Semester II

L T P C

17CMP203 **CORE : DIRECT TAXATION** **4 - - 4**

COURSE OBJECTIVE

This course provided the knowledge about the provision of income tax Act. Basis of charge explains the residential status of an individual, HUF and all other persons. It gives the clear idea about the computation of total income such as income from salary, House property, Profits and gains of business or profession, capital gain and income from other sources.

LEARNING OUTCOME

- It inculcates working knowledge on framework of taxation system in India
- It assists thorough knowledge of various concepts and their application relating to direct tax laws and tax planning decisions
- It helps to compute total income and tax liability of individual

UNIT- I

Income Tax Act 1961: Income Tax Act 1961: Scope of Income – Total Income and Residential Status- Income Which do not form part of Total Income – Income From Salaries

UNIT- II

Income from House Property – Profits and Gains of Business or Profession – Income from Business – Income from Profession

UNIT- III

Capital gains – Capital gain – Short Term and Long term Capital Gain – Income From Other Sources- Aggregation of Income -– Setoff and Carry Forward of Losses

UNIT- IV

Deductions out of Gross Total Income – Computation of Total Income – Assessment of Individuals

UNIT- V

Tax planning - Advance payment of Tax – Tax deducted at source - E-TDS software - Returns to be submitted by various assessee – Different types of tax planning - Tax software – e-filing of income tax return

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: Singhania, Vinod K. & Monica Singhania, (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

http : \\incometaxindia .org

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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 : DIRECT TAXATION SEMESTER : II
SUBJECT CODE : 17CMP203/17CCP203 CLASS : I M.COM/ I M.COM (CA)

UNIT I

SL. No.	Lecture Duration(Hr)	Topics to be Covered	Support Materials
1	1	Income Tax Act 1961 ,History of IT act, Tax, types of tax	T: 1/3 - 1/7
2	1	Definitions – Agricultural Income, Assessee, Assessment , Previous year, Person, Income	T: 1/8 - 1/11
3	1	Residential status of an Individual , basic and additional conditions – rules and sums, HUF, AOP, BOI, Others	T: 1/37- 1/48
4	1	Scope of Income / Incidence to tax, Computation of total income , exempted income	T:1/70 – 1/68 T: 1/49-1/98
5	1	Computation of total income from salaries, features	T:2/1-2/142
6	1	Allowances – Fully exempted , Fully taxable , partially taxable	T: 2/19 – 2/28
7	1	Partially taxable allowances - sums	T: 2/29 – 2/48
8	1	Perquisites , general format and exempted perquisites	T: -2/29 – 2/48
9	1	Provident fund and leave encashment	T: 2/48-2/76
10	1	Fully taxable perquisites, Gratuity , pension,	T: 2/48-2/76
11	1	Computation of salary income	T: 2/100- 2/142
12	1	Recapitulation and discussion of important questions	
Total no. Hours planned for Unit - I			**12**

UNIT II

SL. No.	Lecture Duration (Hr)	Topics to be Covered	Support Materials
1	1	Income from house property, Annual Rental Value , Different types	T:2/151-2/162
2	1	General format for computation of ARV	T: 2/163- 165
3	1	Let out and self occupied house , deductions	T: 2/166-179
4	1	Treatment of unrealized rent, Joint Expenses	T: 2/179-2/195 T:2/200-2/207
5	1	Business income , General format for computation of business income	T: 2/210-2/263
6	1	Expenses expressly allowed and disallowed Income Expressly allowed and disallowed	T:2/264-2/273
7	1	Computation of business income – Sums	T:2/288-2/308
8	1	Computation of business income – Sums	T:2/288-2/308
9	1	Professional income of a doctor , Chartered accountant, – General format – Sums	T:2/273-2/283
10	1	Professional income of a doctor , Chartered accountant, – General format – Sums	T:2/288-2/308
11	1	Computation of professional income - Sums	T:2/288-2/308
12	1	Recapitulation and discussion of important questions	
Total No. Hours planned for Unit - II			**12**

UNIT III

SL. No.	Lecture Duration (Hr)	Topics to be Covered	Support Materials
1	1	Capital gain , Scope of Charge, types of capital assets, Transfer, LTCG and STCG	T: 2/349 – 2/364
2	1	General format for computation of capital gain Indexing procedure	T: 2/372 – 2/373 T: 2/396- 2/397
3	1	Computation of capital gain – Sums	T: 2/398 – 2/402
4	1	Computation of capital gain – Sums	T: 2/403-2/410
5	1	Income from other sources – Meaning and Rules	T: 2/412-2/436
6	1	General and specific income , gifts	T: 2/423-2/425
7	1	Computation of income from other sources – Sums	T: 2/430-2/450
8	1	Aggregation of income – Sums	T: 2/451-2/462
9	1	Computation of total income	T: 2/451-2/462
10	1	Set off and carry forward of losses – sums	T:2/462-2/487
11	1	Set off and carry forward of losses – sums	T: 2/462-2/487
12	1	Recapitulation and discussion of important questions	
Total no. Hours planned for Unit - III			**12**

UNIT IV

SL. No.	Lecture Duration (Hr)	Topics to be Covered	Support Materials
1	1	Deductions in respect of certain income u/s80	T: 2/489-2/543
2	1	Deductions in respect of certain payments u/s 80	T: 2/544-2/552
3	1	Computation of total income	T: 1/18-1/20
4	1	Computation of taxable income - sums	T: 1/18-1/20
5	1	Computation of tax liability – General format and Sums	T: 2/352 – 2/354
6	1	Computation of tax liability - sums	T: 2/352-2/354
7	1	Rate of tax for individuals – sums	T: 3/3 – 3/7
8	1	Computation of tax liability – Sums	T: 2/452-2/462
9	1	Aggregation of total income of individuals – Sums	T: 4/23 - 4/64
10	1	Assessment of individuals - Sums	T: 4/23-4/64
11	1	Assessment of individuals - Sums	T: 4/23-4/64
12	1	Recapitulation and discussion of important questions	
Total No. Hours planned for Unit - IV			**12**

UNIT V

SL. No.	Lecture Duration (Hr)	Topics to be Covered	Support Materials
1	1	Tax planning, Meaning Tax Evasion and Avoidance	R3:960-965
2	1	Tax Evasion and Avoidance – Rules and Procedures	R3: 960-965
3	1	Advance payment of Tax,	R3: 967-969
4	1	TDS, E- TDS Software	Rs: 967-969
5	1	E- filing procedure and e- filing of income tax returns	W1
6	1	Methods of tax planning	R3:971-974
7	1	E-filing procedures and e – filing of tax evasion	R3:971-974
8	1	E-filing of tax return	W3
9	1	Recapitulation and discussion of important questions	R3: 971-974
10	1	Total hours planned for unit V	9
11	1	Discussion of Previous year ESE Questions	1
11	1	Discussion of Previous year ESE Questions	1
12	1	Discussion of Previous year ESE Questions	1
Total No. Hours Planned for Unit - V and Discussion of Previous year ESE Qs			**12**
TOTAL HOURS PLANNED			**60**

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.

WEBSITES

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Income Tax Act 1961: Scope of Income – Total Income and Residential Status- Income Which do not form part of Total Income – Income From Salaries

BRIEF HISTORY OF INCOME TAX IN INDIA

In India, Income tax was introduced for the first time in 1860, by Sir James Wilson in order to meet the losses sustained by the Government on account of the Military Mutiny of 1857. Thereafter; several amendments were made in it from time to time. In 1886, a separate Income tax act was passed. This act remained in force up to, with various amendments from time to time. In 1918, a new income tax was passed and again it was replaced by another new act which was passed in 1922.This Act remained in force up to the assessment year 1961-62 with numerous amendments. The Income Tax Act of 1922 had become very complicated on account of innumerable amendments. The Government of India therefore referred it to the law commission in1956 with a view to simplify and prevent the evasion of tax. The law commission submitted its report-in September 1958, but in the meantime the Government of India had appointed the Direct Taxes Administration Enquiry Committee submitted its report in 1956.In consultation with the Ministry of Law finally the Income Tax Act, 1961 was passed. The Income Tax Act 1961 has been brought into force with 1 April 1962. It applies to the whole of India including Jammu and Kashmir.

Income-tax law in India

The income tax law in India consists of the following components:

1. Income tax Acts
2. Income tax rules
3. Finance Act
4. Circulars, notifications etc
5. Legal decision of courts.

Finance Act:

Every year, the Finance Minister of the Government of India presents the Budget to the Parliament. Once the Finance Bill is approved by the Parliament and gets the assent of the President of India, it becomes the Finance Act.

Income-tax Rules:

The administration of direct taxes is looked after by the Central Board of Direct Taxes (CBDT). The CBDT is empowered to make rules for carrying out the purposes of the Act. For the proper administration of the Income-tax Act, the CBDT frames rules from time to time. These rules are collectively called Income-tax Rules, 1962.

Circulars and Notifications:

Circulars are issued by the CBDT from time to time to deal with certain specific problems and to clarify doubts regarding the scope and meaning of the provisions. These circulars are issued for the guidance of the officers and/or assessees.

IMPORTANT DEFINITIONS

Assessment Year : Section 2(9)

"Assessment year" means the period starting from April 1 and ending on March 31 of the next year. Eg: Assessment year 2017-18 which commences on April 1, 2017 and ends on March 31, 2018. Income of previous year of an assessee is taxed during the assessment year at the rates

Previous year: Section 3

Income earned in a particular year is taxable in the next year. The year in which income is earned is known as previous year and the next year in which income is taxable is known as assessment year. In other words, previous year is the financial year immediately proceeding the assessment year.

Exceptions to the general rule that previous year's income is taxable during the assessment year

In the following situations income of an assessee is liable to be assessed to tax in the same year in which he earns the income:

a. Income of non-residents from shipping;

b. Income of persons leaving India either permanently or for a long period of time;

c. Income of bodies formed for short duration;

d .Income of a person trying to alienate his assets with a view to avoiding payment of Tax

e. Income of a discontinued business.

Person : Section 2(31)

The term “person” includes:

1. an individual
2. a Hindu undivided family
3. a company
4. a firm;
5. an association of persons or a body of individuals , whether incorporated or not;
6. a local authority, and
7. Every artificial juridical person not falling with in any of the preceding categories.

Assessee : Section 2(7)

Every person in respect of whom, any proceeding under the act has been taken for the assessment of his income or of the income of any other person in respect of which he is assessable or of the loss sustained by him or by such other person or the amount of refund due to him or to such other person may be called an assessee.

Deemed Assessee:

A person who is deemed to be an assessee for some other person is called “Deemed Assessee”.

Assessee In Default:

When a person is responsible for doing any work under the Income Tax Act and he fails to do it, he is called an “Assessee in default”.

Assessment [Section 2(8)]

This is the procedure by which the income of an assessee is determined by the Assessing Officer.

Basis Of Charge Of Income Tax Sec : 4

To know the procedure for charging tax on income, one should be familiar with the following:

1. **Annual tax** - Income-tax is an annual tax on income.
2. **Tax rate of assessment year** - Income of previous year is chargeable to tax in the next following assessment year at the tax rates applicable for the assessment year. This rule is, however, subject to some exceptions
3. **Rates fixed by Finance Act** - Tax rates are fixed by the annual Finance Act and not by the Income-tax Act. For instance, the Finance Act, 2013, fixes tax rates for the Assessment year 2013-14.
4. **Tax on person** - Tax is charged on every person
5. **Tax on total income** - Tax is levied on the "total income" of every assessee computed

INCOME : Section 2 (24)

The definition of the term "Income" in section 2(24) is inclusive and not exhaustive. Therefore, the term "income" not only includes those things that are included in section 2(24) but also includes those things that the term signifies according to its general and natural meaning. Income, in general, means a periodic monetary return which accrues or is expected to accrue regularly from definite sources. However, under the Income-tax Act, 1961, even certain income which do not arise regularly are treated as income for tax purposes e.g. Winnings from lotteries, crossword puzzles.

Section 2(24) of the Act gives a statutory definition of income.

At present, the following items of receipts are included in income:—

(1) Profits and gains.

(2) Dividends.

(3) Voluntary contributions received by a trust/institution created wholly or partly for charitable or religious purposes or by an association or institution

(4) The value of any perquisite or profit in lieu of salary taxable under section 17.

(5) Any special allowance or benefit other than the perquisite included above, specifically granted to the assessee to meet expenses wholly, necessarily and exclusively for the performance of the duties of an office or employment of profit.

(6) Any allowance granted to the assessee to meet his personal expenses at the place where the duties of his office or employment of profit are ordinarily performed by him or at a place where he ordinarily resides or to compensate him for the increased cost of living.

(7) The value of any benefit or perquisite whether convertible into money or not, obtained from a company either by a director or by a person who has a substantial interest in the company or by a relative of the director or such person and any sum paid by any such company in respect of any obligation which, but for such payment would have been payable by the director or other person aforesaid.

(8) The value of any benefit or perquisite, whether convertible into money or not, which is obtained by any representative assessee mentioned under section 160(1)(iii) and (iv), or by any beneficiary or any amount paid by the representative assessee for the benefit of the beneficiary which the beneficiary would have ordinarily been required to pay.

(9) Deemed profits chargeable to tax under section 41 or section 59.

(10) Profits and gains of business or profession chargeable to tax under section 28.

(11) Any capital gains chargeable under section 45.

(12) The profits and gains of any insurance business carried on by Mutual Insurance Company or by a cooperative society, computed in accordance with Section 44 or any surplus taken to be such profits and gains by virtue of the provisions contained in the first Schedule to the Act.

(13) The profits and gains of any business of banking (including providing credit facilities) carried on by a co-operative society with its members.

(14) Any winnings from lotteries, cross-word puzzles, races including horse races, card games and other games of any sort or from gambling, or betting of any form or nature whatsoever.

(15) Any sum received by the assessee from his employees as contributions to any provident fund or superannuation fund or Employees State Insurance Fund (ESI) or any other fund.

(16) Any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy will constitute income. "Keyman insurance policy" means a life insurance policy taken by a person on the life of another person where the latter is or was an employee or is or was connected in any manner what so ever with the former's business.

(17) Any activity in relation to any business or not sharing any know-how, patent, copy right, trade-mark, licence, franchise, or any other business or commercial right of a similar nature, or information or technique likely to assist in the manufacture or processing of goods or provision of services, shall be chargeable to income tax under the head "profits and gains of business or profession".

(18) Any sum of money or value of property referred to in section 56(2)(vii) or section 56(2)(viia).

(19) Any consideration received for issue of shares as exceeds the fair market value of shares referred to in section 56(2)(viib).

Gross Total Income Sec: 80b (5)

As per section 14, the income of a person is computed under the following five heads:

1. Salaries.
2. Income from house property.
3. Profits and gains of business or profession.
4. Capital gains.

5. Income from other sources.

If the income is not derived from any of the above sources, it is not taxable under the act. The aggregate income under these heads is termed as "gross total income".

Total Income Sec : 2(45)

Total income means the amount left after making the deductions under section 80C to 80U from the gross total income.

Casual Income

Any receipt which is of a casual and non-recurring nature is called casual income. Casual income includes the following receipts:

1. Winning from lotteries,
2. Winning from crossword puzzles,
3. Winning from races (including horse races),
4. Winning from card games and other games of any sort
5. Winning from gambling or betting of any form or nature.

RATES OF INCOME TAX FOR THE ASSESSMENT YEAR 2017-18

General Rates (Excluding short term capital gains specified in sec:111A, long term capital gains, winning from lottery, cross word puzzle, races, etc.):

Individual- Super senior citizen (80 years or more):

Upto Rs: 5,00,000	:	Nil
Rs: 5,00,001 to 10,00,000	:	20%
Above Rs:10,00,000	:	30%

Individual- Senior citizen (60 years or more but less than 80 years):

Upto Rs: 2,50,000	:	Nil
Rs: 2,50,001 to 5,00,000	:	10%
Rs: 5,00,001 to 10,00,000	:	20%
Above Rs:10,00,000	:	30%

Other individuals, HUF, AOP, BOI:

Upto Rs: 2,00,000	:	Nil
Rs: 2,00,001 to 5,00,000	:	10%
Rs: 5,00,001 to 10,00,000	:	20%
Above Rs: 10,00,000	:	30%

Special Rates:

On short term capital gains specified in Sec. 111A	:	15%
On long term capital gains	:	20%
On gains from listed shares without indexing the cost of acquisition	:	10%
On winnings from lottery, cross word puzzle, horse race, etc.	:	30%

Surcharge: Nil

Education Cess: 3% on the amount of income tax.

Agriculture income

Agriculture income is exempt under the Indian Income Tax Act. Any rent received from land which is used for agricultural purpose.

(i) Any income derived from such land by agricultural operations including processing of agricultural produce, raised or received as rent in kind so as to render it fit for the market, or sale of such produce.

(ii) Income attributable to a farm house subject to the condition that building is situated on or in the immediate vicinity of the land and is used as a dwelling house, store house etc.

Now income earned from carrying nursery operations is also considered as agricultural income and hence exempt from income tax.

In order to consider an income as agricultural income certain points have to be kept in mind:

(i) There must me a land.

(ii) The land is being used for agricultural operations.

(iii) Agricultural operation means that efforts have been induced for the crop to sprout out of the land .

(iv) If any rent is being received from the land then in order to assess that rental income as agricultural income there must be agricultural activities on the land.

(v) In order to assess income of farm house as agricultural income the farm house building must be situated on the land itself only and is used as a store house/dwelling house.

Certain income which is treated as Agriculture Income:

(a) Income from sale of replanted trees.

(b) Rent received for agricultural land.

(c) Income from growing flowers and creepers.

(d) Share of profit of a partner from a firm engaged in agricultural operations.

(e) Interest on capital received by a partner from a firm engaged in agricultural operations.

(f) Income derived from sale of seeds.

Certain income which is not treated as Agricultural Income:

(a) Income from poultry farming.

(b) Income from bee hiving.

(c) Income from sale of spontaneously grown trees.

(d) Income from dairy farming.

(e) Purchase of standing crop.

(f) Dividend paid by a company out of its agriculture income.

(g) Income of salt produced by flooding the land with sea water.

(h) Royalty income from mines.

(i) Income from butter and cheese making.

(j) Receipts from TV serial shooting in farm house is not agriculture income.

Partly agriculture income

Partly agricultural income consists of both the element of agriculture and business, so non agricultural part of the income is taxed. Some examples for partly agricultural income are given below:

1. Profit of business other than Tea

This rule applicable to agricultural produce like cotton, tobacco, and sugarcane etc, here the market value of the agricultural produce raised by the Assessee for utilizing it as raw material for his business will be deducted out of the total profit of such Assessee while calculating tax on his income.

2. Profit from Tea manufacturing

If a person using his own tealeaves grown by him for his tea manufacturing business, then 60 % of his income will be treated as agricultural income and the remaining 40 % will be treated as business income. So he has to pay tax on that remaining 40% of income.

3. Income from the manufacturing of centrifuged latex

If a person manufacturing centrifuged latex by using his own made raw then, 65 % of the income derived from the sale of the same is treated as agricultural income so he has to pay tax remaining part of the income.

4. Income from the coffee manufacturing

a) 75% of the income derived from the sale of coffee grown and cured by the seller in India is deemed to be agricultural income 25% is taken as business income.

b) 65% the income derived from the sale of coffee grown, cured, roasted and grounded by the seller in India is deemed to be agricultural income 40% is taken as business income.

Capital and revenue receipts and expenditure

Receipts which are non-recurring (not received again and again) by nature and whose benefit is enjoyed over a long period are called "Capital Receipts", e.g. money brought into the business by the owner (capital invested), loan from bank, sale proceeds of fixed assets etc. Capital receipt is shown on the liabilities side of the Balance Sheet.receipts which are recurring (received again and again) by nature and which are available for meeting all day to day expenses (revenue expenditure) of a business concern are known as "Revenue receipts", e.g. sale proceeds of goods, interest received, commission received, rent received, dividend received etc.

