeds Rs. 1 lakh (Rs. 25 lakh w.e.f. 1-7-2012)	6 months to 7 years	No limit
	(b) in other cases	3 months to 3 years (2 years w.e.f. 1-7-2012)	No limit
277A	Falsification of books of account or document, etc., to enable any other person to evade any tax, penalty or interest chargeable/leviable under the Act	3 months to 3 years (2 years w.e.f. 1-7-2012)	No limit
278	Abetment of false return, account, statement or declaration relating to any income or fringe benefits chargeable to tax (non-cognizable offence under section 279A)		
	(a) where tax, penalty or interest sought to be evaded exceeds Rs. 1 lakh (Rs. 25 lakh w.e.f. 1-7-2012)	6 months to 7 years	No limit

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	(b) in other cases	3 months to 3 years (2 years w.e.f. 1-7-2012)	No limit
278A	Second and subsequent offences under section 276B, 276C(1), 276CC, 277 or 278	6 months to 7 years	No limit
280(1)	Disclosure of particulars by public servants in contravention of section 138(2) [Prosecution to be instituted with previous sanction of Central Government under section 280(2)]	Up to 6 months (simple/rigorous)	No limit

Notes :

Where an offence under this Act has been committed by a person, being a company, and the punishment for such offence is imprisonment and fine, then, such company shall be punished with fine and every person, referred to in sub-section (1) of section 278B, or the director, manager, secretary or other officer of the company referred to in sub-section (2) of section 278B shall be liable to be proceeded against and punished in accordance with the provisions of this Act.

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SEMESTER - VI

UNIT: V – Collection of Taxes and Penalties

POSSIBLE QUESTIONS

PART - A (1 Mark)

(Online Examinations)

PART- B (8 MARKS)

1. Explain the provisions regarding advance payment of tax.
2. Describe the methods of collection and recovery of taxes.
3. Narrate the provisions regarding the tax deducted at source.
4. Explain the penalties for offences under income tax Act.
5. What is meant by TDS? State the provisions regarding to TDS as per Act.
6. Discuss the methods of collection of taxes as per Act.
7. Explain the ways in which taxes are collected by the government.
8. Discuss the provisions regarding the collection of taxes
9. Explain the modes of collection of taxes.
10. What are the various types of penalties imposed under income tax Act.
11. Give any fifteen taxable incomes and its rate of TDS.
12. Explain in brief the provisions of income tax law relating to advance payment of tax.

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13. What are the provisions of law regarding deductions of tax at source in respect of income from salaries and interest on securities?
14. What are the penalty for failure to deduct of tax or after deduction for not paying it to government account?

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(Deemed to be University)

(Established Under Section 3 of UGC Act 1956)

Department of Commerce

Subject: INCOME TAX LAW AND PRACTICE- II

CLASS : III B.COM

Semester: VI

SUB CODE: 15CMU602

PART – A (ONE MARK)

POSSIBLE QUESTIONS - UNIT – V

QUESTION	OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
Causes of tax evasion-	Higher tax rates	Complex of provisions	Corruption	All of above	All of above
Expand TDS	Tax dilution at source	Taxes distribution at source	Tax Deducted at source	tax disturbed at source	tax deducted at source
Advance payment of tax other wise known as	arrear tax	TDS	TIN	Pay as you earn	pay as you earn
Advance tax arises only where the amount of tax payable by the assessee during the year exceeds Rs.	10,000	20,000	30,000	40,000	Rs.10,000
Amount not less than 30% of advance tax is to be paid on or before ----- for all assessee except company assessee	15th August	15th september	15th October	15th November	15th September
Amount not less than 60% of advance tax is to be paid on 2nd installment s on or before -----	15th september	15th October	15th November	15th December	15th December
Entire balance amount of advance tax is to be paid as 3rd installments on or before -----	15th January	15th February	15th March	15th April	15th March
In case of short fall in payment of advance tax of more than 10% then	1%	2%	3%	4%	1%

the rate of interest is to be charged at ----- of tax					
Expand PAN	Permanent account number	personal account number	Permanent assessee number	personal assessee number	Permanent account number
Rate of TDS on interest on securities at -----	10%	20%	30%	40%	10%
The aggregate of dividend payable on shares in the financial year does not exceed Rs.2,500, the rate of TDS is	5%	10%	15%	No TDS	No TDS
The rate of TDS on Winning from lotteries or cross word puzzles at	10%	20%	30%	40%	30%
Any income by way of winning from horse races an amount exceeding Rs.5,000 shall be paid tax at the rate of	10%	20%	30%	40%	30%
A ----- means waste or not usable because of breakage, cutting up , wear and other reasons	breakage	waste	scrap	unusable	scrap
The ----- of tax can be claimed by the person who has paid excess tax	TDS	refund	tax	TIN	refund
If refund claims upto Rs.10,00,000, prior permission from ----- of income tax shall be obtained	Chief commissioner	commissioner	assistant commissioner	deputy commissioner	commissioner
Refund claim exceeding Rs. 50,00,000 prior permission from ----- is necessary	CBDT	Chief commissioner	commissioner	assistant commissioner	CBDT
An ----- refers to an act of referring the case to a higher authority against the order passed by a lower authority in respect of any case	refund	appeal	payment of tax	tax	appeal