Differences between capital and revenue reciept

S.No	Revenue Receipt	Capital Receipt
1	It has short-term effect. The benefit is enjoyed within one accounting period.	It has long-term effect. The benefit is enjoyed for many years in future.
2	It occurs repeatedly. It is recurring and Regular in nature.	It does not occur again and again. It is nonrecurring and irregular in nature.
3	It is shown in profit and loss account on the credit side.	It is shown in the Balance Sheet on the liability side.
4	It does not produce capital receipt	Capital receipt, when invested, produces revenue receipt e.g. when capital is invested by the owner, business gets revenue receipt (i.e. sale proceeds of goods etc.).
5	This does not increase or decrease the value of asset or liability	The capital receipt decreases the value of asset or increases the value of liability e.g. sale of a fixed asset, loan from bank etc.
6	Sometimes, expenses of capital nature are to be incurred for revenue receipt, e.g. purchase of shares of a company is capital expenditure but dividend received on shares is a revenue receipt.	Sometimes expenses of revenue nature are to be incurred for such receipt e.g. on obtaining loan (a capital receipt) interest is paid until its repayment.

Difference between Capital Expenditure and Revenue Expenditure:

No.	Revenue Expenditure	Capital Expenditure
1	Its effect is temporary, i.e. the benefit is received within the accounting year.	Its effect is long-term, i.e. it is not exhausted within the current accounting year-its benefit is received for a number of years in future.
2	Neither an asset is acquired nor is the value of an asset increased.	An asset is acquired or the value of an existing asset is increased.
3	It has no physical existence because it is incurred on items which are used by the business.	Generally it has physical existence except intangible assets.
4	It is recurring and regular and it occurs repeatedly.	It does not occur again and again. It is nonrecurring and irregular.
5	This expenditure helps to maintain the business.	This expenditure improves the position of the business.
6	The whole amount of this expenditure is shown in trading P & L A/c or income statement.	A portion of this expenditure (depreciation on assets) is shown in trading & P & L A/c and the balance are shown in the balance sheet on asset side.
7	It does not appear in the balance sheet.	It appears in the balance sheet until its benefit is fully exhausted.
8	It reduces revenue (profit) of the business	It does not reduce the revenue of the concern.

Residential Status and Tax Incidence

Tax incidence on an assessee depends on his residential status. The residential status of an assessee is determined with reference to his residence in India during the previous year. Therefore, the determination of the residential status of a person is very significant in order to find out his tax liability. Residence and citizenship are two different things. The incidence of tax has nothing to do with citizenship.

Residential Status of an Individual

As per section 6, an individual may be (a) resident and ordinarily resident in India, (b) resident but not ordinarily resident in India, or(c) non-resident in India. The following are the two sets of conditions for determining the residential status of an individual:

Basic conditions :

He is in India in the previous year for a period of 182 days or more

OR

He is in India for a period of 60 days or more during the previous year and has been in India for a period of 365 days or more during 4 years immediately preceding the previous year.

Note: In the following two cases, an individual needs to be present in India for a minimum of 182 days or more in order to become resident in India:

(a) An Indian citizen who leaves India during the previous year for the purpose of taking employment outside India or an Indian citizen leaving India during the previous year as a member of the crew of an Indian ship.

(b) An Indian citizen or a person of Indian origin who comes on visit to India during the previous year (a person is said to be of Indian origin if either he or any of his parents or any of his grandparents was born in undivided India).

Additional Conditions:

(i) He has been resident in India in at least 2 out of 10 previous years [according to basic condition noted above] immediately preceding the relevant previous year.

AND

(ii) He has been in India for a period of 730 days or more during 7 years immediately preceeding the relevant previous year.

1. **Residential status**

An individual is said to be resident in India if he satisfies any one of the basic conditions.

(A)Resident And Ordinarily Resident

An individual is said to be resident and ordinarily resident in India if he satisfies any one of the basic conditions and both of the additional conditions.

(B)Resident But Not Ordinarily Resident

An individual is said to be resident but not ordinarily resident in India if he satisfies any one of the basic conditions but not satisfies both of the additional conditions.

(C)Non-Resident

An individual is a non-resident in India if he satisfies none of the basic conditions.

2. **Residential Status Of A Hindu Undivided Family**

As per section 6(2), a Hindu undivided family (like an individual) is either resident in India or non-resident in India. A resident Hindu undivided family is either ordinarily resident or not ordinarily resident.

HUF : Resident or Non-Resident

A Hindu undivided family is said to be resident in India if control and management of its affairs is wholly or partly situated in India. A Hindu undivided family is non-resident in India if control and management of its affairs is wholly situated outside India.

A resident Hindu undivided family is an ordinarily resident in India if the karta or manager of the family (including successive kartas) satisfies the following two additional conditions as laid down by section 6(6)(b).

Additional condition (i) Karta has been resident in India in at least 2 out of 10 previous years [according to the basic condition mentioned in immediately preceding the relevant previous year) **Additional condition (ii)** Karta has been present in India for a period of 730 days or more during 7 years immediately preceding the previous year.

If the Karta or manager of a resident Hindu undivided family does not satisfy the two additional conditions, the family is treated as resident but not ordinarily resident in India.

3. **Residential Status of Firm and Association of Persons**

As per section 6(2), a partnership firm and an association of persons are said to be resident in India if control and management of their affairs are wholly or partly situated within India during the relevant previous year. They are, however, treated as non-resident in India if control and management of their affairs are situated wholly outside India.

4. **Residential Status of a Company**

As per section 6(3), an Indian company is always resident in India. A foreign company is resident in India only if, during the previous year, control and management of its affairs is situated wholly in India. However, a foreign company is treated as non-resident if, during the previous year, control and management of its affairs is either wholly or partly situated out of India.

SCOPE OF TOTAL INCOME (Section 5) :

Resident and ordinarily resident:

Total income of an assessee who is resident and ordinarily resident includes:

(*a*) any income received or deemed to be received in India during the previous year by or on behalf of the assessee ; or

(*b*)any income accrues or arises or deemed to accrue or arise to him in India during the previous year ; or

(*c*) any income accrues or arises to him outside India during such year.

Resident but not ordinarily resident:

(*a*) any income received or deemed to be received in India during the previous year by or on behalf of the assessee ; or

(*b*)any income accrues or arises or deemed to accrue or arise to him in India during the previous year ; or

(*c*) any income accrues or arises to him outside India from a business controlled in or a profession set up in India.

Non- resident:

(*a*) any income received or deemed to be received in India during the previous year by or on behalf of the assessee ; or

(*b*)any income accrues or arises or deemed to accrue or arise to him in India during the previous year.

INCOME EXEMPT FROM INCOME TAX

The following Income is exempt from Income tax:-

1. Agriculture Income [Sec. 10(1)]
2. Payments received from family income by a member of HUF [Sec. 10(2)]
3. Share of profit from a firm [Sec. 10(2A)]

4. Interest received by a non resident from prescribed securities [Sec. 10(4)]
5. Interest received by a person who is resident outside India on amounts credited in the non-resident (External) account [Sec. 10(4)]
6. Leave travel concession provided by as employer to his Indian citizen employee,Sec. 10(5)]
7. Remuneration received by foreign diplomats of all categories [Sec. 10(6)]
8. Salary received by a foreign citizen as an employee of a foreign enterprise provided his stay in India does not exceed 90 days [Sec. 10(6)(vi)]
9. Salary received by a non-resident foreign citizen as a member of ship's crew provided his total stay in India does not exceed 90 days [Sec. 10(6)(vii)]
10. Remuneration received by an employee, being a foreign national, of a foreign government deputed in India for training in a Government establishment or public sector undertaking [Sec. 10(6)(xi)]
11. Tax paid on behalf of foreign companies [Sec. 10(6A)]
12. Tax paid by Government or an Indian concern in case of a non-resident / foreign company [Sec.10(6B)]
13. Income arising to notified foreign companies from services provided in or outside India in project connected with the security of India [Sec. 10(6C)]
14. Foreign allowance granted by the Government of India to its employees posted abroad [Sec. 10(7)]
15. Remuneration received from a foreign Government by an individual who is in India in connection with any sponsored co-operative technical assistance programme with a foreign Government and the income of the family members of such employee [Sec. 10(8)and(9)]
16. Remuneration / fee received by non-received consultants and their foreign employees [Sec. 10(8A),(8B) and (9)]
17. Death-cum-retirement gratuity [Sec. 10(10)]
18. Commuted value of pension and any payment received by way of commutation of pension by as individual out of annuity plan of LIC or any other insurer from a fund set up by that

corporation or insurer [Sec. 10(10A)]

19. Leave salary [Sec. 10(10AA)]
20. Retrenchment compensation [Sec. 10(10B)]
21. Compensation received by victims of Bhopal gas leak disaster [Sec. 10(10BB)]
22. Compensation from the Central Government or a state Government or a local authority received by an individual or his legal heir on account of any disaster [Sec. 10(10BC)]
23. Compensation received from a public sector company at the time of voluntary retirement or separation [Sec. 10(10C)]
25. Any sum (including bonus) on life insurance policy (not being a keyman insurance policy) [Sec. 10(10D)]
26. Any amount from provident fund paid to retiring employee [Sec. 10(11)]
27. Amount from an approved superannuation fund to legal heirs of the employee [Sec. 10(13)]
28. House rent allowance subject to certain limits [Sec. 10(13A)]
29. Special allowance granted to an employee [Sec. 10(14)]
30. Interest from certain exempted securities [Sec. 10(15)]
31. Payment made by an Indian company, engaged in the business of operation of an aircraft, to acquire an aircraft on lease from a foreign Government or foreign enterprise [Sec. 10(15A)]
32. Scholarship granted to meet the cost of education [Sec. 10(16)]
33. Daily allowance of a member of parliament or state Legislature (entire amount is exempt), any other allowance subject to certain conditions [Sec. 10(17)]
34. Rewards given by the central or state Government for literary, scientific or artistic work or attainment or for service for alleviating or for service for alleviating the distress of the poor, the weak and the ailing, or for proficiency in sports and games or gallantry awards approved by the Government [Sec. 10(17A)]
35. Pension and family pension of gallery award winners [Sec. 10(18)]
36. Family pension received by family members of armed forces [Sec. 10(19)]
37. National property income of any one place occupied by a former ruler [Sec. 10(19A)]

38. Income from local authorities [Sec. 10(20)]
39. Any income of housing boards constituted in India for planning, development or improvement of cities, town or villages [Sec. 10(20A)]
40. Any income of an approved scientific research association [Sec. 10(21)]
41. Income of specified non- agencies [Sec. 10(22B)]
42. Any income (other than interest on securities income from property income received for rendering any specific services and income by way of interest or dividends) of approved professional bodies [Sec. 10(23A)]
43. Any income received by any person on behalf of any regimental fund or non public fund established by the armed forces of the union for the welfare of the past and present members of the such forces or their dependents [Sec. 10(23AA)]
44. Income of funds established for the welfare of employees [Sec. 10(23AAA)]
45. Any income of the pension fund set by LIC or any other insurer approved by the controller of insurance or insurance Regulatory and development authority [Sec. 10(23AAB)]
46. any income (other than business income) of a trust or a society approved by Khadi and village industries commission [Sec. 10(23B)]
47. Income of an authority whether known as Khadi and village industries board or by any other name for the development of Khadi and village industries [Sec. 10(23BB)]
48. Income of the European Economic Community derived in India by way of, interest, dividends or capital gains in certain cases [Section 10(23BBB)]
49. Any income arising to anybody or authority established, constituted or appointed under any enactment for the administration of public religious or charitable trusts or endowments or societies for religious or charitable purposes [Section 10(23BBA)]
50. Income of SAARC Fund for Regional Projects, set up by Colombo Declaration [Section 10(23BBC)]
51. Any income of Secretariat of Asian Organisation of Supreme Audit Institutions [Section 10(23BBD)]
52. Any income received by any person on behalf of specified national funds and approved

public charitable trust or institution [Section 10(23C)]

53. Income of Mutual Fund set up by — a public sector bank or a public financial institution [Section 10(23D)]
54. Any income by way of dividend, or long term capital gains of venture capital funds and venture capital companies [Section 10(23F)]
55. Income of a member of Scheduled Tribe, living in Nagaland, Manipur, Tripura, Arunachal Pradesh and Mizoram from any source arising by reason of his employment therein and income by way of dividend and interest on securities [Section 10(26)]
56. Any income accruing or arising to any resident of Ladakh from any source therein or out of India before the assessment year 1989-90, provided that such person was resident in Ladakh in the previous year relevant to the assessment year 1962-63 [Section 10(26A)]
57. Any income of a statutory Central or State corporation or of a body/institution, financed by the Government formed for promoting the interest of Scheduled Castes/Tribes [Section 10(26B)]
58. Income of co-operative society formed for promoting interests of members of Scheduled Castes/Scheduled Tribes [Section 10(27)]
59. Income by way of subsidy from Tea Board for replanting or replacement of tea bushes or for the purpose of rejuvenation or consolidation of areas used for cultivation of tea in India [Section 10(30)]
60. Subsidy received by planters of Rubber, Coffee, Cardamon [Section 10(31)]
61. Income of a minor child up to Rs. 1,500 in respect of each minor child whose income is includible under section 64(1A) [Section 10(32)]
62. Any income by way of Capital gains on transfer of US-64 units [Section 10(33)]
63. Dividend on or after April, 2003 from domestic companies [Section 10(34)]
64. Income on units of Mutual Funds on or after April 1, 2003 [Section 10(35)]
65. Long term Capital gains on transfer of listed Equity Shares purchased during 1-3-2003 to 29-2-2004 [Section 10(36)]
66. Capital gain to individual/HUF on compensation received on compulsory acquisition of

urban agriculture land [Section 10(37)]

67. Long term capital gain in some cases [Section 10(38)]
68. Sum received without consideration from international sporting event held in India [Section 10(39)]
69. Income of Industrial Units situated in trade-free zones, specified technology parks etc. [Section 10A]
70. Income from specified 100% export oriented undertakings [Section 10B]
71. Income from property held for approved charitable or religious purposes [Section 11]
72. Specified Income of Registered political parties [Section 13A7968

INCOME FROM SALARIES

Salary (Section 15 – 17)

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

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

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

(i) Wages
(ii) Annuity or pension
(iii) Gratuity
(iv) Fees, Commission, allowances perquisites or profits in lieu of salary
(v) Advance of Salary
(vi) Amount transferred from unrecognized provident fund to recognized provident fund
(vii) Contribution of employer to a Recognized Provident Fund in excess of the prescribed limit
(viii) Leave Encashment
(ix)Compensation as a result of variation in Service contract etc.
(x) Contribution made by the Central Government to the account of an employee under a notified Pension scheme.

Arrears of Salary

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

Pension

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

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

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

Commuted pension

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

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

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

Gratuity

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

(i)Government employees and employees of local authority:

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

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

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

1.) Amount of gratuity actually received.

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

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

(iii) Other employees.

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

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

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

Leave Salary

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

The tax treatment of leave encashment is as under:

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

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

•State or Central Government employees:

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

Other employees:

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

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

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

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

Retrenchment Compensation 10(10B)

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

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

(i) Actual amount received
(ii) Amount determined under the Industrial Disputes Act, 1947
(iii) Maximum Limit Rs 5,00,000

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

Voluntary Retirement Compensation 10(10c)

The following Conditions are to be met for claiming exemption:

(i) An individual, who has retired under the Voluntary Retirement scheme, should not be employed in another company of the same management.
(ii) He should not have received any other Voluntary Retirement Compensation before from any other employer and claimed exemption.
(iii) Exemption u/s 10(10C) in respect of Compensation under VRS can be availed by an Individual only once in his lifetime.

Exemption is allowed to the least of the followings:

(i) Actual amount received
(ii) Maximum Limit Rs 5,00,000
(iii) The highest of the following:

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

Taxable Value of Allowances

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

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

Fully Taxable Allowances

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

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

Partly Exempted Allowances

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

1.Assessee is in receipt of HRA.

2. He has to pay rent.

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

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

a)House Rent Allowance actually received by the assessee

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

c) An amount equal to 50% of salary due to assessee (If accommodation is situated in Mumbai,Kolkata, Delhi, Chennai) 'Or' an amount equal to 40% of salary (if accommodation is situated in any other place).

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

Entertainment Allowance

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

Special Allowances for meeting official expenditure

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

Special Allowances to meet personal expenses:

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

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

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

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

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

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

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

Fully Exempt Allowances

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

PERQUISITES

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

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

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

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

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

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

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

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

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

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

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

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

Classification of Perquisites

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

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

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

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

Perquisites Taxable in case of all Employees

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

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

Perquisites taxable in case of Specified Employees only

Specified Employee:

An Individual will be considered as a Specified Employee if:

• He is a director of a company, or

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

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

(a) Entertainment Allowance

(b) Professional Tax.

The following perquisites are taxable in case of such employees:

1. Free supply of gas, electricity or water supply for household consumption
2. Free or concessional educational facilities to the members of employees household
3. Free or concessional transport facilities
4. Sweeper, watchman, gardener and personal attendant
5. Any other benefit or amenity

Perquisites which are tax free for all the employees

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

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

1. Provision for medical facilities subject to limit
2. Tea or snacks provided during working hours
3. Free meals provided during working hours in a remote area or an offshore installation
4. Perquisites allowed outside India by the Government to a citizen of India for rendering service outside India.
5. Sum payable by an employer through a recognized provident fund or an approved superannuation or deposit-linked insurance fund established under the Coal Mines Provident Fund or the Employees Provident Fund.
6. Employer’s contribution to staff group insurance scheme.

7. Leave travel concession subject to Sec.10 (5)
8. Payment of annual premium by employer on personal accident policy effected by him on his employee
9. Free educational facility provided in an institute owned/maintained by employer to children of employee provided cost/value does not exceed ` 1,000 per month per child (no limit on no. of children)
10. Interest-free/concessional loan of an amount not exceeding 20,000
11. Computer/laptop given (not transferred) to an employee for official/personal use.
12. Transfer without consideration to an employee of a movable asset (other than computer, electronic items or car) by the employer after using it for a period of 10 years or more.
13. Traveling facility to employees of railways or airlines.
14. Rent-free furnished residence (including maintenance thereof) provided to an Official of Parliament, a Union Minister or a Leader of Opposition in Parliament.
15. Conveyance facility provided to High Court Judges u/s22B of the High Court Judges (Conditions of Service) Act, 1954 and Supreme Court Judges u/s 23A of the Supreme Court Judges (Conditions of Service) Act, 1958.
16. Conveyance facility provided to an employee to cover the journey between office and residence.
17. Accommodation provided in a remote area to an employee working at a mining site or an onshore oil exploration site, or a project execution site or an accommodation provided in an offshore site of similar nature.
18. Accommodation provided on transfer of an employee in a hotel for not exceeding 15 days in aggregate.
19. Interest free loan for medical treatment of the nature given in Rule 3A.
20. Periodicals and journals required for discharge of work.

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

22. Other Exempted Payments:

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

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

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

iv. Trust for the benefit of employee's children

Valuation of Perquisites

Medical facilities

Medical facilities provided to employee are exempt from tax.

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

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

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

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

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

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

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

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

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

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

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

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

Valuation of rent free accommodation

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

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

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

1. Accommodation owned by employer

In cities having population exceeding 25 lakhs as per 2001 census

: 15% of Salary Less Rent actually paid by employee

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

In other places:

7.5% of Salary Less Rent actually paid by employee

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

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

3. Accommodation in a hotel

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

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

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

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

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

Salary for Rent Free Accommodation:

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

Sweeper, gardener or watchman provided by the employer

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

Free Supply of Gas, Electricity or Water

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

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

b) If the supply is from any other outside agency, the value of perquisite shall be the amount paid by the employer to the agency supplying these facilities.

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

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

Free Education

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

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

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

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

Free Transport

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

Use of any movable asset other than computer or laptops or other assets already mentioned
10% of Actual Cost if owned by the employer; or Actual rental charge paid/payable by the employer less Amount recovered from employee.

Leave Travel Concession (LTC)

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

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

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

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

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

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

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

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

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

Free meals during office hours

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

Gifts

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

Profit in lieu of salary

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

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

PROVIDENT FUND

Provident Fund Scheme is a welfare scheme for the benefit of employees. Under this scheme, certain amount is deducted by the employer from the employee’s salary as his contribution toProvident Fund every month. The employer also contributes certain percentage of the salary of the employee to the Fund. The contributions are invested outside in securities. The interest earned on it is also credited to the Provident Fund Account. At the time of retirement, the accumulated balance is given to the employee.

(i) Statutory Provident Fund

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

Contribution is made by Employer and Employee.

Assesse's Contribution: will get Deduction u/s 80C Employer's Contribution- Not taxable

Interest credited- Fully exempted

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

(ii)Recognized Provident Fund

This is set up under the Employee's Provident Fund and Miscellaneous Provisions Act, 1952 (PF Act, 1952) and is maintained by private sector employees. Assessee's Contribution- will get Deduction u/s 80C

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

(iii)Unrecognized Provident Fund

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

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

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

Withdrawal at the time of retirement/resignation/termination, etc- Employee's contribution thereon is not taxable. Interest on employees share ias taxable under the head income from other sources. Employer's contribution and interest thereon is taxable as Profits in lieu of Salary, under "Salaries"

iv) Public Provident Fund

The Central Government has established the Public Provident Fund for the benefits of general public to mobilize personal savings. Any member of general public can participate in this fund by opening a Provident Fund Account at the State Bank of India or its subsidiaries or other nationalized banks. A salaried employee can simultaneously become member of employees provident fund (whether statutory, recognized or unrecognized) and public provident fund. Any amount may be deposited (subject to minimum oRs.500 and maximum of Rs.70, 000 per annum) under this account. The accumulated sum is repayable after15 years.

Assesse's Contribution: will get Deduction u/s 80C
Interest credited- Fully exempted
Withdrawal at the time of retirement/resignation/termination, etc-Exempted u/s 10(11)

Deductions :

The income chargeable under the head salaries is computed after making the following deductions under Section 16:

1. Government employees (State or Central Government) to the extent of least of following 3 amounts: Rs. 5,000
2. Amount of Entertainment Allowance actually received during the year.
3. Professional Tax [Section 16(iii)] of the Act.

Professional tax or tax on employment levied by a State under Article 276 of the Constitution is allowed as a deduction only in the year when it is actually paid. If the professional tax is paid by the employer on behalf of the employee, it is first included in gross salary as a perquisite (since it is an obligation of employee fulfilled by employer) and then the same amount is allowed as deduction on account of professional tax from gross salary.

POSSIBLE QUESTIONS

PART A – ONE MARK – ONLINE EXAMINATION

PART - B (8 MARKS)

1. Explain the determination of Residential status of Individual under Income Tax Act 1961.

2. Which of the following incomes are taxable when the residential status of Mr.Umesh is:

   (i) Resident, (ii) Not Ordinarily Resident, (iii) Non_Resident.

   a. Income accured in Canada but received in India Rs.2,000
   b. Rs.5,000 were earned in Africa and received there but brought to India.
   c. Rs.5,000 earned in India but received in Canada.
   d. Rs.10,000 earned and received in Srilanka from a business controlled from India.
   e. House property income (computed) from Srilanka Rs.2,000.
   f. Rs.4,000 was past untaxed foreign income which was brought to India during the previous year.
   g. Profit earned from a business in Kanpur Rs.10,000

3. The following are the details of income fo Shri Ram lal:

   a. Share of income from a joint venture in India Rs.10,000
   b. Dividend Rs. 1,000
   c. Income from agriculture in Pakistan Rs.20,000
   d. Salary received in India Rs.9,800 but the services for the same were rendered in Iran.
   e. Income from business (Controlled from India) in Pakistan Rs.10,000 and the income remitted to India
   f. Income earned and received in Pakistan from bank deposit Rs.5,000
   g. Income accrued in India but received in Iran Rs.10,000

Compute his taxable income if he is (i) Resident, (ii) Not Ordinarily Resident, (iii) Non_Resident.

4. Following are the income of Sir rathnam for the previous year 2016-17

a. Profit from the business in Banglore Rs.10,000

b. Income accrued in India but received in Japan Rs. 4,000

c. Profit form business in Canada but received in India Rs. 5,000

d. Income from house property in Karachi received in Bombay Rs. 4,000

e. Profit from business established in England and deposited there , the business being controlled from India Rs. 20,000

f. Income from house property in America and deposited there Rs. 2,000

g. Past untaxed foreign income brought to India during the previous year Rs. 10,000

Compute his taxable income if he is (i) Resident, (ii) Not Ordinarily Resident, (iii) Non_Resident.

5. From the following particulars compute the total income of Mr. C A for the assessment year 2015-16 if he is i) Resident, (ii) Not Ordinarily Resident, (iii) Non_Resident.

1. Income from house property computed Rs.32,000
2. Loss from house property in France Rs. – 60,000
3. Income from house property in England received there and deposited in Bank there Rs. 90,000
4. Business income in India Rs. 2,60,000
5. Loss from business in England Rs. 1,20,000
6. Profit from business in England which is controlled from there Rs. 1,00,000
7. Interest on debentures of an Indian company Rs. 10,000
8. Income from profession set up in India received in England for services rendered in India Rs. 2,00,000.

6. How is residence of an assessee determined for tax purposes? Explain the incidence of tax liability?

7. How would you determine the residential status of a person?

8. Give any fifteen income which are totally exempt form income tax.

9. Discuss the incomes which are not included in total income nor income tax is payable on them.

10. The following are the incomes of Shree Deepak for the assessment year 2017-18

a. dividend from Indian company Rs. 10,000

b. Profit from business in Japan received in India Rs. 1,20,000

c. Profit from business in Pakistan despited in a bank there. This business is controlled from India Rs.2,00,000

d. Profit from busiess in Indore (Controlled by London Head office) Rs. 1,10,000

e. Interest received from a non-resident Mr. Abdul on the loan provided to him for a business carried on in India Rs. 50,000

f. Income was earned in America and received there but brought in India Rs.80,000

g. Share of income from Indian partnership firm Rs. 1,50,000

h. Income from house property in India received in America (Computed) Rs. 62,000

i. Interest on debentures of a Indian company received in dubai Rs. 25,000

Compute his taxable income if he is (i) Resident, (ii) Not Ordinarily Resident, (iii) Non_Resident.

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

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

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

a. Salary Rs.12,000 pm ; DA Rs 1,500 pm

b. Employers contribution to employees RPF 14% of basic salary

c. Rent free accommodation (Unfurnished) – fair rental value is Rs. 80,000 p.a

d. Expenses on maintenance of garden met by employer Rs3,000

e. Interest on Provident fund balance @ 13% pa Rs.3,900

f. A car(1.4 lt. Capacity) is provided by employer. All expenses are borne by employer. It is used both for performance of duties and private purposes. Car was used by employee for only 11 months during the year.

g. She paid professional tax of Rs.200

h. She received Rs.500 pm as fixed medical allowance.

i. Compute income from house property from the particulars given below for the assessment year 2017-18

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

a. Basic salary Rs. 15,000 pm ;

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

c. Entertainment allowance Rs. 1,000 pm ;

d. Medical allowance Rs. 500 pm ;

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

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

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

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

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

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

14. 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 31-3-2017 and asks you to compute his salary income.

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

15. Determine the residential status in the following cases

a.Gatting, a foreign citizen, leaves India for the first time in the last 20 years on November 25, 2012. During the calendar year 2013, he comes to India on September 1 and stays for a period of 20 days. During the calendar year 2014 he does not visit India at all but comes to India on January 15, 2015. Determine the residential Status of Mr. Gatting for the assessment year 2017-18

bDr.K.S.Sharma, an Indian working in U.S.A. Every year he comes to India on leave and stays with his parents who are staying in Calicut. What would be the residential status of Dr.K.S.Sharma during the assessment year 2017-18. If he comes to India on 20th September

2013 and stayed up to 31st March 2015. His total stay during the preceding 7 Years was 500 days. He had left India on 31st March 2008.

16. Determine the residential status in the following cases

a. A person after about 26 years stay in India, retired to England in April 2012 and returned to India on 15th February 2014 to take up a salaried appointment. What is his residential status for the previous year 2016-17?

b.Mr.Prashant went to W. Germany for diploma course on 5th August 2013 and came back to India on 25th February 2015. His family remained in India. He had never been out of India before. What is his residential status for the year ending on 31st March 2016?

17. Explain the fully taxable and partially taxable allowances.

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

19. Compute gross salary from information given below

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

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

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

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

Calculate gross salary.

21. Mr. Lalu retired on 30.11.16 from a coal mine after putting a service of 28 years and 10 months. At the time of his retirement he was getting a salary of Rs.16,000 p.m. and he use to get an increment of Rs.500 p.m. on 1st April every year. His DA was Rs.2,000 p.m.. Gratuity received Rs.3,40,000. Find out his taxable gratuity, if he is covered under Gratuity Act, 1972.

22. Mr. Rajender singh retired on 31.12.2016 and hs pension was fixed at Rs.3,600 p.m. He gets 3/4th of the pension commuted for which he received Rs.1,80,000 from his employer, a Ltd Co. find out the taxable amount of commuted value of pension if,

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

23. Mr X. retires on 1st July 2016 after 18 years of service and receives Rs. 75,000 as amount of leave encashment for 15 months. His employer allows 45 days leave for every one year of service. During service he has already encashed leave for 12 months. Calculate the taxable amount of leave encashment if his salary during 1.7.2014 to 1.7.2015 was Rs.5,000 p.m.

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

- Basic Salary 12,000 p.m.

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

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

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

- Salary rs.8,000 p.m.
- Arrears if salary rs.4,000
- D A Rs.2,000 p.m
- Employer is paying insurance premium of Rs.16,000 p.a. in Ramakants life
- Bonus received Rs.15,000
- Education allowance for grand child Rs.400 p.m.
- Cash gift Rs. 10,000
- City compensatory allowance Rs.1,000 p.m.
- Medical expenses paid by employer Rs.6,000
- He contributes 15% of his salary t a recognized provident fund and his employer

contributes the same

- He is given lunch allowance @ Rs.100 per day for 250 days during the previous year 2013-14
- He is provided with a mobile bill of which is paid by company Rs.6,000

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Department of Commerce

Subject: DIRECT TAXATION **CLASS : I M.COM / I MCOM CA**

Semester: II **SUB CODE: 17CMP203/17CCP203**

UNIT –I

PART – A (ONE MARK)

POSSIBLE QUESTIONS - UNIT – I

QUESTION	OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
Income tax is a -------	direct tax	indirect tax	business tax	not a tax	direct tax
Income tax was passed in the year -------	1960	1961	1962	1963	1961
Rate of Income tax are fixed under ------	The income tax act	The finance act	Notification of CBDT	Sub rules	The finance act
An example to direct tax is ---------	Income tax	Sales tax	Customs duty	excise duty	Income tax
The current previous year is -----------	2012-13	2013-14	2014-15	2015-16	2014-15
The current assessment year is ------------	2012-13	2013-14	2014-15	2015-16	2015-16
The sum of five heads of income is called ---------	Gross total income	net total income	total income	exempted income	gross total income
Incomes which do not form the part of total income is called as ------------ income.	Deduction	Exempted	total	Rebate	Exempted
the total income computed will be rounded off the nearest multiples by-----	100’s	1000’s	10’s	500’s	10's
Tax on tax is called as ---------	surcharge	gross tax	net tax.	total tax	surcharge
person who does not fulfill the statutory obligations given under the Act is called –	ordinary assessee	Representative assessee	assessee- in-default.	deemed assessee	assessee in default
Income not earned and not accrued in India is --	Foreign income	Indian income	total income.	net income	foreign income

---- income.					
A person not only liable for his own income, but also for others income or loss is called --	ordinary resident	Representative assessee	Assessee – in – default.	NRI	representative assessee
Education cess is leviable on --------	Income tax	Income Tax + Surcharge	Surcharge	all the above	income tax + surcharge
Education cess is leviable @ -----------	3%	2%	1%	5%	2%
Maximum exemption on which income tax is not chargeable for the assessment year 2015-16 is --------------	Rs. 1,00,000	Rs. 1,35,000	Rs. 1,85,000	Rs.2,50,000	Rs.2,50,000
Income tax rules was passed in the year ---------------	1961	1962	1963	1964	1962
Income earned and received outside India is taxable to ------------	All assessees	Resident only	Resident and not ordinary resident.	person	resident only
An individual who wants to be resident in India u/s 6(I) (a) must stay in India for atleast --------------	182 days	365 days	730 days	1,000 days	182 days
Residential status of individual is given u/s --------	6	8	10	12	6
Gratuity received by the employees working on government service shall be -------	fully exempt	fully taxable	Partially taxable.	none	fully exempt
The full amount of scholarship granted to meet the cost of education is -----------	Taxable	Exempted	Rebate	debate	Exempted
Income earned and received outside India from a business controlled or profession set up in India is taxable to --------------	Only resident	NOR	both	none	only resident
Income earned and received outside India in the years preceding the previous year and remitted to India during the previous year is taxable to -------------	Only resident	NOR	non resident	not taxable	not taxable

Dividend by an Indian company paid out side India is :	Income accruing in India	Income deemed to accrue in India	both	none	income deemed to accrue in India
Proceeds of benefit match received by a cricket player are ------------	Professional income	A casual income	An exempted income	not an income	a casual income
------------ means payment of gross salary with deducting amount of income tax thereon.	Tax free salary	Taxable salary	Exempted salary	business income	tax free salary
If the employee has completed service of 16 years 6 months and 5 days the number of completed year shall be taken as ---------	16 years	17 years	18 years	22 years	16years
The maximum exemption of gratuity shall be -------------	Rs. 2,40,000	Rs.2,50,000	Rs.3,50,000	Rs.10,00,000	Rs.10,00,000
The maximum exemption in case of leave encashment shall be----------	Rs. 2,40,000	Rs.3,50,000	Rs.3,00,000	Rs.5,00,000	Rs.3,50,000
compensation received on voluntary retirement is exempt u/s 10 (10c) to the maximum extent of ------------	Rs. 2,40,000	Rs.3,50,000	Rs.5,00,000	Rs.7,50,000	Rs.3,50,000
Employers contribution to statutory provident fund shall be --------------	fully exempt	exempt upto 12% of salary	Exempt upto 10% of the salary	exempted upto 15% of salary	fully exempt
Interest credited to Statutory provident fund shall be ----------	fully exempt	Exempt upto 12% p.	exempt upto 9.5% p.a	exempted upto 15% of salary	fully exempt
Employer contribution to Recognized provident fund shall be -----------	fully exempt	fully taxable	exempt upto 12% p.a	exempted upto 15%ofsalary	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
Employer contribution to Unrecognized provident fund shall be ------------	Fully exempt	fully taxable	exempt upto 12% p.a	Exempted upt 14% of salary	fully exempt
Interest credited to unrecognized provident fund shall be----------	Fully exempt	fully taxable	exempt upto 12% p.a	Exempted upt 14% of salary	fully exempt

Payment from statutory provident fund and public provident fund shall be------	taxable	fully exempt	Taxable to the extent of employers contribution and interest thereon.	partly taxable	fully exempt
Pyment from Recognized provident fund after 5 years of service shall be----------	taxable	fully exempt	Taxable to the extent of employers contribution and interest thereon.	partially exempted	taxable to the extemt of empoyers contribution and interest thereon
The payment of Gratuity Act was passed in the year -----------	1972	1927	1952	1955	1972
--------------- is a fixed monetary amount paid by employer to the employee for meeting some particular expenses.	Allowances	Perquisites	Basic salary	medical facility	allowance
--------- is determining on the basis of rising prices of commodities in general.	Dearness allowances	City compensatory allowances	Medical allowances.	uniform allowances	dearness allowance
------------- to cover the service of warden in the case of educational institutions.	Wardenship allowance	Dearness allowance	Medical allowance	non – practicing allowances	warnership allowance
----------- is given by the employer to the employee to meet the expenses in connection with rent of the accommodation.	House rent allowance	City compensatory allowance	Medical allowance.	wardenship allowances	house rent allowance
House rent allowance paid to the judge of supreme court is --------------	fully exempt	fully taxable	partially taxable.	none	fully exempt
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.
allowances received by an employer of UNO from his employer is ---	Fully taxable	Fully exempt	partially taxable.	none	fully exempt

----------					
While computing salary income deduction are allowed u/s ---------	16	18	19.	20	16
Salary due on last day of every month means ----------	Last day of the respective month	first day of the month	every 15th of the month	every 10th of the month	last day of the respective month
Any benefit or amenity allowed by employer to employee is -------------	allowance	Perquisites	Deductions,	rebate	perquisites
Bonus received under some legal or contractual obligation is called ------------	Statutory bonus	Gratuitous bonus	Both.	none	satutory bonus
Provident fund governed by Provident fund Act 1925 is called as ------------	Statutory Provident fund	Unrecognized provident fund	Public provident fun	Recognised provident fund	Statutory profident fund
Tiffin allowance is a ------------	fully taxable allowance	Partially allowance	Fully exempted allowance.	not an allowances	fully taxable allowance
Foreign allowance given to government employee posted abroad is -----------	Fully exempted	fully taxable	partially taxable	rebate	fully exempt
Tiffin allowance is a ------------	fully taxable allowance	Partially allowance	Fully exempted allowance.	not an allowances	fully taxable allowance
Statutory limit u/s 16(ii) for deduction of entertainment allowance in case of Government employee is -------------	Rs.5,000	Rs.7,500	25% of employee salary	50 % of salary	Rs.5,000
Any compensation received by an employee from his employer at the time of termination of employment is known as -----------	allowances	perquisites	profit in lieu of salary.	basic pay	profit in lieu of salary
While computing the exemption limit for House rent allowance , the term salary means----------------	basic pay only	basic pay + DA(enters)	basic pay + DA(enters) + commission (fixed %)	all allowances	Basic pay + DA(enters)+commission (Fixed%)
The value of rent free accommodation in case of non-government employee is computed , if population is more	20% of salary	15 % of salary	7.5 % of salary	10% of the salary	15% of salary

than 25 lakhs means-----------					

Income from House Property – Profits and Gains of Business or Profession – Income from Business – Income from Profession

I. INCOME FROM HOUSE PROPERTY

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

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

Ownership of house property

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

Deemed Owner [Section 27]

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

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

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

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

(c) Where the Individual holds an impartible estate.

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

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

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

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

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

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

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

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

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

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

Unrealized Rent

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

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

Deduction from Net Annual Value

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

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

1. **Purpose of loan:** The loan shall be borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction of the house property.
2. **Accrual basis:** The interest will be allowed as a deduction on accrual basis, even though it is not paid during the financial year.
3. **Interest on interest:** Interest on unpaid interest shall not be allowed as a deduction.
4. **Brokerage:** Any brokerage or commission paid for acquiring the loan will not be allowed as a deduction.
5. **Prior period interest:** Prior Period Interest shall be allowed in five equal installments commencing from the financial year in which the property was acquired or construction was completed.