An appellate authority under Income tax is -----	IT Dept	Assessing officer	appellate tribunal	supreme court	supreme court
A ----- is code number issued by the IT department to every assessee	PAN	TAN	TIN	PIN	PAN
The PAN is a ----- code	Alpha	numeric	Alpha numeric	Special characters	alpha numeric
PAN code having ----- characters and issued in the form of a laminated card	5	10	15	20	10
If total income exceeds the exemption limit in any previous year, the time limit for applying PAN is on or before	30th June	31st July	31st August	31st May	31st May
Expand TIN	Taxpayers Identification Number	Tax Include Number	Tax imported number	Tax Important Number	Tax payers Identification Number
A ----- means electronic tax deducted at source	E-TDS	TDS	TIN	TAN	e-TDS
The -----means reducing your tax liability without breaking any law.	Tax planning	tax avoidance	tax evasion	tax exemption	tax avoidance
When any individual make false claims to reduce his total income or by not providing any information regarding his total income then its called -----	Tax planning	tax avoidance	tax evasion	tax exemption	tax evasion
Tax Planning is resorted to maximize the cash inflow and minimize the cash -----	inflow	outflow	no change	increase	outflow
Transaction in shares exceeding Rs.50,000. --- ----- is necessary	PAN	WAN	LAN	TAN	PAN
Dividend from foreign company is taxable under the head ----- --	Income from other sources	House property	business income	capital gain	Income from other sources

The sum for which the house property might reasonably be expected to be let from year to year is known as ----- ----	Annual value	Realised rent	Expected rent	Monthly rent	annual value
Gross annual value minus municipal taxes paid by the assessee is -----	Net annual value	Gross annual value	Expected annual value	Annual rental value	Net annual value
Every year the residential status of an assessee -----	may change	will certainly change	will not change	none	May change
Rate of TDS for listed debentures of a company is -----	10%	20%	30.00%	40%	10%
Rate of TDS for casual income is -----	10%	20%	30.00%	40%	30%
Rate of TDS for unlisted debentures with surcharge is -----	10%	20%	30.00%	40%	20%
Rate of TDS for interest on government securities is -----	10%	20%	No TDS	TDS	10%
PAN code having ----- --- characters and issued in the form of a laminated card	5	10	15	20	10
If total income exceeds the exemption limit in any previous year, the time limit for applying PAN is on or before	30th June	31st July	31st August	31st May	31st May
A ----- is code number issued by the IT department to every assessee	PAN	TAN	TIN	PIN	PAN
Entire balance amount of advance tax is to be paid as 3rd installments on or before -----	15th January	15th February	15th March	15th April	15th March
Expand TDS	Tax dilution at source	Taxes distribution source	Tax Deducted at source	tax disturbed at source	tax deducted at source
Advance payment of tax other wise known as	arrear tax	TDS	TIN	Pay as you earn	pay as you earn

Rate of TDS for interest on government securities is -----	10%	20%	No TDS	TDS	10%
PAN code having ----- --- characters and issued in the form of a laminated card	5	10	15	20	10
Transaction in shares exceeding Rs.50,000. --- ----- is necessary	PAN	WAN	LAN	TAN	PAN
Dividend from foreign company is taxable under the head ----- --	Income from other sources	House property	business income	capital gain	Income from other sources
Expand TIN	Taxpayers Identification Number	Tax Include Number	Tax imported number	Tax Important Number	Tax payers Identification Number
A ----- means electronic tax deducted at source	E-TDS	TDS	TIN	TAN	e-TDS
Transaction in shares exceeding Rs.50,000. --- ----- is necessary	PAN	WAN	LAN	TAN	PAN
Dividend from foreign company is taxable under the head ----- --	Income from other sources	House property	business income	capital gain	Income from other sources
The sum for which the house property might reasonably be expected to be let from year to year is known as ----- ----	Annual value	Realised rent	Expected rent	Monthly rent	annual value
Advance payment of tax other wise known as	arrear tax	TDS	TIN	Pay as you earn	pay as you earn
Advance tax arises only where the amount of tax payable by the assessee during the year exceeds Rs.	10,000	20,000	30,000	40,000	Rs.10,000
Amount not less than 30% of advance tax is to be paid on or before ----- ----- for all assessee except company assessee	15th August	15th september	15th October	15th November	15th September