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

6. **Interest on fresh loan to repay existing loan:** Interest on any fresh loan taken to repay the existing loan shall be allowed as a deduction.
7. **Inadmissible interest:** Interest payable outside India without deduction of tax at source and in respect of which no person in India is treated as an agent u/s 163 shall not be an allowable expenditure. [Section25]
8. **Certificate:** The assessee should furnish a certificate from the person from whom the amount is borrowed.

Income From Self – Occupied House Property

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

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

However, if the borrowed is for repairs, renewals or reconstruction, the deduction is restricted to Rs.30, 000. If the borrowal is for construction/acquisition, higher deduction as noted above is available. If a person owns more than one house property, using all of them for self-occupation, he is entitled to exercise an option in terms of which, the annual value of one house property as specified by him will be taken at Nil. The other self occupied house property/is will be deemed to be let-out and their annual value will be determined on notional basis as if they had been let out. Annual Value of a house property which is partly self – occupied and partly let out: If a house property consists of two or more independent residential units, one of which is self – occupied and the other unit(s) are let out, the income from the different units is to be calculated separately.

II. PROFITS AND GAINS OF BUSINESS OR PROFESSION

Business : Sec 2 (13)

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

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

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

In other words, for even a single or isolated transaction entered into with the idea of making profit would be a business within the meaning of the definition given in Section 2(13).

The concept of business presupposes the existence of the assessee's intention to make a profit out of his transactions.

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

Profession

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

The following items are chargeable under the head income from business or profession. (section28)

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

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

- Any person, by whatever name called, managing the whole or substantially the whole of the affairs of an Indian company, at or in connection with the termination of his management or the modification of the terms and conditions relating thereto;
- Any person, by whatever name called, managing the whole or substantially the whole of

the affairs in India of any other company, at or in connection with the termination of his office or the modification of the terms and conditions relating thereto;

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

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

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

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

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

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

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

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

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

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

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

This income is taxable during the following assessment year.

- Profits and gains of different business or profession carried on by the assessee are not separately chargeable to tax i.e. tax incidence arises on aggregate income from all businesses or professions carried on by the assessee. But, profits and loss of a speculative business are kept separately.
- It is not only the legal ownership but also the beneficial ownership that has to be considered.
- Profits made by an assessee in winding up of a business or profession are not taxable, as no business is carried on in that case. However, such profits may be taxable as capital gains or as business income, if the process of winding up is such as to involve the carrying on of a trade.
- Taxable profit is the profit accrued or arising in the accounting year. Anticipated or potential profits or losses, which may occur in future, are not considered for arriving at taxable income. Also, the profits, which are taxable, are the real profits and not notional profits. Real profits from the commercial point of view mean a gain to the person carrying on the business and not profits from narrow, technical or legalistic point of view.The yield of income by a commercial asset is the profit of the business irrespective of the manner in which that asset is exploited by the owner of the business.

Speculative Transactions and Taxability of Speculation Business

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

Deduction In Respect Of Losses Incidental to Business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Depreciation [Section 32]:

In respect of depreciation of-

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

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

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

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

For this purpose, the assessee is required to

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

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

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

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

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

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

Expenditure on scientific research (section 35)

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

(a) Extension of business;

(b) Providing medical facilities to the employees. Deduction under this section is allowed in two ways

(A) When assessee takes up scientific research on his own

(B) When assessee contributes amount for scientific research to an approved body. The provisions of both are given below.

(A) When assessee takes up scientific research on his own:

When assessee carries on any scientific research, the expenditure incurred by him for such may be

(a) Revenue expenditure or

(b) Capital expenditure.

The treatment of above is as follows.

(a) Revenue expenditure:

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

(b) Capital expenditure:

Any Capital expenditure incurred by the assessee is deductible **100%** in the year it is incurred. (4) Amount contributed to National Laboratory [Section 35(2AA)]:
Any amount contributed by the assessee to a National laboratory* or University or IIT or to a specified person (approved by prescribed authority) with a specific direction that the amount shall be used for the purpose of scientific research, shall be given a weighted deduction of **2 times**.
Any laboratory functioning at national level under the aegis of
(1) Indian Council of Agricultural Research
(2) Indian Council of Medical Research
(3) Council of Scientific and Industrial Research
(4) Defence Research and Development Organisation
(5) Department of Electronics
(6) Department of Bio-technology
(7) Department of Atomic Energy

In all the above cases, deduction shall not be denied on the ground that subsequent to such contribution by the assessee, approval granted to the donee has been withdrawn by the prescribed authorities.Conditions to be fulfilled in order to claim depreciation under section 32.

In order to claim depreciation under Section 32, the following conditions are required to be fulfilled:

(1)Depreciation is available on 'assets' and 'block of assets': The assets may be tangible (Buildings, Machinery, Plant and Furniture) or intangible (know-how, patents, copyrights, trademarks, licences, franchises, etc.) in nature.

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

CHART SHOWING COMPUTATION OF PROFITS AND GAINS OF BUSINESS OR PROFESSION

Computation of business profits

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

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

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

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

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

- All provisions and reserves
- All taxes
- Rent paid to self
- All capital expenses except on scientific research
- All capital loss
- All charities and donation
- All expenses relating to other head of income
- Cultivation expenses
- Any interest on capital unless the amount is borrowed
- All personal expenses
- Any depreciation if wrongly debited
- Gifts and presents (Non-advertisement)
- Any type of fine or penalty
- Any payment to a partner (In case of firms only by way of salary, interest , bonus , commission or remuneration excess over prescribed limits)
- Any salary or interest payable outside India unless tax is deducted at source it is paid

according to the law

- Past losses
- Any other expenditure which is not incurred according to the provisions of law
- Salary paid to self or any other member of family for casual help
- Personal life insurance premiums
- Any amount invested in savings such as NSS , NSC, PPF,
- Rent for residential portion
- Speculation loss
- Bad debt still recoverable
- Legal expenses on criminal case or a personal case of employee
- Legal expenses on curing title of asset
- Loss by theft from residence
- Expense on illegal business
- Employer contribution URPR
- Differences in trial balance
- Difference due to under crediting of stock
- Cost of patents rights being capital expenditure
- Cost of technical know- how being capital expenditure
- Preliminary expense being capital expenditure

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

- Actual bad debt
- Depreciation
- Any other expenditure incurred according to provision of law

- Differences due to under debiting of stock

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

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

b. **Incomes taxable under other heads**
    - Part time salary
    - Interest on securities
    - Rent form house property let
    - Capital gain
    - Dividend
    - Bank interest
    - Winning from lotteries
    - Race course

TAXABLE BUSINESS INCOME **xxxx**

COMPUTAION OF PROFESSIONAL INCOME

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

IN CASE OF DOCTOR OR MEDICAL PRACTITIONERS

Professional receipts

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

Less: Professional expenses:

- Dispensary expenses
- Cost of medicines
    - If accounts are maintained on cash basis :
    - Cost of actual medicines purchased during the previous year
    - If account are maintained on mercantile basis:
    - Opening stock + New purchases - closing stock
- Depreciation on surgical equipment and X- ray machines at prescribed rates
- Cost of books for professional purposes

- Motor car expenses : Depreciation relating to professionl work
- Nursing home expenses
- Any other expense incurred during the year

PROFESSIONAL INCOME

IN CASE OF CHARTERED ACCOUNTANT

Professional receipt

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

Total professional receipt

Less: Professional expenses

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

- Subscriptions

Total professional expenses

Professional income

INCOME OF LAWYER OR AN ADVOCATE

Professional receipts

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

Total professional receipts

Less: Professional expenses

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

Professional gain

Rates of Depreciation In Case Of Block of Assets

Tangible Assets Rate

(I) Building:

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

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

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

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

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

(II) Furniture And Fittings:

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

(III) Plant And Machinery

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

(6) Ships and vessels ………………….20%

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

plastic goods factories; Plant & Machinery used in semi-conductor industry including circuits; ….30%

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

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

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

(12) (i) (a) Books (annual publications) owned by assessee carrying on profession; and (b) Books owned by assessee carrying on business in running lending libraries (ii) Plant and Machinery in water supply and treatment system for infrastructure u/s 80IA(4)(i); Wooden part in artificial silk manufacturing Plant & Machinery; Cinematograph films-Bulbs of studio lights; Wooden Match frames in Match factories; Mines and Quarries-rubs, ropes, lamps, pipes; Salt works – Clay and salt pans, etc.; Air-pollution, Water-pollution, Solid waste control equipments and Solid waste recycling system. ……….100%

Intangible Assets

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

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

WDV in general: In case of assets acquired in previous year,

WDV= Actual cost to the assessee. In case of assets acquired before previous year,

WDV = Actual cost to assessee less depreciation actually allowed (including unabsorbed depreciation, if any) to the assessee.

WDV in case of Block of Assets:

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

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

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

WDV of block of assets eligible for depreciation

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

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

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

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

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

POSSIBLE QUESTIONS

PART A – ONE MARK – ONLINE EXAMINATION

PART - B (8 MARKS)

1. Calculate the ARV from the particulars given below:

Actual Rent Rs. 6,000 p.m. MRV Rs. 60,000 p.a.
FRV RS.66,000 p.a. Standard Rent Rs. 69,000 p.a.
During the previous year 2013-14 assessee could not realize rent for two months.

2. Calculate Net Annual Value from the following Information

MRV Rs. 80,000
FRV Rs. 1,00,000
Standard Rent Rs.70,000
Actual Rent Rs.1,20,000
Municipal taxes Rs.8,000

It is assumed that the house was let out throughout the year and there was also no unrealized rent.

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

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

Municipal Valuation Rs.96,000. Fair Rent Rs.88,000.

Standard Rent Rs.90,000. Actual Rent Received Rs.9,000 p.m.

Self Occupied 1-4-16 to 30-11-16. Let Out 1-12-16 to 31-3-17.

Municipal Taxes Due Rs. 6,000. Municipal Taxes Paid Rs. 3,000.

Interest on brrowed Money Rs. 10,000.

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

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

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

1/3rd of the house is used by a tenant to whom it is let out @ Rs. 3,000 p.m. and it was self occupied for one month during the previous year. The municipal rental value of the house is Rs.96,000 p.a. on which municipality levies 10% tax. These taxes are paid by the occupants. Compute net annual value of the house property of the previous year 2016-17 if each portion is an independent unit.

6. Mr.G has given his premises on hire from 1.4.2016 to a company for its office . He submits the following particulars :

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

As per agreement rent increases to Rs.14,000 p.m from 1.10.2016. But amount of increased rent is paid in May 2016. Compute his income for the previous year 2016-17.

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

Unit 1 : own residence

Unit 2 : let out

Unit 3 : own business

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

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

His expenses in respect of these houses are as follows :

Interest on loan taken to repair the residential house Rs 400

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

Collection charges Rs. 350

Ground rent in respect of 2nd house Rs.200

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

Calculate A's income from house property.

9. The following is the profit and loss account of a merchant for the year ending 31st March 2017.

PROFIT AND LOSS ACCOUNT

To Office salary	6,500	By Gross profit	36750
To Bad debts	1,700	By Commission	1250
To Provision for bad debt	3,000	By Discounts	500
To Advertisement	3,800	By Sundry receipts	200
To Fire insurance (HP)	550	By Rent of building	3600
To General expenses	2,750	By Profit on sale of Investment	3000
To Depreciation	1,200		
To Interest on bank loan	1,300		

To Interest on capital	2,000
To Net profit	22500
	45300
45300	

Compute the taxable profits from business. The amount of depreciation is Rs.1,000 Interest on loan .was paid on 1.8.2016 Due date of filing of return is 31.7.2017.

10.Mr DD Dewan & company is chartered accountant in Delhi they have submitted the following income and expenditure account for the year compute the income form profession.

Expenses	**Rs**	**Income**	**Rs.**
To Drawing	48,000	By Audit fees	2,24,000
To Office rent	42,000	By Financial consultancy service	98,000
To Telephone installation Charges	15,000		
To Electricity bill	4,200	By Dividend from Indian companies (Gross)	6,00
To Salary to staff	66,000		
To Stipends given to Trainees	12,000	By Dividend on units of UTI	4,000
To Charities	1,200		
To Gifts given to relatives	9,600	By Accountancy works	24,000
To Car expenses	21,000		
To Subscription to journals	2,500		
To Institute fee	1,200		
To Net income	1,33,300		

	--------------		------------
	3,56,000		3,56,000
	========		=======

a) Depreciation of car during the year amounts to Rs 5,000

b) 30% of the time car is used for personal purposes.

11. From the following statement, compute the income from profession of Dr. S.K. Kapoor if accounts are maintained on mercantile system:

	Rs		Rs
To dispensary rent	36,000	By Visiting fees	45,000
To Electricity and water charges	6,000	By Consultation fees	1,25,000
To telephone expenses	6,000	By sales of medicines	72,000
To salary to nurse	36,000	By dividends	5,000
To depreciation on surgical Equipmemts	6,000		
To purchase of medicine	36,000		
To Depreciation on X- Ray Machine	4,000		
To income Tax	5,500		
To Donation	4,000		
To Motor car expenses	9,600		
To depreciation car	4,800		
To Net Income	93,100		
	2,47000		**2,47,000**

i. Electricity and water charges include domestic bill of Rs. 2,500.
ii. Half of motor car expenses are for professional use.
iii. Telephone expenses include 40% for personal use
iv. Opening stock of medicines was Rs. 6,000 and closing stock was Rs. 4,000.

12. Mr.Ram Prasad is a registered medical practitioner. He has prepared the following income and expenditure account for the year during 31-3-2016. You are required to prepare a statement showing his income from profession.

Expenses	**Rs**	**Income**	**Rs**
House hold expenses	20,000	Consultation fees	10,000
Car purchased	30,000	Visiting fees	20,000
Traveling expenses(Personal)	4,000	Gains on races (Gross)	10,000
Charities and donations	1,000	Share in sale proceeds of a ancestral house	34,000
Income Tax	2,000	Profit on sale of securities	6,000
Salaries	8,000	Dividend on shares (Gross)	5,000
Gift to daughter	7,000	Interest on P.O. Savings bank	600
Establishment expenses	1,000	Gifts from farther in Law	2,000
Surgical equipment	4,000	Bad debts recovered	
Books	2,000	(Not allowed in earlier year)	2,000
LIC premium	2,000	Interest o n Fixed deposit	1,300
Wealth tax	1,000		
Interest on Capital	1,000		
Surplus	7,900		
	90,900		90,900

Rate of depreciation allowable on car is 15% and surgical equipment is at 15%. In case of books for profession the rate of depreciation is 60%

13.From the following particulars, compute the business income of Mr.S.Rangnathan.

	Rs		Rs
To Salaries	90,000	By Gross Profit	3,50,000
To Rent and Taxes	20,000	By Dividend	4,000
To Service Charges	4,000	By Bad debts recovered	
To Legal Expenses	5,000	(allowed earlier)	4,400
To Reserve for Income Tax	6,000	Interest from post office	
To depreciation	12,000	Saving Bank	1,200
To expenses on acquisition of patent right	56,000		
To Office Expenses	42,000		
To Contribution to RPF	12,000		
To Bad Debts	4,500		
To Donation to NDF	2,500		
To Net profit	1,05,600		
	3,59,600		3,59,600

(i) Legal expenses include Rs. 2,000. Incurred by assessee for defending a case for damages for breach of contract which was decided in favour of assessee.
(ii) Depreciation of the year on asset other than patent right is Rs.16,900.
(iii) Contribution to RPF due on 31-3-201 is Rs. 2,000.

14. Compute the professional income of Mr.Kedambi an Advocate, he furnishes the following receipts and payments for the previous year 2016-17

RECEIPTS AND PAYMENTS ACCOUNT

	Rs		Rs
To Balance b/d	6,540	By Rent	2,400
To Legal fees	84,400	By Telephone	3,000
To Salary(as a part-time lecturer)	3,600	By Salaries	2,400
To Interest on debenture (not listed)	2,700	By Subscription to journal	240
To Gift from clients	10,000	By Travelling	560
To Rent	6,000	By Office expenses	600
To Interest on foreign security	8,000	By Purchase of stamp paper	1,600
To Refund from deposit	2,000	By Interest on loan	870
		By Donation to a school	5,000
		By Income Tax paid	8,420
		By Municipal Tax	600
		By L.I.C. premium	6,000
		By Wealth Tax	1,600
		By Balance c/d	89,950
	1,23,240		**1,23,240**

(i) The loan borrowed for constructing his residential house. Its rental value is Rs.300 p.m.
(ii) School is recognized for I.T. purposes.
(iii) Gift from clients include Rs. 2,000 received from his father.

15. Profit and Loss Account of M/s Raju & Company

General Expenses	7,000	Gross Profit	1,40,000
Fire insurance Premium	2,000	Bad Debts Recovered but	
Bad debts	1,000	disallowed earlier	4,000
Advertisement (in Cash)	22,250	Interest from Govt. securities	4.000
Salaries	65,000	Rent received from employees	12,000
Property Salary	12,500	Interest from debtors fro	
Interest on capital	2,000	delayed payment	6,000
Income –Tax	1,000		
Depreciation	2,000		
Sales Tax (due)	5,000		
Advance income tax paid	1,000		
Donation	500		
Motor car expenses	750		
Municipal taxes of quarters			
let to employees	5,000		
Net Profit	39,000		
	1,66,000		**1,66,000**

General expenses include Rs. 4,000 paid as compensation to an old employee whose services were terminated in the interest of the business and Rs.2,200 by way of help to a poor student. Depereciation calculated according to the rates comes to Rs. 2,900. Sales tax was paid on 1-5-2017. Date of filing of returns is 31-7-2017. 50%of Motor expenses are for proprietor's personal use. Compute business income.

16. Compute the professional income of Mr. Kedambi an Advocate, he furnishes the following receipts and payments for the previous year 2016-17

RECEIPTS AND PAYMENTS ACCOUNT

	Rs		Rs
To Balance b/d	6,540	By Rent	2,400
To Legal fees	84,400	By Telephone	3,000
To Salary(as a part-time lecturer)	3,600	By Salaries	2,400
To Interest on debenture (not listed)	2,700	By Subscription to journal	240
To Gift from clients	10,000	By Travelling	560
To Rent	6,000	By Office expenses	600
To Interest on foreign security	8,000	By Purchase of stamp paper	1,600
To Refund from deposit	2,000	By Interest on loan	870
		By Donation to a school	5,000
		By Income Tax paid	8,420
		By Municipal Tax	600
		By L.I.C. premium	6,000
		By Wealth Tax	1,600
		By Balance c/d	89,950

1,23,240	**1,23,240**

(iv) The loan borrowed for constructing his residential house. Its rental value is Rs.300 p.m.
(v) School is recognized for IT. purposes.
(vi) Gift from clients include Rs. 2,000 received from his father.

17. Following is the profit and loss account of Kesary Malya for the previous year 2016-17

PROFIT AND LOSS ACCOUNT

To salaries	25,650	By gross profit	80,000
To rent	1,000	By bank interest	450
To commission on sales	100	By bad debts recovered last year allowed	2,000
To income tax	2,600		
To entertainment expenses	600	By rent from house property	4,800
To commission paid to collect interest on securities	25	By interest on commercial securities	2,000
To embezzlement by cashier	1,000		
To municipal tax on HP	600		
To bad debts allowed	450		
To repairs to house	1,625		
To office expenses	9,180		
To depreciation	5,000		
To LIC premium	1,320		
To net profit	40,100		
	89,250		**89,250**

Depreciation on the assets is Rs.4,500

Compute the taxable business income for the assessment year 2017-18

18. From the following profit and loss account of Sri rama a sole trader compute his business income for the assessment year 2015-16 :

To general expenses	18,000	By gross profit	89,000
To staff salaries	7,000	By bad debts recovered	1,000
To baddebts	3,000	By income tax refund	4,500
To depreciation	4,000	By dividend on shares	8,000
To advertisement	5,000	By dividend on units of UTI	5,000
To income tax appeal	11,000		
To fire insurance premium on stock	2,000		
To donation to NDF	7,000		
To patents purchased	10,500		
To audit fees	1,000		
To provision for doubtful debts	3,800		
To life insurance premium	5,200		
To net profit	30,000		
	1,07,500		**1,07,500**

Other informations

1. Patents are purchased during the year
2. Bad debts recovered were disallowed earlier
3. Depreciation on assets other than patents is Rs.4,800

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

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

Provision for bad and doubtful debts Rs: 16,000

Provision for taxation Rs: 15,000

Depreciation Rs: 25,000

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

Compute taxable business profit.

20. From the following Profit and Loss Account of a Merchant for the year ending 31st March, 2015. Compute his income from business and his total income for assessment year 2015-16:

Profit and Loss Account

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

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

21. What are disallowed expenses while computing Professional income?

22. Write down the format to compute professional gain of a medical practioner?

23. Bring out the general format for computing the professional gain of an advocate.

24. What are allowable expenses under the head profits and gains of business or profession?

25. List the disallowed income under the head profits and gains of business or profession.

KARPAGAM ACADEMY OF HIGHER EDUCATION

(Deemed to be University)

(Established Under Section 3 of UGC Act 1956)

Department of Commerce

Subject: DIRECT TAXATION **CLASS : I M.COM / I MCOM CA**

Semester: II **SUB CODE: 17CMP203/17CCP203**

PART – A (ONE MARK)

POSSIBLE QUESTIONS - UNIT – II

QUESTION	OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
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, then the annual value is taken as ----------	Let out property	nil	Self occupied property.	full	Nil
If loan is taken for construction on or after 1-4-99 and construction is completed with in 3 years , the allowable deduction will be -------------	Rs.30,000	Rs1,50,000	Rs.1,80,000	Rs.1,50,000	Rs.30,000
Allowable deduction from self occupied house is ------------	Interest on loan	Standard deduction	both.	none	Interest on Loan
Allowable deduction from net annual value for let out house property will be ---------	Standard deduction	Interest on loan	Both	none	Both

-					
If the property used for own business then the net annual value will be	MRV	FRV	Actual rent received	Nil	Nil
While computing house property income, deduction for interest on loan for the previous year 2015-16 u/s 24 is ----------	fully allowed	Partially allowed	fully taxable	partially taxable	fully allowed
House property includes-	Farm house income	Sub-tenant income	House for self-business	none of the above	
Annual value is determined under which section of Income Tax Act-	Sec 21	Sec 23	Sec25	Sec 27	
Standard deduction from annual value is allowed as-	20%of AV	15% of AV	25% of AV	30% of AV	30% of AV
Allowable deduction from net annual value for let out house property will be ----------	Standard deduction	pension	gratuity	entertainment allowance	standard deduction
If the property used for own business then the net annual value will be	MRV	FRV	Actual rent received	Nil	Nil
------------- refers to those activities where the livelihood is earned by the person through their intellectual or manual skill.	Business	Trade.	Profession	none	business
While computing house property income, deduction for interest on loan for the previous year 2015-16 u/s 24 is ----------	fully allowed	Partially allowed	fully taxable	partially taxable	fully allowed
The accounting system under which transactions are recorded on the basis of receipts and payments whether it is relating to current year or not is	Mercantile system	cash system	Credit system	all the above	Mercantile system

called ------					
Expenditure incurred for acquiring fixed assets is ------------	Capital expenditure	Revenue expenditure	Deferred revenue expenditure	not an expenditure	Revenue expenditure
Expenditure incurred to carry out the regular activities is ---------	Capital expenditure	Revenue expenditure	Deferred revenue expenditure	not an expenditure	Revenue expenditure
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
Expenditure incurred for acquiring know-how and patents shall qualify for depreciation @ -----------	20%	25%	30%	40%	20%
Any payment exceeding Rs. 20,000 is made otherwise than through a crossed cheque or demand draft ------------- of such amount is to be disallowed as deduction.	20%	30%	40%	50%	20%
While computing business income speculation loss is ------------	Allowed expenditure	Disallowed expenditure	Not an expenditure.	None	not an expenditure
In a business if any payment more than Rs.20,000 is made in cash the disallowed deduction will be -------------	25%	30%	20%	40%	25%
Patent right is --------	Tangible asset	Intangible asset	An allowance	fixed asset	Intangible asset

Profit on sale of license is taxable under the head-----------	Profits and gains of business or profession	House property	Capital gain	other sources	house property
Any expenditure incurred to acquire technical know-how developed in India by an approved institution can be depreciated @---------	20%	25%	30%	40%	25%
Amount of expenditure incurred on or after 01.04.1998 on preliminary expenses cannot exceed------------- of the cost of project	2%	4%	5%	7%	2%
copy right is --------	Tangible asset	Intangible asset	An allowance	fixed asset	Intangible asset
Depreciation is allowed on professional books -----------	100%	50%	60%	40%	60%
Consultancy fee received by a lawyer is ---------- income	Taxable	Non-taxable	Not a fee	exempted	taxable
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
While computing business income , all personal expenses are --------------	allowed expenses	disallowed expenses	deduction	rebate	Disallowed expenses
Rate of depreciation on neon sign board is @ -------	10%	15%	20%	40%	10%
Which is an activity of purchase and sell of goods with the intention of making profit	Business	Profession	distribution	supplier	Business
Which is an occupation requiring intellectual skil?	Business	Profession	distribution	supplier	profession
Wchich includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or	Business	Profession	distribution	supplier	business

manufacture.					
Income that is not credited to profit & loss a/c, but which is chargeable to tax as business income is to be ----------	Added	deduct	multiply	divide	added
Profits and Gains of any business or profession that is carried on by the assessee at any time during the ---------------	assessment year	financial year	fiscal year	previous year	previous year
While determining the depreciation on fixed assets ------- value is taken into consideration	Straight line	written down	annuity	sinking fund	written down
Rate of additional depreciation is charged at --------	10%	20%	30%	40%	20%
disallowed expenses under business income Is ------	income tax	sales tax	excise duty	customs duty	income tax
. Fines and penalties for breach of any laws are ---------	Allowed expenditure	Disallowed expenditure	allowed income	disallowed income	Disallowed expenditure
Personal Drawings under business income is -----	Allowed expenditure	Disallowed expenditure	allowed income	disallowed income	Disallowed expenditure
Household expenses under busiess income is ----	Allowed expenditure	Disallowed expenditure	allowed income	disallowed income	disallowed expenditure
------------- 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%
Rate of depreciation on residential building is @ -------	5%	10%	15%	20%	5%
The income relates to business is called ---------	Allowed expenditure	Disallowed expenditure	allowed income	disallowed income	allowed income
Rate of depreciation on furniture and fittings is @ -------	5%	10%	15%	20%	10%

Rate of depreciation on books used for business or profession is @ -------	20%	40%	60%	80%	60%
Rate of depreciation on commercial building is @ -------	5%	10%	20%	30%	10%
Wchich includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture.	Business	Profession	distribution	supplier	business
Expenses, which are debited, to profit & loss a/c, but disallowed by the Income Tax Act and either fully or partially are ------------- with net profit	Added	deduct	multiply	divide	add
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

Capital gains – Capital gain – Short Term and Long term Capital Gain – Income From Other Sources- Aggregation of Income -– Setoff and Carry Forward of Losses

A. CAPITAL GAINS

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

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

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

Exceptions :

a. Stock-in-trade

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

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

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

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

f. Gold Deposit Bonds issued under Gold Deposit Scheme 2000

Kinds of capital assets

There are two kinds of capital assets

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

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

b. Quoted Securities

c. Quoted or unquoted Units of UTI

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

e. Quoted or unquoted zero coupon bonds

Long-term capital asset: Sec. 2(29A): It means a capital asset which is not a short-term capital asset. Under the existing law, profits and gains arising from the transfer of capital asset made in a previous year is taxable as capital gains. A capital asset is distinguished on the basis of the period of holding. A capital asset, which is held for more than three years, is categorized as a long-term capital asset. However, if the capital asset is in the nature of equity, it is categorized as a long- term capital asset if it is held for more than one year. All capital assets other than long-term

-term capital asset.

Transfer of capital asset

Transfer includes:

- Sale of asset
- Exchange of asset
- Relinquishment of asset (means surrender of asset)

• Extinguishments of any right on asset (means reducing any right on asset)
• Compulsory acquisition of asset.

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

Year of chargeability to tax

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

Long term capital gains

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

. . .

Differences between Long term capital gains and Short term capital gains

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

Full value of consideration

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

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

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

Cost of Acquisition

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

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

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

1. On any distribution of asset on the total or partial partition of a HUF or

2. Under gift or will

3. By succession , inheritance or devolution or

4. On any distribution of assets on the dissolution of a firm, body of individuals or other association of persons at any time before 1-04-1987. Or

5. On Any distribution of asset on the liquidation of a company or

6. Under a transfer to a revocable or an irrevocable trust or

7. On transfer by a parent company to its Indian subsidiary company which is wholly owned by a parent company or

8. On the transfer by a subsidiary company to its Indian holding company which owns whole of the share capital of the subsidiary company or

9. On the transfer of capital asset by the amalgamating company to the amalgamated company if the amalgamated company is an Indian company. Or

10. On transfer of shares of an Indian company by amalgamated foreign company to the amalgamated foreign company. Or

11. On the transfer of capital asset in a scheme of amalgamation of a banking company with a banking institution sanctioned and brought into force by the central government or

12. When any members of HUF converts his self acquired property into HUF property or

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

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

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

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

Cost of share or security

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

Cost of bonus shares

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

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

(b) In any other case- nil

Cost of acquisition of goodwill

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

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

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

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

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

Cost of Improvement

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

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

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

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

Expenditure on transfer

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

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

Exemption from Capital Gains

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

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

Conditions: Exemption is available if: -

1. House Property transferred was used for residential purpose.
2. House Property was a long term capital asset.
3. Assesses has purchased another house property within a period of one year before or two

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

Amount of Exemption will be the least of: -

1. Capital Gain
2. Cost of new house.

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

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

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

1. The agriculture land is owned by an individual or a HUF
2. The agriculture land was , in the two years immediately preceding the date of transfer, being

used either by the assessee or his parent or HUF for agriculture purposes.

3. The assessee has purchased within a period of two years from the date of transfer any other land for agricultural purposes.

The amount of deduction is the capital gain arising from the transfer of such agricultural land is exempt to the extent of the cost of the new agricultural land purchased within two years from the date of transfer.

If the amount of capital gain is not utilized by the assessee for the acquisition of the new agricultural land before due date of furnishing return of income, it shall be transferred to capital gain account scheme.

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

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

1. The asset transferred is land or building or any right in land or building which formed part of new industrial undertaking belonging to the tax payer.
2. Asset in question is transferred by way of compulsory acquisition under any law.
3. The asset in question was used for the purpose of industrial undertaking at least for two years immediately before the date of compulsory acquisition.
4. Assessee has purchased any other land or building with in a period of three years from the date of receipt of compensation or constructed a building within such a period.

If the new asset is not acquired by the due date for furnishing the return of income for the relevant assessment year, the unutilized amount of capital gains must be deposited in a Capital Gains Deposit Account.The cost of acquisition of the new asset is reduced by the exemption granted from LTCG for a period of 3 years from its date of acquisition.

Investment in Financial Assets (Section -54 EC)

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

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

I. Bonds redeemable after three years II. Issued on or after 1.4.2007 and III. Issued by
a) National Highway Authority of India (NHAI). Or b) Rural Electrification Corporation Limited (RECL).

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

Investment into a residential house (Section 54F)

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

$$\text{Amount of exemption} = \frac{\text{Cost of New House X Capital Gains}}{\text{Net Consideration}}$$

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

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

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

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

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

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

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

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

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

a) for purchasing new machinery or plant or building or land for tax payer's business in that new area; or
b) shifting of the old undertaking and its establishment to the new area; or

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

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

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

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

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

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

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

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

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

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

2. The company utilizes the money within one year from the date of subscription in equity shares by the assessee for the purchase of new plant and machinery.

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

II . INCOME FROM OTHER SOURCES

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

The following incomes are chargeable to tax:-

1. Dividend received from any entity other than domestic company. This is because dividend received from a domestic company has been made exempt in the hands of the receiver. Accordingly dividend received from a cooperative bank or dividend received from a foreign company will be taxable as income from other sources.

2.Any pension received by the legal heirs of an employee.

3. Any winnings from lotteries, crosswords, puzzles, races including horse races, card games or other games of any sort or gambling or betting of any form or nature.

4. Income from any plant, machinery or furniture let out on hire where it is not the business of the assessee to do so.

5. Income from securities by way of interest.

6. Any sum received by the assessee from his employees as contribution to any staff welfare scheme. However when the assessee makes the payment of such contribution within the time limit under the scheme of welfare, then the payment will be allowed as a deduction and only the balance amount will be taxable.

7. Income from subletting
8. Interest on bank deposits
9. Income received under keyman insurance policy including bonus on such policy.

10. An individual or HUF receives in any previous year from any person or persons.
    1. Any sum of money, without consideration, the aggregate value of which exceeds Rs 50,000.
       2. Any immovable property (i) without consideration, the stamp value of which exceeds Rs 50,000- the stamp duty is taxable.(ii) for a consideration which is less than the stamp duty value of the property by an amount exceeding Rs 50,000- the stamp duty is taxable
    3. Any property other than immovable property :

(i) without consideration, the aggregate fair Market value of which exceeds Rs 50,000- the whole of the aggregate fair market value of such property is included under this head as income.
(ii) for a consideration which is less than the aggregate fair market value of the property by an amount exceeding Rs 50,000- the aggregate fair Market value of such property as exceeds such consideration.

Gift of Cash / Cheque / Draft:

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

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

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

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

Exempted Gifts:

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

payer. 5.Money / property received from a local authority

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

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

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

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

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

1. Income from subletting
2. Interest on bank deposits and loans and securities.
3. Agricultural income from a place outside India.
4. Rent of plot of land
5. Mining rent and royalty.
6. Casual income under a will, contract, trust deed.
7. Salary payable to a member of parliament.
8. Income from undisclosed sources.
9. Gratuity paid to a director who is not an employee of a company. 10. Any casual income exceeding Rs. 5,000.
11. Income from markets, ferries and fisheries etc.

12. Income from leasehold property
13. Remuneration received for writing articles in journals.
14. Salary of M.P, member of legislative assembly or council
15. Interest received on securities of cooperative society
16. Family pension received by the widow and heirs of deceased employees. However the following family pensions are exempt:

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

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

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

Dividend

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

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

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

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

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

TDS Rate

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

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

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

Interest on securities

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

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

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

Kinds of securities

There are four types of securities.

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

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

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

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

Bond washing transaction

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

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

Grossing up of Interest:

Interest is paid after TDS at following rates:

Govt. Securities: Nil (In case of 8% saving bonds, if amount of interest exceeds Rs 10,000 then there is a TDS @ 10%)

Listed / Non listed securities: 10%

Grossing Up: = Net amount received **X** $\dfrac{100}{100 - \text{Rate}}$

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

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

Expenses deductible from Interest income

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

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

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

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

1. Interest on notified securities, bonds or certificates:
a. National Defence Gold Bonds, 1980
b. Special bearer bonds, 1991
c. Post office Cash certificates
d. National Plan Certificates
e. National Plan Savings certificates

f. Post Office National Savings Certificates

g. Post Office Savings Bank Account

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

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

h. Post Office Cumulative Time Deposit Rules, 1981

i. Special deposit Scheme, 1981

j. public account in Post office (up to Rs 5,000)

2. Interest on National Relief Bonds (only for individual and HUF)
3. 7% Capital Investment Bonds (only for individual and HUF)
4. nterest on notified bonds/ debentures of Public Sector companies
5. Interest on deposits in a specified scheme made by a retired govt./public sector employee out of retirement benefits.
6. Iterest on Gold Deposit bonds
7. Interest received by a non-resident Indian from notified bonds (i.e. NRI bonds). Standard deduction in the case of family pension [Sec. 57(iia)]

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

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

DEDUCTIONS AGAINST INCOME FROM OTHER SOURCE U/S 57

a. commission or remuneration for realising dividend or interest on securities – Section 57(i)

b. Repairs, depreciation in case of letting out of plant, machinery, furniture, building etc.

c. Standard deduction in case of family pension – 57(iia)

d. Any other expenditure of revenue nature [57(iii)]

e. Interest on borrowed capital [loan taken to invest in shares/ debentures etc.]

SET OFF OF LOSSES AND CARRY FORWARD OF LOSSES

TOTAL INCOME

Total income means Income of other person included in assesse's total income, for example: Income of husband which is shown to be the income of his wife is clubbed in the income of Husband and is taxable in the hands of the husband. Under the Income Tax Act a person has to pay taxes on his income. A person cannot transfer his income or an asset which is his one of source of his income to some other person or in other words we can say that a person cannot divert his income to any other person and says that it is not his income. If he do so the income shown to be earned by any other person is included in the assessee's total income and the assessee has to pay tax on it. Inclusion of other's Incomes in the income of the assessee is called

Total Income takes place in the following cases:

1. **Transfer of income without transfer of Asset**: If any person transfers income without transferring the ownership of the asset, such income will be taxable in the hands of the transferor. Ex. X owns 4000, 14% debentures of A ltd. of Rs. 100 each , he transfers interest income to his friend Y without transferring the ownership of Debentures . In this case although

interest will be received by Y but it is taxable in the hands of X.

2. **Revocable transfer of Asset**: If any person transfers any asset to any other person in such form and condition that such transfer is revocable at any time during the lifetime of the transferee , the income earned through such asset is chargeable to tax as the income of the transferor. For ex. X transfers a house property to A. However , X has right to revoke the transfer during the life time of A . It is a revocable transfer and income arising from the house property is taxable in the hands of X.

3. **Remuneration to Spouse**: An individual is chargeable to tax in respect of any remuneration received by the spouse from a concern in which the individual has *substantial interest. This provision has an exception. If the remuneration is received by spouse by the application of technical or professional knowledge or experience clubbing provisions will not take place. For ex. X has substantial interest in A ltd. and Mrs. X is employed by A ltd. without any technical or professional qualification. In this case salary income of Mrs. X shall be taxable in the hands of X.

4.Income from assets transferred to spouse: Where an asset is transferred by an individual to his spouse directly or indirectly, otherwise than for adequate consideration or in connection with an agreement to live apart, any income from such asset is deemed to be the income of the transferor. For ex. Mrs. A transfer's 100 debentures of IFCI to her husband without adequate consideration. Interest income on these debentures will be included in the income of Mrs. A.

5. Income from asset transferred to son's wife: If an individual, directly or indirectly transfers asset , without adequate consideration to son's wife , income arising from such asset is included in the income of the transferor. For ex. Mrs. A transfer's 100 debentures of IFCI to her son's wife without adequate consideration. Interest income on these debentures will be included in the income of Mrs. A.

6. Income from asset transfer to a person for the benefit of spouse/ son's wife: If anindividual , directly or indirectly transfers asset , without adequate consideration to a person or an association of persons for the benefit of his/her spouse /son's wife , income arising from suchasset directly or indirectly is included in the income of the transferor. For Ex. X transfers Government bonds without consideration to an association of persons, subject to the condition that , the interest income from these bonds will be utilized for the benefit of Mrs. X or Mrs. X son's wife . Interest from bonds will be included in the income of X

7. Income of a minor child: All income which arises to the minor shall be clubbed in the income of his parents. Income will be included in the income of that parent whose total income is greater. This case has two exceptions.

(1) Income of minor child suffering from specified disability .