Entire balance amount of advance tax is to be paid as 3rd installments on or before -----	15th January	15th February	15th March	15th April	15th March
In case of short fall in payment of advance tax of more than 10% then the rate of interest is to be charged at ----- of tax	1%	2%	3%	4%	1%
An appellate authority under Income tax is -----	IT Dept	Assessing officer	appellate tribunal	supreme court	supreme court
The aggregate of dividend payable on shares in the financial year does not exceed Rs.2,500, the rate of TDS is	5%	10%	15%	No TDS	No TDS
Rate of TDS for casual income is -----	10%	20%	30.00%	40%	30%

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COIMBATORE- 641 021

FIRST INTERNAL EXAMINATION, JANUARY -2018

III B.COM – SIXTH SEMESTER

INCOME TAX LAW AND PRACTICE - II

Time: 2 Hours

Maximum: 50 Marks

PART - A (20X 1 = 20 Marks)

CHOOSE THE CORRECT ANSWER

1. In the administrative setup of the Income tax department , the highest authority is the –
a. Commissioner b. Director c. CBDT d. Assessing Officer
2. The Central board of revenue act passed in the year ----
a.1956 b.1959 c.1961 d.1963
3. In case as assessee has not furnished a return with in the time allowed to him is called -----
a. return b. belated return c. revised return d. proforma
4. The jurisdiction of additional commissioner is determined by -----
a. Commissioner b. Director c. CBDT d. Assessing Officer
5. Income escaping assessment is otherwise called as
a. self assessment b. enquiry before assessment c. summary assessment
d. re-assessment
6. There are ----- types of Best judgment assessment
a.2 b.3 c.4 d.5
7. The CBDT functions under the control of -----
a. Ministry of external affairs b. Ministry of Legal c. Ministry of Finance d. Ministry of corporate laws
- 8.The jurisdiction of CBDT is ----
a. whole of India b. part of India c. Whole of Tamil nadu d. Whole of Kerala
9. The ----- is empowered to appoint the members of CBDT
a.State Government b.central Government c.Union territory d. Local authority
- 10.Tax deducted on lottery is-----

a.20% b.25% c.30% d.35%

11. Rate of education cess on total income is-----

a.2% b.3% c.2.50% d.4%

12. Give the full form of STT-

a. Security Transaction Tax b. State Toll Tax c. Share Transfer Tax Security
d. Transmission Tax

13. Rate of tax for adjusted total income is @ -----

a.15.80% c.16.80% c. 18.50% d.16.50%

14. Gross total income means-----

a. Sum of heads of income b. Total income after deducting deductions
c. Income on which tax calculated d. Total Income

15. Rebate u/s 87A shall be -----

a. Rs.3,000 b. Rs.5,000 c. Rs.1,000 d. Rs.500

16. Interest credited to Recognized Provident fund shall be -----

a. Fully exempt b. fully taxable c. exempt upto 9.5% p.a
d. Exempted up to 14% of salary

17. Children education allowance is exempted upto ----- per child upto the maximum of two children.

a. Rs.100p.m b. Rs.200 p.m c. Rs.300 p.m d. RS. 400 pm

18. Income received as rent from sub letting would be taxable under the head -----

a. House property b. Business income c. Capital gain d. other sources

19. The cost inflation index number of the previous year 2016-17 is -----

a. 447 b. 859 c. 1089 d. 1024

20. 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

PART - B (3X10=30 Marks)
ANSWER ALL THE QUESTIONS

21.a. What are the authorities provided by Income tax Act for the administration of the tax?

(OR)

b. Discuss briefly the powers of Income tax officer.

22.a. Explain the assessment procedure as per Income Tax Act.

(OR)

b. Discuss the powers and functions of Central Board of Direct Taxes.

23.a. From the particulars given below compute the total income and tax payable of Mr Deb, a Central Government employee working at Chandigarh

1. 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.

2. He owns two houses, one of which is let out at a rent of Rs. 400 p.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 Rs. 100 respectively.

3. 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.

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

(OR)

b. The following are the particulars of the income of the Hyderabad University teacher during the year ending 31st March 2017

- a. Salary Rs. 40,000 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. Wardnership allowance Rs.2,000 per month
- c. Income from house property (computed) Rs 29,560
- d. He received Rs.3,500 for writing articles in a journal
- e. He paid Rs.2,000 (by Cheque) to GIC under Mediclaim
- f. Interest in postal savings bank deposit Rs.6,500
- g. Interest gross Rs. 2,500
- h. Examinership remuneration Rs.3,500
- i. During the year, he sold shares of reliance industrial ltd and earned a long term capital gains of Rs.60,000

Population of Hyderabad is 12 lakhs. Find out his total income, tax and exempted income.