(2) Income of minor child on account of manual work or involving application of his skill/talent etc.

*__Substantial Interest__: An individual is deemed to have substantial interest if he beneficially holds equity shares carrying not less than 20% voting powering case of a company or is entitled to not less than 20% of the profits in case of a concern other tan a company , at any time during the previous year.

Some special points to remember:

1. If an individual makes a gift in cash or by cheque to his spouse and that money is utilized by the spouse for purchase of an asset . The income earned by the spouse from that asset will not be clubbed in the income of the individual.

2. In order to invoke clubbing provisions there must be relation of husband and wife. That means

if a person transfers asset to his would be spouse before marriage income arising from such asset will not be included in the income of transferor.

3. Negative income is also income. Under the Income Tax Act income does not means positive income only. The term income includes negative income or loss also.

4. Income from accretion to asset is not taxable in the hands of the transferor.

5. Income from saving out of pin money is not included in the income of husband.

6. Income of minor child is clubbed with the income of the parent whose income after excluding the share of minor's income is greater.

7. If trust is created for the benefit of minor child and income during minority of child is being accumulated and added to corpus of trust and income from increased corpus is given to the child after attaining majority, clubbing provisions are not applicable.

C. AGGREGATION OF INCOME

In certain cases, some amounts are deemed as income in the hands of the assessee though they are actually not in the nature of income. These cases are contained in sections 68, 69, 69A, 69B, 69C and 69D. The Assessing Officer may require the assessee to furnish explanation in such cases. If the assessee does not offer any explanation or the explanation offered by the assessee is not satisfactory, the amounts referred to in these sections would be deemed to be the income of the assessee. Such amounts have to be aggregated with the assessee's income.

Cash credits (sec 68)

Where any sum is found credited in the books of an assessee maintained for any previous year, and the assessee offers no explanation about the nature and source thereof or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, the sum so credited may be charged to income-tax as the income of the assessee of that previous year.

Unexplained investments (sec 69)

Where in the financial year immediately preceding the assessment year the assessee has made investments which are not recorded in the books of account, if any, maintained by him for any source of income, and the assessee offers no explanation about the nature and source of the investments or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, the value of the investments may be deemed to be the income of the assessee of such financial year.

Unexplained money, etc (Sec 69A)

Where in any financial year the assessee is found to be the owner of any money, bullion, jewellery or other valuable article and such money, bullion, jewellery or valuable article is not recorded in the books of account, if any, maintained by him for any source of income, and the assessee offers no explanation about the nature and source of acquisition of the money, bullion, jewellery or other valuable article, or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, the money and the value of the bullion, jewellery or other valuable article may be deemed to be the income of the assessee for such financial year.

Amount of investments, etc., not fully disclosed in books of account(69B.)

Where in any financial year the assessee has made investments or is found to be the owner of any bullion, jewellery or other valuable article, and the Assessing Officer finds that the amount expended on making such investments or in acquiring such bullion, jewellery or other valuable article exceeds the amount recorded in this behalf in the books of account maintained by the assessee for any source of income, and the assessee offers no explanation about such excess amount or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, the excess amount may be deemed to be the income of the assessee.

Unexplained expenditure, etc (69C).

Where in any financial year an assessee has incurred any expenditure and he offers no explanation about the source of such expenditure or part thereof, or the explanation, if any, offered by him is not, in the opinion of the Assessing Officer, satisfactory, the amount covered by such expenditure or part thereof, as the case may be, may be deemed to be the income of the assessee for such financial year :

Amount borrowed or repaid on hundi (69D.)

Where any amount is borrowed on a hundi from, or any amount due thereon is repaid to, any person otherwise than through an account payee cheque drawn on a bank, the amount so borrowed or repaid shall be deemed to be the income of the person borrowing or repaying the amount aforesaid for the previous year in which the amount was borrowed or repaid, as the case may be:

SET OFF, OR CARRY FORWARD AND SET OFF

Set off of loss from one source against income from another source under the same head of income (sec 70.)

(1) Save as otherwise provided in this Act, where the net result for any assessment year in respect of any source falling under any head of income, other than Capital gains, is a loss, the

assessee shall be entitled to have the amount of such loss set off against his income from any other source under the same head.

(2) Where the result of the computation made for any assessment year under sections to in respect of any short-term capital asset is a loss, the assessee shall be entitled to have the amount of such loss set off against the income, if any, as arrived at under a similar computation made for the assessment year in respect of any other capital asset.

However the following are the exceptions to the general rue.

(1) Loss from speculation business cannot be set off against income from other sources. This loss can be set off only against income from another speculation business.

(2) Loss of specified business cannot be set off against income from other business. This loss can be set off only against income from other specified business.

(3) Long term capital loss cannot be set off against short term capital gain. This loss can be set off only against long term capital gain.

(4) Loss from the activity of owning and maintaining race horses shall be set off against income from owning and maintaining race horses only and not against any other income under the head other sources.

Inter head adjustment [Section 71]

Loss under one head of income can be adjusted or set off against income under another head.

However, the following points should be considered:

(i) Where the net result of the computation under any head of income (other than 'Capital Gains') is a loss, the assessee can set-off such loss against his income assessable for that assessment year under any other head, including 'Capital Gains'.

(ii) Where the net result of the computation under the head "Profits and gains of business or profession" is a loss, such loss cannot be set off against income under the head "Salaries".

(iii) Where the net result of computation under the head 'Capital Gains' is a loss, such capital loss

cannot be set-off against income under any other head.

(iv) Speculation loss and loss from the activity of owning and maintaining race horses cannot be set off against income under any other head.

Carry forward and set off losses

If it is not possible to set off the losses during the same assessment year in which they occurred, so much of the loss as he has not been so set off out of the following losses can be carried forward for being set off against his income in the succeeding years provided the losses have been determined in pursuance of a return filed by the assessee within the time allowed u/s 139(i) and it is the same assessee who sustained the loss.

(i) Loss under the head income form house property.

(ii) Loss of non speculation business or Profession.

(iii)Loss of speculation business.

(iv)Loss of specified business

(v) Short term capital loss or long term capital loss.

(vi)Loss from activity of owning and maintaining race horses.

Set-off and carry forward of loss from house property [Section 71B]

(i) In any assessment year, if there is a loss under the head 'Income from house property', such Loss will first beset-off against income from any other head during the same year.

(ii) If such loss cannot be so set-off, wholly or partly, the unabsorbed loss will be carried forward to the following assessment year to be set-off against income under the head 'Income from house property'.

(iii) The loss under this head is allowed to be carried forward up to 8 assessment years immediately succeeding the assessment year in which the loss was first computed.

(iv) For example, loss from one house property can be adjusted against the profits from another house property in the same assessment year. Any loss under the head 'Income from house property' can be set off against any income under any other head in the same assessment year. However, if after such set off, there is still any loss under the head "Income from house property",

and then the same shall be carried forward to the next year.

(v) It is to be remembered that once a particular loss is carried forward, it can be set off only against the income from the same head in the forthcoming assessment years.

Carry forward and set-off of business losses [Sections 72 & 80]

Under the Act, the assessee has the right to carry forward the loss in cases where such loss cannot be set-off due to the absence or inadequacy of income under any other head in the same year. The loss so carried forward can be set-off against the profits of subsequent previous years.

Section 72 covers the carry forward and set-off of losses arising from a business or profession. The assessee's right to carry forward business losses under this section is, however, subject to the following conditions:-

(i) The loss should have been incurred in business, profession or vocation.

(ii) The loss should not be in the nature of a loss in the business of speculation.

(iii) The loss may be carried forward and set-off against the income from business or profession though not necessarily against the profits and gains of the same business or profession in which the loss was incurred. However, a loss carried forward cannot, under any circumstances, be set-off against the income from any head other than "Profits and gains of business or profession".

(iv) The loss can be carried forward and set off only against the profits of the assessee who incurred the loss. That is, only the person who has incurred the loss is entitled to carry forward or set off the same. Consequently, the successor of a business cannot carry forward or set off the losses of his predecessor except in the case of succession by inheritance.

(v) A business loss can be carried forward for a maximum period of 8 assessment years immediately succeeding the assessment year in which the loss was incurred.

(vi) As per section 80, the assessee must have filed a return of loss under section 139(3) in order to carry forward and set off a loss. In other words, the non-filing of a return of loss disentitles the assessee from carrying forward the loss sustained by him. Such a return should be filed within the time allowed under section 139(1). However, this condition does not apply to a loss from house property carried forward under section 71B and unabsorbed depreciation carried forward under section 32(2).

Carry forward and set off speculation business losses (section 73)

The loss of a speculation business of any assessment year is allowed to be set off only against the profits and gains of another speculation business in the same assessment year. If a speculation loss could not be set off from the income of another speculation business in the same assessment year, it is allowed to be carried forward for 8 assessment years immediately succeeding the Assessment year for which the loss was first computed.

Also, it can only be set off against the income of only a speculation business. It may be observed that it is not necessary that the same speculation business must continue in the assessment year in which the loss is set off. However, filing of return before the due date is necessary for carry forward of such a loss.

Losses in speculation business (sec 73)

(1) Any loss, computed in respect of a speculation business carried on by the assessee, shall not be set off except against profits and gains, if any, of another speculation business.

(2) Where for any assessment year any loss computed in respect of a speculation business has not been wholly set off under sub-section (1), so much of the loss as is not so set off or the whole loss where the assessee had no income from any other speculation business, shall, subject to the other provisions of this Chapter, be carried forward to the following assessment year, and

(i) it shall be set off against the profits and gains, if any, of any speculation business carried on by him assessable for that assessment year ; and

(ii) if the loss cannot be wholly so set off, the amount of loss not so set off shall be carried forward to the following assessment year and so on.

Losses under the head Capital gains (sec 74)

(1) Where in respect of any assessment year, the net result of the computation under the head

Capital gains is a loss to the assessee, the whole loss shall, subject to the other provisions of this Chapter, be carried forward to the following assessment year, and

(a) in so far as such loss relates to a short-term capital asset, it shall be set off against income, if any, under the head Capital gains assessable for that assessment year in respect of any other capital asset;

(b) in so far as such loss relates to a long-term capital asset, it shall be set off against income, if any, under the head Capital gains assessable for that assessment year in respect of any other capital asset not being a short-term capital asset;

(c) if the loss cannot be wholly so set off, the amount of loss not so set off shall be carried forward to the following assessment year and so on.

(2) No loss shall be carried forward under this section for more than eight assessment years immediately succeeding the assessment year for which the loss was first computed.

(3) In respect of allowance on account of depreciation or capital expenditure on scientific research, the provisions of sub-section (2) of section 72 shall apply in relation to speculation business as they apply inrelation to any other business.

(4) No loss shall be carried forward under this section for more than eight assessment years immediately succeeding the assessment year for which the loss was first computed.

POSSIBLE QUESTIONS

PART A – ONE MARK – ONLINE EXAMINATION

PART - B (8 MARKS)

1. During the year ended 31st March, 2017 Mr. James sold the following asset,

Particulars	**Sale Proceeds**
(i) Furniture purchased on 1-5-2013 for Rs 1,000	Rs. 1,300
(ii) Machinery purchased in 1983-84 (C.I.I: 125)for Rs 50,000 (W.D.V on 1-4-2010 Rs 35,000)	Rs. 60,000
(iii) Machinery purchased on 1-5-2017 for Rs 10,000	Rs. 12,000

Compute the capital gain.

2. Sale price of jewellery in Oct. 2017 (C.I.I. : 1125) Rs. 22,00,000
Cost fo acquisition in 1983-84 (C.I.I:116) Rs. 3,00,000
Amount invested in construction of new house up to 31-7-2011 Rs. 4,00,000
Amount deposited in Capital Gain Deposit Scheme for Completing the construction of house (Deposited in 27-6-2011) Rs 12,00,000
a. Compute the taxable capital gain assuming that he does not own any other house.
b. Compute deemed capital gain if he is able to invest Rs. 10,00,000 out of amount deposited in Capital Gain Deposit Scheme?

3. Mr.Yash sold an asset on 15-8-2017(C.I.I. 1125) for Rs. 1,74,000. The cost price of the asset purchased on 11-2-76 is Rs. 20,000. The fair market value of the same on 1-4-81 (C.I.I.: 100) was Rs. 20,000. The income of Mr. Yash from other sources during the previous year was Rs. 1,22,700. Calculate taxable capital gain.

4. Explain the exempted capital gain u/s 54 and u/s 10 of Income tax Act 1961.

5. M/S P.Bros., Ludhiana running an industrial unit were ordered by Municipal Corporation, Ludhiana to shift their concern from urban area of Ludhiana. They shifted their concern during 2010-11 previous year and in this process sold some of assets whose details are given below:

Asset Acquired in	**P& M (1987) Rs**	**Land (June 1983) Rs**	**Building (1987) Rs**
Sale proceeds	10,00,000	7,00,000	12,00,000
W.D.V. on 1-4-2010 [cost u/s 50(2)]	4,40,000	-	7,32,500
Cost of acquisition	6,000	1,00,000	10,00,000
Amount invested during Dec.2013 due to shifting	8,00,000	2,00,000	5,00,000

Compute the taxable Capital Gain for the assessment year 2015-16 if [C.I.I f or1983-84 is 116; 86-87: 140 and 2016-17 is 1125]

6. Mr. H submits the following particulars about sale of assests during the year 2016-17

Asset	**Jewellery** Rs	**Plot** Rs	**Gold** Rs
Sale Price	4,50,000	17.24,000	3,00,000
Expenses on sale	NIL	24,000	NIL
Cost of acquisition	50,000	2,00,000	80,000
Year of acquisition	1987-88	1984-85	1999-2000
C.I.I	150	125	389

He jas purchased house for Rs 12,00,000 on 1-3-2015. Calculate the amount of taxable capital gain if C.I.I for 2016-17 is 1125

7. Mr.Atul sold the following assets during the previous year 2016-17 [C.I.I : 1125]

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

He purchased a house for Rs. 20,00,000 on 1-6-2017. He did not own any other house on this date. Compute his taxable capital gain.

8. Mr. X. received the following gifts during the previous year 2016-17 compute his taxable income under the head " Income from Other Sources"
   (i) Received Rs. 1,00,000 as gift from friend on 1-6-2017;
   (ii) Received a microwave costing Rs 14,500 as gift from his another friend;
   (iii) Received Rs. 50,000 as gift from another friend on 1-11-2017;
   (iv) Received Rs. 30,000 as gift from his sister on 1-1-2017;
   (v) Received Rs. 40,000 as gift from his friend Mr.D on 1-12-2017
   (vi) Received Rs 1,60,000 as gift from his non- resident friend on 1-2-2017.

9. From the following information compute the income from other sources for the assessment year 2017-18:
   (i) Card games loss Rs. 12,000.
   (ii) Form the activity of owing and maintaining horse for race purposes
      a. Loss at Bombay Rs. 40,000
      b. Profit at Banglore Rs. 20,000.
   (iii) Dividend (Gross) from Indian Companies Rs.6,000.
   (iv) Betting in Horse races Rs.4,000.

10. Mr.X has the following incomes during the year ending 31-3-2017.
   (i) Dividend declared by M.Co. on 31-3-2017[Indian Co.] Rs. 6,000.
   (ii) Dividend declared by Z.Co. on 31-3-2017[Indian Co.] Rs. 9,000.
   (iii) Interim dividend received on 1-5-2017 [Indian Co.] Rs. 3,000.
   (iv) He won gold worth Rs 10,00,000 from Punjab State Lottery
   (v) During March 2017 he earned Rs 1,00,000 as prize money on horse races. These horses are owned by him and expenditure incurred on maintenance of these horses amounted to Rs 1,60,000.

   Compute income from other sources for the assessment year 2017-18

11. Mr.G.Bedi owns horses at Bombay and Banglore. These horses run for races at the race course. During the year 2016-17 Mr. Bedi submits the following information:
   (v) Expenses on race horse at Bombay Rs. 2,60,000
   (vi) Expenses on race horse at Banglore Rs. 4,30,000
   (vii) Stake money earned by horse at
      a. Bombay Rs. 1,20,000
      b. Bangalore Rs. 5,00,000

(viii) Mr. Bedi received Rs. 1,05,000 on 1-7-2017 on betting during horse races at Bombay. Compute his taxable income under other sources.

12. Harikrishnan a resident individual submits the following particulars of income for the previous year ending March 31 2017

Dividend form REC international Ltd Rs.4,800. Dividend declared on 16.05.2016 by Sundasram Finance Ltd Rs.2,700, interest paid on capital borrowed fro eh purpose of investment in share of sundaram Finance Ltd Rs.4200. collection charges in respect of dividend Rs.50.

Winning from lottery: Net amount Rs.70,000. TES Rs.30,000 Winning from card games Rs.23,500. Interest on securities issued by the government of Singapore Rs.20,570.

Determine the income chargeable under the head income from other sources for the assessment year 2017-18.

13. From the following particulars for the year ended 31st March 2017, Compute the income under the head income from other sources:

	Rs.
Equity dividend (Indian company)	25,200
Dividend (preference)	12,000
Collection charges in respect of dividend	1% of dividend
Rent from letting out of a building alongwith plant and machinery	30,000
Depreciation on buildings	4,000
Insurance on building	1,600
Office expense relating to buildings	1,600
Repairs, Rates etc.	1,600

14. List the general income under the head income from other sources

15. Bring out the rates of TDS for individual and HUF under the head income from other sources.

16. Write down the provisions regarding gift under the head income from other sources.

17. Compute taxable income and loss to be C/F;
(i) Business profit for the previous year 2016-17 Rs.20,000
(ii) B/F Business Loss of 2016-17 Rs. 10,000
(iii) Capital loss on shares Rs. 60,000

(iv) Loss from self- occupied house (u/s 24) Rs. 5000

18. The following are the particulars of income and loss of an individual under different heads of income. Set- Off losses in the assessment year 2016-17 and find out the net result:

Income from house property A	Rs.	5,000.
Loss from House property B	Rs (-)	8,000.
Income from interest on securities	Rs.	20,000.
Loss from a cycle business	Rs (-)	20,000.
Profit from speculation business	Rs.	20,000
Loss from short – term capital asset	Rs (-)	6,000
Long term capital loss	Rs.(-)	25,000
Long – term capital gain (Investments)	Rs.	21,000

19. From the following particulars of income of assesses A, B and C how the capital losses shall be setoff and carried forward for the previous year ending on 31.03.2017?

	Rs.
A. i. Business income	15,000
ii. Short term capital loses	1,200
iii. Long term capital gain (Shares)	7,200
iv. Long term capital gain on sale of jewellery	20,000
B i. Business income	30,000
Ii. Short term capital loss	40,000
C. i. Business income	60,000
ii short term capital gain	20,000
iii. Long term capital gain	17,000
iv. Carry forward loss (Short term capital assets)	50,000

20 . Mr. Ram Patel submits the following information of his income and losses for the year ending 31.03.2017. compute total income,

	Rs.
1. Salary computed	24,000
2. Income from house property	
House A (income)	10,000
House B (loss)	40,000
House C (Self occupied) loss	28,000
3. Income from business:	

Cloth business Profit	10,000
Hardware business loss	12,000
Speculation profit	12,000
Speculation loss	17,000
4. Capital gains:	
Short term gain	8,000
Short term loss	24,000
Long term gain	8,000
5. Other sources :	
Income from subletting	12,000
Loss from card games	6,000
Income from card games	9,000
Interest on securities gross	8,000

21. Determine the total income from the following particulars

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

22. Explain the provisions of set off and carry forward of losses?

23. Calculate set off and carry forward of losses and total income.

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

24. The following are the particulars of income and loss of an individual under different heads of income. Set- Off losses in the assessment year 2016-17 and find out the net result and give comment on it

Long term capital gain	Rs. 25,000
Income from house property A	Rs. 10,000.
Loss from House property B	Rs (-) 25,000.
Income from interest on securities	Rs. 40,000.
Loss from a cycle business	Rs (-) 40,000.
Profit from speculation business	Rs. 50,000
Loss from short – term capital asset	Rs (-) 15,000
Income from House property C	Rs. 45,000

25. Ram Prakash (70 years of age) gives the following information. Compute deductible amount under sec.80C for the A.Y. 2017-18

1. Payment of LIC premium for his own life (policy amount Rs: 60,000) Rs: 13,000.
2. Payment of LIC premium on life of his wife Rs: 5,000 (paid out of agricultural income)
3. Contribution to URPF Rs: 24,000
4. Contribution to PPF Rs: 15,000
5. Interest accrued on NSC (VIII issue) including 6th year's interest of Rs: 1,500 is Rs:8,000
6. Repayment of loan taken for construction of a residential flat from Housing Development Finance Corporation (includes interest Rs: 34,000) Rs: 80,000.

26. From the following information, compute total income for the A.Y. 2017-18

1. Business income of Surjih, aged 70, is Rs: 13,20,000
2. He deposited Rs: 70,000 in PPF And purchased NSC VIII issue Rs: 50,000
3. He paid interest on loan taken from a financial institution for higher education of his

grand son Rs:1,20,000.

4. He spent Rs: 40,000 on medical treatment of disabled dependent.

27.Compute total income of Mr. X, a disabled, for the A.Y 2013-14:

1. Salary income is Rs: 4,30,000
2. He deposited Rs:20,000 in URPF.
3. He paid LIC premium Rs: 45,000 on a policy (issued on 15-6-2012) of Rs: 4,00,000
4. He donated Rs: 20,000 to National Children’s Fund by cheque.

KARPAGAM ACADEMY OF HIGHER EDUCATION

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Department of Commerce

Subject: DIRECT TAXATION **CLASS : I M.COM / I MCOM CA**

Semester: II **SUB CODE: 17CMP203/17CCP203**

PART – A (ONE MARK)

POSSIBLE QUESTIONS - UNIT –III

QUESTION	OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
Capital gain is classified into ----------- types	Two	Three	Four	five	two
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 than 36 months immediately preceding the date of transfer is called as -------------	Short term capital asset	Long term capital asset	medium capital asset	total capital gain	Short term capital asset
Shares held by an assessee for less than 12 months is termed as ----------	Short term capital asset	Long term capital asset	medium capital asset	total capital gain	Short term capital asset
Capital asset held by an assessee for more than 36 months immediately preceding the date of its transfer ------------	Long term capital asset	Short term capital asset	Medium capital asset	total capital gain	Long term capital asset
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
Amount of gain arising from the transfer of capital asset is called as ----------------	Capital gain	Profit	Income	receipt	capital gain
Transfer includes,------------	Sale	Exchange	Both	none	Both
The price which the assessee has incurred for acquisition of capital	Cost of acquisition	cost of improvement	Cost of inflation	selling price	cost of acquistion

asset is termed as--------------					
Capital expenditure incurred in making any additions or alterations to the capital asset is -----------	Cost of improvement	Cost of inflation	Cost of acquisition	selling price	cost of improvement
Capital assets includes,	Plant and machinery	Building	Both	none	Both
Capital asset does not include-----------	Stock in trade	Gold bonds	both	none	Stock in trade
Capital gain = _______________ - cost of acquisition (indexed) + cost of improvement	Sale price	Purchase price	Transfer price	total price	sale price
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
A short term capital asset is the one held for not more than ----------------	48 months	36 months	60 months	72 months	36months
A long term capital gain is the one held the assets for more than ---------------	48 months	36 months	60 months	75months	36 months
Rate of tax for long term capital gain is ------------	10%	20%	30%	40%	20%
Exempted assets are given u/s -------------	54	55	56.	60%	55
Rate of tax for short term capital gain (subject to STT) is --------------	10%	20%	30%	40%	10%
Capital gains arising from the transfer of agriculture land owned for 5 years in a rural area are ------------	Taxable as short term capital gain	Taxable as long term capital gain	Exempted from tax	assets	exempted from tax
Gain arising on the transfer of short term capital asset is known as ---------	Short term capital gain	Long term capital gain	Medium term capital gain	liabilities	short term capital gain

Gain arising on the transfer of long term capital asset is known as ----------	Short term capital gain	Long term capital gain	Medium term capital gain	total capital gain	long term capital gain
Transfer does not include,	Gift	Will	Both	none	Both
As asset which does not cost anything to the assessee in terms of money in its creation or acquisition is called as ---------	Depreciable assets	Self generated assets	Capital assets	all of the above	depreciable assets
An example to self generated asset is -----------	Goodwill	Land	plant	machinery	goodwill
Transfer of an under taking for a lump sum consideration without assigning values to individual assets and liabilities is termed as -------------	Slump sale	Transfer	Extinguishm ents	relinquishment s	slump sale
The term -------------- means, aggregate value of total assets minus value of liabilities appearing in balance sheet.	Net asset	Net liability	Net worth	total worth	net asset
Capital gain is taxable to ----------------	all assesses	only residents	only citizens	NRI	all assessees
Long term capital loss can be set off from ---------------	short term capital gain	long term capital gain	both long and short term capital gain.	any income	long term capital gain
An acknowledgement of debt or claim in the form of debentures and bonds are called as ---------------	Securities Market	Capital market	Money market	Stock market	securities market
Securities of a company which is registered in any one of stock exchanges in India is termed as ----------------	Listed debentures	Unlisted debentures	Tax free debentures	Taxable debentures	Listed debentures
Securities of a company which is not registered in any one of stock exchanges in India is termed as ----------------	Listed debentures	unlisted debentures	Tax free debentures	taxable debentures	unlised debentures

The securities on which interest is receivable with out deduction of tax at source is called --------------	Tax free securities	Taxable securities	Listed securities	not an income	taxable securites
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
The fifth and residuary head of income as per Income Tax Act 1961 is ------------	Salary	House property	Income from other sources	Capital gain	income from other source
Under the head income from other sources the specified income is given u/s---------	56(1)	56(2)	56(3)	56(4)	56(2)
Under the head income from other sources the general income is given u/s---------	56(1)	56(2)	56(3)	56(4)	56(1)
Standard deduction out of family pension is allowed upto 33 1/3 % of such pension or Rs.------------------ which ever is less	Rs.15,000	Rs.20,000	Rs.30,000	Rs.40,000	Rs.15,000
Remuneration for delivering lectures or writing articles is --------------	General income	Specified income	Gross income	net income	General income
Interest on securities is ------------	General income	Specified income	Gross income	net income	General income
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%
Dividend received from Indian company is --------------	Fully taxable	Partially taxable	Fully exempted	none	fully exempted
Winning from Lotteries, cross word puzzles, horse races and other races et are casual income and hence -----------	Fully exempted	Exempted upto Rs.5,000	Fully taxable	exempted up to RS.15,000	exempted upto Rs.5,000
If total income of individual exceeds Rs. 10,00,000, add surcharge @ --------------	5%	10%	15%	20%	10%
Share of income received by a member of HUF out of HUF income is ------------	Taxable income	Exempted income	Rebateable income	deductable income	exempted income
Bonus shares received by a dealer of shares is a -----------	Capital receipt	Revenue receipt	Exempt income.	taxable income	capital receipt
Rate of TDS on bank interest is ---------------	10%	20%	30%	40%	10%
Income from letting of plant and machinery is taxable under the head -----------	House property	Salary	Income from other sources	capital gain	income from other source
Dividend from foreign company is taxable under the head -------------	Income from other sources	House property	business income	capital gain	Income from other sources
Company formed and registered under companies Act 1956 is called --------------	Indian company	Foreign company	not a company	private company	Indian company
A Company which is not a domestic company is ----------------	Domestic company	Foreign company	Indian company	private company	Foreign company
Gift is taxable under the head income from other sources, if its value exceeds --------	Rs.25000	Rs. 50, 000	Rs.60,000	Rs.80,000	Rs.50,000

Dividend from foreign company is taxable under the head -------------	Income from other sources	House property	business income	capital gain	Income from other sources

Deductions out of Gross Total Income – Computation of Total Income – Assessment of Individuals

A. 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.

a. Deductions in respect of certain payments

SECTION 80C: Deduction in respect of life insurance premia, deferred annuity, contributions to provident fund, subscription to certain equity shares or debentures, etc.
Persons Covered: Individual /HUF.

Eligible Amount: Any sums paid or deposited in the previous year by the assessee —

1. As ***Life Insurance premium*** to effect or keep in force insurance on life of (a) self, spouse and any child in case of individual and (b) any member, in case of HUF.

(i).Insurance premium should not exceed 20% of the actual capital sum assured, if the policy is issued before 1-04-2012.

(ii). The qualifying amount of life insurance premium on the insurance policy issued on or after 1-04-2012 shall not exceed 10% of the actual capital sum assured.

(iii). The qualifying amount of life insurance premium on an insurance policy issued on or after 1-04-2013 shall not exceed 15% of the actual capital sum assured if it is on the life of a person who is (a) a person with disability or a person with severe disability or (b) suffering from decease or aliment specified u/s 80DDB.

2. To effect or keep in force ***a deferred annuity contract*** on life of self, spouse and any child in case of individual. Such contract should not contain a provision for cash payment option in lieu of payment of annuity.

3. By way of ***deduction from salary payable by or on behalf of the Government*** to any individual for the purpose of securing to him a ***deferred annuity*** or making provision for his spouse or children. The sum so deducted does not exceed 1/5th of the salary

4. As contribution (not being repayment of loan) by an individual to ***Statutory Provident Fund;*** i.e., any provident fund to which the Provident Funds Act, 1925, applies.

5. As contribution to ***Public Provident Fund*** scheme, 1968, in the name of self, spouse and any child in case of individual and any member in case of HUF.

6. As contribution by an employee to a ***recognized provident fund***.

7. As contribution by an employee to an ***approved superannuation fund***.

8. any subscription to any such security of the central government or any such deposit scheme which is notified by the central govt.

9. Any sum deposited in a ***10 year or 15 year account under the Post Office Savings Bank (CTD) Rules, 1959***, in the name of self and as a guardian of minor in case of individual and in the

11. As a contribution to Unit-linked Insurance Plan (ULIP) of UTI or LIC Mutual Fund (Dhanraksha plan) in the name of self, spouse and child in case of individual and any member in case of HUF.

12. To effect or to keep in force a contract for such annuity plan of the LIC (i.e., Jeevan Dhara, Jeevan Akshay and their upgradations) or any other insurer as referred to in by the Central Government.

13. As subscription to ***any units of any Mutual Fund*** referred u/s. 10(23D) ***(Equity Linked Saving Schemes)***.

14. As a contribution by an individual to any ***pension fund*** set up by any Mutual Fund referred u/s 10(23D).

15. As subscription to any such deposit scheme of ***National Housing Bank (NHB)***, or as a contribution to any such pension fund set up by NHB as notified by Central Government.

16. As subscription to ***notified deposit schemes*** of (a) Public sector company providing long-term finance for purchase/construction of residential houses in India or (b) Any authority constituted in India for the purposes of housing or planning, development or improvement of cities, towns and villages.

17. As ***tuition fees*** (excluding any payment towards any development fees or donation or payment of similar nature), to any university, college, school or other educational institution situated within India for the purpose of full-time education of any two children of individual.

18. Towards the cost of ***purchase or construction of a residential house property*** (including the repayment of loans taken from Government, bank, LIC, NHB, specified assessee's employer etc., and also the stamp duty, registration fees and other expenses for transfer of such house property to the assessee). The income from such house property should be chargeable to tax under the head

"Income from house property".

19. As subscription to ***equity shares or debentures*** forming part of any eligible issue of capital of public company or any public financial institution ***approved by Board***.

20. As ***Term Deposit*** (Fixed Deposit) ***for 5 years or more with Scheduled Bank*** in accordance with a scheme framed and notified by the Central Government.

21. As subscription to any notified bonds of National Bank for Agriculture and Rural Development (NABARD).

22. In an account under the **Senior Citizen Savings Schemes Rules, 2004.**

23. As f**ive year term deposit** in an account under the **Post Office Time deposit Rules, 1981**.

Extent of Deduction: 100% of the amount invested or Rs. 1,00,000/- whichever is less. However, as per Section 80CCE, the total deduction the assessee can claim u/ss. 80C, 80CCC and 80CCD(1) shall be restricted in aggregate to Rs. 1,00,000/-.

SECTION 80CCC- Deduction In Respect of Contribution to Certain Pension Funds Persons Covered- Individual.

Eligible Amount- Deposit or payment made to LIC or any other insurer in the approved annuity plan for receiving pension.

Extent of Deduction- Least of amount paid or Rs. 1,00,000/- .

SECTION 80CCD- Deduction In Respect of Contribution to Pension Scheme of Central Government

Persons Covered- Individual in the employment of Central Government or any other employer on or after 1-1-2004 or any other assessee being an individual.

Eligible Amount- Deposit or payment made by the employee and Central Government or individual under a pension scheme notified by the Central Government.

Extent of Deduction-A) Aggregate of (a) Amount paid or deposited by the employee and (b)

Amount paid or deposited by the Central Government. The total deduction shall be restricted to maximum 10% of salary.

B) Amount deposited by individual, subject to 10% of total income, in a previous year

80CCE- The aggregate amount of deductions under section 80C, section 80CCC and 80CCD shall not exceed Rs 1, 00,000.

Section 80CCG

Section 80CCG of the Income-tax Act is also called as Rajiv Gandhi Equity Savings Scheme, 2012 (RGESS). Any resident individual with income less than Rs 12 lakhs who uses demat account for the first time to buy notified shares, mutual funds or ETFs can claim 50% deduction on the invested amount. RGESS was introduced to encourage small investors to participate in the equity markets.

Eligibility

1. The assessee should be a new retail investor. This means you should be using a demat account the first time ever for equities. You should be using a new demat account or if you had a demat account you should have never traded in equities using it before.
2. The gross total income should not exceed Rs 12 lakhs.
3. Investment must be done in

(i) Shares belonging to BSE-100, NSE-100, maharatnas, navratnas or miniratnas. FPOs of these companies or IPOs of PSUs with 51% government shareholding are also eligible.

(ii) Mutual funds and ETFs investing in the above shares are eligible for tax saving through RGESS. NFOs of such funds are also eligible for 80 CCG RGESS deduction.

4. NRIs cannot avail this tax benefit. RGESS tax rebate under section 80CCG is applicable only for residents. Investments will have a total lock-in period of three years. The first year will be a fixed lock-in period where the assessee cannot alter the securities on which deduction has been

claimed under 80CCG and the next two years will be flexible lock-in period where the assessee can sell the securities while ensuring that value of the portfolio on which tax benefit has been claimed is maintained.

Maximum deduction limit: Maximum investment is capped at Rs 50,000. You can claim only 50% deduction on the amount invested. This deduction can be availed for three consecutive years, based on investments you make in those years, complying with RGESS requirements.

Section 80D- Deductions In Respect Of Medical Insurance Premia

Eligible Amount Premium paid on Mediclaim Policy issued by GIC or any other insurer approved by IRDA (Insurance Regulatory and Development Authority).

Extent of Deduction:

For Individual

A. For taxpayer his/her spouse and dependent children: 100% of premium paid subject to ceiling of (a) Rs. 20,000/- in the case of premium paid in respect of senior citizen (who has attained the age of 65 years or more) and (b) Rs. 15,000/- in other cases.

B. Additional deduction for parents of the taxpayer whether dependent or not 100% of premium paid subject to ceiling of (a) Rs. 20,000/- in the case of premium paid in respect of senior citizen (who has attained the age of 65 years or more) and (b) Rs. 15,000/- in other cases.

From Assessment year 2015-16, the benefit of deduction will be extended to the contribution made to Central Government Health Scheme. However, the aggregate limit for deduction remains the same.

Section 80DD- Deduction In Respect Of Maintenance Including Medical Treatment Of Handicapped Dependant

Persons Covered- Resident Individual/HUF.

Eligible Amount-(a) Expenditure incurred on medical treatment [including nursing], training and rehabilitation of a disabled dependant, or (b) Any payment or deposit made under a scheme framed by LIC or any other insurer or the administrator or the specified company and approved by the Board for payment of lump sum amount or annuity for the benefit of dependant with disability.

Relevant Conditions/Points

1. The concerned assessee must attach a copy of certificate in the prescribed Form and signed by prescribed medical authority along with return of income filed u/s 139. A fresh medical certificate may be required to be submitted after the expiry of stipulated period depending on the condition of disability as specified in such certificate.

2. Dependant means (a) in case of an individual, the spouse, children, parents, brothers and sisters of such individual and (b) in the case of a Hindu Undivided Family, any member of HUF; and who is dependant wholly or mainly on such individual or HUF for support and maintenance and who has not claimed deduction under section 80U for the assessment year relating to previous year.

Extent of Deduction(a) Rs. 50,000/- in case of normal disability or (b) Rs. 100,000/- in case of severe disability.

Section 80DDB- Deduction In Respect Of Medical Treatment,

Etc. Persons Covered- Resident Individual/HUF.

Eligible Amount- Expenditure actually incurred for the medical treatment of such diseases or ailments specified in Rule 11DD (some of the diseases are parkinsons disease, malignant cancers, full blown AIDS, chronic renal failure, thalassaemia etc.) for self or dependant relative (spouse, children, parents, brothers and sisters) in case of individual or any member of HUF in case of HUF.

Relevant Conditions/Points

1. The concerned assessee must attach a copy of certificate in the prescribed Form No.10-I by a neurologist, an oncologist, a urologist, a haematologist, an immunologist or such other specialist working in Government Hospital along with return of income.ndividual/HUF

2. The deduction under this section shall be reduced by the amount received under insurance from an insurer or reimbursed by an employer, for the medical treatment of the concerned person.

Extent of Deduction

100% of the expenses incurred subject to ceiling of (a) Rs. 60,000/- in the case of expenses incurred for senior citizen (who has attained the age of 65 years or more) and (b) Rs. 40,000/- in other cases.

Section 80E- Deduction in Respect of Interest on Loan Taken for Higher Education Persons Covered- Individual.

Eligible Amount- Any amount paid by way of interest on loan taken from any financial institution or any approved charitable institution for his/her higher education or w.e.f. 1-4-2008 for the purpose of higher education of his/her spouse, children and legal guardian of the Individual.

Relevant Conditions/Points

1. Amount should be paid out of income chargeable to tax.
2. All field of studies including vocational studies pursued after passing the Senior secondary examination or its equivalent from any school, board or university recognized by the central govt. or state govt. or local authority or by any other authority authorised by the central govt. or state govt. or local authority to do so.
3. Approved charitable institution means an institution established for charitable purposes

and notified by the Central Government u/s. 10(23C) or referred in 80G(2)(a).

4. Financial institution means banking company or financial institution notified by Cetral Government.

5. The deduction is allowed in the initial assessment year (i.e., the assessment year relevant to the previous year, in which the assessee starts paying the interest on loan) and 7 assessment years immediately succeeding the initial assessment year or until the interest is paid in full whichever is earlier.

Extent of Deduction- Entire amount of interest.

Section 80G Deduction In Respect of Donations to Certain Funds, Charitable Institutions, Etc.

Persons Covered-All assessees [except for 80G (2)(c), which is applicable for donations made only by company] to the Indian Olympic Association or to any other Association or Institution for the development of infrastructure for sports & games or the sponsorship of sports & games, in India

Eligible Amount- Any sums paid in the previous year as Donations to certain funds, charitable institutions etc. specified u/s. 80G(2).

Relevant Conditions/Points

1. Donation in kind is not eligible for deduction.

2. Donations paid out of another year's income or out of income not includible in the assessment of current year are also eligible for deduction. Lt. F. No. 45/313/66 – ITJ (61) dt. 2-12-1966.

Extent of Deduction

Without any ceiling of 10% of adjusted Gross Total Income:—

(a) 100% of donation if donation given to

(i)National Defence Fund set up by the Central Government; (ii)Prime Minister's National Relief Fund;

(iii)Prime Minister's Armenia Earthquake Relief Fund; (iv)Africa (Public Contributions — India) Fund;

(v)National Foundation for Communal Harmony;

(vii)An approved university/educational institution of National eminence; (viii)The Maharashtra Chief Minister's Relief Fund

(ix)Chief Minister's Earthquake Relief Fund, Maharashtra;

(x)Any fund set up by the State Government of Gujarat exclusively for providing relief to the victims of earthquake in Gujarat;

(xi)any Zila Saksharta Samiti constituted in any district under the chairmanship of the Collector of that district;

(xii)National Blood Transfusion Council or to any State Blood Transfusion Council;

(xiii)any fund set up by a State Government for the medical relief to the poor;

(xiv)the Army Central Welfare Fund or the Indian Naval Benevolent Fund or the Air Force Central Welfare Fund,

(xv)Andhra Pradesh Chief Minister's Cyclone Relief Fund, 1996;

(xvi) National Illness Assistance Fund;

(xvii)Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund in respect of any State or Union Territory;

(xviii)National Sports Fund;

(xix)National Cultural Fund;

(xx)Fund for Technology Development and Application;

(xxi) National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities;

(xxii)Any trust, institution or fund to which Section 80G(5C) applies for providing relief to the victims of earthquake in Gujarat (contribution made during January 26, 2001 and September 30,

2001) **or**

(b) 50% of donation if donation given to:

Jawaharlal Nehru Memorial Fund; Prime Minister's Drought Relief Fund; National Children's Fund(deduction shall be allowed 100% w.e.f.A.Y 2014- 15) ; Indira Gandhi Memorial Trust; Rajiv Gandhi Foundation.

With ceiling of 10% of adjusted Gross Total Income:— Where the aggregate of sums exceed 10% of adjusted gross total income, then such excess amount is ignored for computing such aggregate.

(a) 100% of qualifying amount, if donation given to Government or any approved local authority, institution or association to be utilised for the purpose of promoting family planning; Donation by a Company to the Indian Olympic Association or to any other notified association or institution established in India for the development of infrastructure for sports and games in India or the sponsorship of sports and games in India.

(b) 50% of qualifying amount if donation given to any other fund or any institution which satisfies conditions mentioned in Section 80G(5); Government or any local authority to be utilised for any charitable purpose other than the purpose of promoting family planning, Any authority constituted in India for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns, villages or both; Any corporation referred in Section 10(26BB) for promoting interest of minority community; For repairs or renovation of any notified temple, mosque, gurudwara, church or other place.

Section 80GG Deduction in Respect of Rent Paid

Persons Covered Any assessee other than assessee having income falling u/s 10(13A) (i.e., House Rent Allowance).

Eligible Amount Any expenditure incurred by him on payment of rent (by whatever name called) in respect of any furnished or unfurnished accommodation in excess of 10% of his total income, before making any deduction under this section.

Extent of Deduction- Lower of (a) Rs. 2,000 per month, or (b) 25% of the total income (after allowing all deductions except under this section), or (c) Expenditure incurred in excess of 10% of the total income (after allowing all deductions except under this section).

Section 80GGA Deduction In Respect Of Certain Donations For Scientific Research Or Rural Development

Persons Covered- All assessees:

Eligible Amount-

1. Any sum paid to a scientific research association or to a university, college, or other institution to be used for ***scientific research*** [approved u/s. 35(1) (ii)];
2. Any sum paid to a university, college, or other institution to be used for ***research in social science or statistical research*** [approved u/s. 35(1)(iii)];
3. Any sum paid to an association or institution for any ***programme of rural development*** [approved u/s. 35CCA];
4. Any sum paid to an association or institution for ***training of persons for implementing rural development programmes*** [approved u/s. 35CCA];
5. Any sum paid to a public sector company or local authority or to an association or institution approved by National Committee for carrying out ***any eligible project or scheme*** [approved u/s. 35AC];
6. Any sum paid to a ***rural developemt fund*** set up and notified by Central Government for the purposes of Section 35CCA(1)(a);
7. Any sum paid to a ***National Urban Poverty Eradication Fund*** set up and notified by Central Government for the purposes of Section 35CCA(1)(d).

Extent of Deduction-100% of the amount paid as donation/contribution.

Section 80GGB Deduction in Respect of Contribution Given by Companies to Political Parties or an Electoral Trust"

Persons Covered- Indian company.

Eligible Amount- Contribution given by Indian companies to any political parties or an electoral 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.

B. COMPUTATION OF TAX LIABILITY OF INDIVIDUALS

Computation of Total Income and Tax Liability of Individuals

Income-tax is levied on an assessee’s total income. The total income has to be computed as per the provisions of the Income-tax Act, 1961. Following steps are considered for computing total income and to charge tax.

Step 1 – **Determination of the residential status of the Assessee**:

First all we want determine the residential status of the assessee. The residential status of a person has to be determined to find out which income is to be included in computing the total income. It decides whether the individual is tobe taxed or not. The residential status of an individual is determined on the basis of the duration of time spend by him in India. . Based on the time spent by him, he may be (a) resident and ordinarily resident, (b) resident but not ordinarily resident, or (c) non-resident.

Step 2 – **Classification of income under different heads**

The Act specifies five heads of income. These heads of income consist of all possible types of income that can accrue to or be received by an individual. An individual is required to classify the income earned by him under the appropriate heads of income.

Step 3 – **Exclusion of income not chargeable to tax:**

There are certain incomes which are wholly exempt from income-tax e.g. agricultural income. These incomes have to be excluded while calculating Gross Total Income. T the same time certain incomes are partially exempt from income tax e.g. House Rent Allowance, Education Allowance etc.. These incomes are excluded only to the extent of the limits specified in the Act. The balance income over and above the prescribed limits would enter computation of total income and have to be classified under the relevant head of income.

Step 4 – **Computation of income under each head:**

Income is to be computed in accordance with the provisions governing a particular head of income. As per the rules certain deductions and allowances are allowed. These deductions are allowed while computing income under each head.

Step 5 – **Clubbing of income of spouse, minor child etc.**:

In case of individuals, income-tax is levied on a slab system on the total income. The tax system is progressive. That means if income increases the tax amount to be paid also increases. We can see that some taxpayers who have the higher income bracket have a tendency to divert some portion of their income to their spouse, minor child etc. to minimize their tax burden. In order to prevent such tax avoidance, clubbing provisions have been included in the Income-tax Act. As per the provisions of income tax act income arising to certain persons (like spouse, minor child etc.) have to be included in the income of the person when it is seen that the income is diverted for avoiding tax.

Step 6 – **Set-off or carry forward and set-off of losses:**

An individual may have different sources of income under the same head of income. He might have profit from one source and loss from the other. As per the provision we can set off the losses under one head or form other heads or can carry forwards for the coming assessment years. All provisions related to that should be considered while computing total income of the Assessee.

Step 7 – **Computation of Gross Total Income:**

The final figures of income or loss under each head of income, after allowing the deductions, allowances and other adjustments, are then aggregated, after giving effect to the provisions for clubbing of income and set-off and carry forward of losses, to arrive at the gross total income.

Step 8 – **Deductions from Gross Total Income:**

There are deductions prescribed from gross total income. The allowable deductions in case of an individual are deductions under sections 80C, 80CCC, 80CCD, 80CCF, 80D, 80DD, 80DDB, 80E, 80G, 80GG, 80GGA, 80GGC, 80-IA, 80-IAB, 80-IB, 80-IC, 80-ID,80-IE, 80JJA, 80QQB, 80RRB, 80TTA and 80U. These deductions are allowed as per the rules prescribed in the income tax act.

Step 9 – **Compute Total income:**

After allowing all deductions allowable, we can compute total income.

Step 10 – **Application of the rates of tax on the total income:**

Different slab of tax rates are available on basis of status and age of individual. . There also will be basic exemption limit. The basic exemption limit is Rs 2, 50,000 for the assessment year 2016-17. This means that no tax is payable by individuals with total income of up to Rs 2,00,000.

Level of total income Rate of tax

A) Normal Rates :

Up to Rs: 2,50,000	:	Nil
Rs: 2,50,001 to 5,00,000	:	10%
Rs: 5,00,001 to 10,00,000	:	20%
Above Rs: 10,00,000	:	30%

B) Individual- Senior citizen (60 years or more but less than 80 years):

Up to Rs: 2,50,000	:	Nil
Rs: 2,50,001 to 5,00,000	:	10%
Rs: 5,00,001 to 10,00,000	:	20%
Above Rs:10,00,000	:	30%

C) Individual- Super senior citizen (80 years or more):

Up to Rs: 5,00,000	:	Nil
Rs: 5,00,001 to 10,00,000	:	20%
Above Rs:10,00,000	:	30%

Surcharge: Nil

Education Cess: 3% on the amount of income tax.

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 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 [Section 10 (2)1.

If the member earns his own income, besides being the member of H.U.F. he will pay tax on his own earnedincome.

But u/s 64 (2) where an individual converts his individual property into the common pool of H.U.F. of which he is a member, income from such property shall be included in his individual 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 he 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 ratesapplicable 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 = Total Tax/Total Income x 100.

(iv) No rebate of tax if total income of such AOP does not exceed Rs. 2,00,000.

B. If Total income of any one or more partners/members of AOP exceeds Rs. 2.00,000, 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 Ill of* this *book under the chapter 'Computation of Tax'.*

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

The share received by an individual from a firm shall not he 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 tothe 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 lO(2A). The following sums received by partner from such firm shall also he 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 he 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 he fully exempted and shall not form part of total income.

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

ASSESSMENT OF INDIVIDUALS

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

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 notrevocable 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 he clubbed.

4. Income from assets transferred to the spouse, daughter-in-law by an individual
   without adequate consideration shall he 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 themembership of the spouse to or from the admission of minor to the benefits of a firm in which suchindividual is partner.

Computation Of Tax Liability [Assessments 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 :

1. Round off total income to the nearest multiple of 10.
2. Divide the total income into four parts
   (a) Long term capital gain. Calculatetax at the rate of 20%.
   (b) On short term capital gains on shares subject to SiT—Calculate tax @15%.
   (c) Winning from lotteries, puzzles, races, cardgamnes, gambling and 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. On balance tax, surcharge is to be levied in following manner
   (a) If total income of the individual does not exceed Rs. 10,00,000 NIL
   (b) If total income exceeds -Rs. 10,00,000 10%
   (c) In case total income exceeds Rs. 10,00,000—the amount of surcharge payable cannot exceed the difference between total income and Rs. 10,00,000. Marginal relief is allowed.
5. 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.

6. 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
7. Balance is tax payable which will be rounded off to the nearest multiple of 10.

POSSIBLE QUESTIONS

PART A – ONE MARK – ONLINE EXAMINATION

PART - B (8 MARKS)

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

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

3. 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.
   (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.

4. Write any four deductions under Income tax Act 1961.

5. Compute the tax liability if the total income of Mr V. Rs.7,45,258 for the previous year 2016-17

6. Compute the tax liability if the total income of the super senior citizen (Age above 80 years) was Rs. 9,85,750

7. Compute gross total income and tax liability from the particulars given below

   a. House property income Rs. 16,000
   b. Loss from self occupied house Rs 16,000

c. Long term capital gain Rs .40,000

8. Narrate the general format for computing total income and tax liabilitity Compute the tax liability if the total income of the female assessee was Rs. 7,45,520 for the previous year 2016-17

9. Explain any fifteen provisions relating to deductions from gross total income.

10. Total income of Mrs X for the assessment year 2015-16 is Rs. 10,76,500 which includes long term capital gain of Rs. 7,30,000 and lottery prize of rs. 1,00,000 (out of which tax deducted at source is Rs. 30,000). Calculate tax liability for the assessment year 2015-16.

11. Explain the general rules regarding computation of total income and tax liability.

12. Explain the procedure for computation of total income and tax liability of an individual.

13.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:

	I	**II**	**III**
Nature of occupation	**self occupied**	**let out for residence**	**used for own Business**
	Rs.	Rs	Rs.
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

14. From the following information compute the total income and tax of individual. 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

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

16. 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

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

a. Salary Rs. 37,400 per month plus Rs.9,000 p.m. as grade pay from which 10 percent is deducted for SPF to which the university contributes 12 percent.
b. Rent –free bunglow of the annual letting value of Rs. 18,000
c. Wardnership allowance Rs.2000 per month
d. 12 % interest on government Loan of Rs.65,000
e. Income from house property (computed) Rs 29,560
f. He received Rs.3,500 for writing articles in a journal
g. He paid Rs.2,000 (by cheque) to GIC under mediclaim
h. Interest in postal savings bank deposit Rs.6,500

i. Interest gross Rs2,500
j. Examiner ship remuneration Rs.3,500
k. During the year, he sold shares of reliance industrial ltd and earned a long term capital gains of Rs.60,000

During the year he paid Rs. 24,000 as life insurance premium on his own policies and spent Rs.600 on books purchased for his own use.

Find out his total income, tax and exempted income. Population of Amristsar is 12 lakhs.

18. 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.

19. 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 o fRs. 400p.m. and other (whose annual value is Rs.1,000) remained vacant throughout the year on account of his employment at Ambala where he has taken a house on rent. The two houses subject to Municipal taxes of Rs.600 and 100 respectively.

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

20. 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 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

21. 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 30-9-13 at rs 13,500 p.m. and from 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 1-4-2013).

(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. Municipakl 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.

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

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 cliunic 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

Prepared by,

Dr.K.Jothi , Associate Professor in Commerce, KAHE

KARPAGAM ACADEMY OF HIGHER EDUCATION

(Deemed to be University)

(Established Under Section 3 of UGC Act 1956)

Department of Commerce

Subject: DIRECT TAXATION **CLASS : I M.COM / I MCOM CA**

Semester: II **SUB CODE: 17CMP203/17CCP203**

PART – A (ONE MARK)

POSSIBLE QUESTIONS - UNIT –IV

QUESTION	OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
Adjustment of any loss against any income with the previous year is called as ----------- of losses	Set off	Carry forward	Both	none	set off
Transfer of unadjusted loss of any previous year to succeeding years to set off against any income is called as ------------- of losses	Set off	Carry forward	Both	none	set off
Setting off of losses between the various years within the previous year itself is known as ------------	Interhead adjustment	Intra head adjustment	salary	capital gain	Salary
Loss on account of owing and maintaining the race horse can be carried forward for ------	8 years	4 years	Indefinite period	5 years	4 years
Loss under the head house property ---------------	Can be carry forward for 8 years	can not be carried forward	Can be carried forward for 4 years	can be carried forward to 10 years	Can be carry forward for 8 years
Speculation loss can be carried forward for the maximum of -----------	8 years	10 years	4 years	5 years	4 years
Long term capital loss of particular assessment year cab be setoff in the same assessment year from-------------	Short term or long term capital gain	Long term capital gain only	Short term capital gain.	salary income	Long term capital gain only

Short term capital loss of particular assessment year cab be setoff in the same assessment year from-------------	Short term or long term capital gain	Long term capital gain only	Short term capital gain.	total capital gain	Short term or long term capital gain
Loss under the head capital gain in a particular assessment year can -----------	Set off form any other head of income in the same assessment year	be carried forward	Neither be setoff not be carried forward	none	set off from any other head of income in the same assessment
Section ---------- of Income tax act deal with the provisions regarding set off and carry forward and setoff of losses.	70-79	60-69	80-89	90-95	60-69
Casual income includes ,-------------	Lottery income	Card games	Both	none	both
Speculation loss can be set off from -------------	Speculation gain	capital gain	Business income.	salary income	Speculation gain
Speculation gain can be used to set off ------------	speculation loss only	any other losses also	salary loss	business loss	any other losses also
Expenses on horses for race purpose can be set off only from------------	Capital gain	House property income	Race course winning	salary income	race course winning
Loss from house property can be set off from ------------	Any other head	only house property income	Agriculture income	salary income	any other income
Unrealized rent from house property can be set off only income of -------	Income of another house property	Business income	Income from other sources	other sources income	income of another house property
Loss under the head profits and gains can not be set off from income under the head ---------------	Salaries	House property	Capital gain	professional income	salaries
Short term capital loss can be set off from --------------	short term and long term capital gain	Short term capital gain only	Long term capital gain	total capital gain	short term and long term capital gain
Long term capital loss can be set off only from -------------	Long term capital gain	short term capital gain	Business income	none	Long term capital gain
There can be no loss under the head ------------	house property	Salary	Capital gain	business income	Salary

Loss under the head house property can be carried forward for ---------	8years	4years	2 years	1 year	8years
Business loss can be carried forward for ------------	4 years	8 years	12 years	10 years	8 years
Unabsorbed depreciation can be carried forward for--------	8 years	10 years	till it is fully adjusted	15 years	till it is fully adjusted
Short term capital loss can be carried forward for ---------------	4 years	8 years	12 years	4 years	8 years
long term capital loss can be carried forward for ---------------	4 years	8 years	12 years	15 years	8 years
Securities includes ----------	Stock	shares	both	none	both
Deductions relating to donation to approved institution are given u/s ------------	80 E	80 G	80I	80K	80 G
Deduction for medically handicapped or mentally retarded assessee is to be allowed to the maximum of ---------------	Rs. 75,000	Rs.1,00,000	Rs.1,25,000	Rs,1,50,000	Rs.1,00,000
The previous year means -----------	The accounting period of the assessee	financial year before the assessment year	Calendar year before the assessment year	any year	financial year before the assessment year
In case of company assessee control and management is situated in India means --------	Resident	Not ordinary resident	Non resident	not a resident	Resident
Assessment year means --------	year after previous year	year before previous year	previous year	any year	year after previous year
. When main tenant lets out full or part of the hired building to another person, it is called as --------------	Letting	Not a letting	Sub-letting	self occupied	subletting
. Any income form house property held for charitable or religious	. fully taxable	exempted	. Partially taxable	partially exempted	exempted

purpose is ----------					
Local or municipal taxes include services taxes like,------	fire tax	. insurance tax	. collection charges	water tax	water tax
Rent actually received by the owner of the house property from the tenant is called ---	Actual rent received	Real rental value	Fair rental value	Municipal rental value	acctual rent received
Value of house property has determined by the municipal authorities for levying municipal taxes is known as ------------	Annual rental value	Fair rental value	Municipal rental value	real rental value	Municipal rental value
The two or more persons owns jointly one house is referred as--------------	. owners	co-owners	not owners	partners	co-owners
An amount of rent which a similar property can fetch in a similar locality if it is let out is called -----------	MRV	FRV	ERV	ARV	FRV
The rent fixed under rent control act wherever applicable is called --------	Standard rental value	Real rental value	Actual rent	fair rental value	standard rental value
A higher amount of MRV and FRV subject to standard rent is -----------------	ERV	MRV	Standard rent	frv	ERV
Default in collection of rent from the tenants is termed as -------------	Real rent	Actual rent	Fair rent	Unrealized rent.	unrealised rent
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
Any payment exceeding Rs. 20,000 is made otherwise than through a crossed cheque or demand draft ------------- of such amount is to be disallowed as deduction.	10%	20%	40%	100%	100%
All those assets to which one rate of depreciation is	Block of assets	Exempted assets	Deductable assets	total assets	block of assets

applicable are known as ---------					
Income tax, wealth tax and advance income tax are ---------	disallowed expenses	Allowed expenses	Deductions	rebate	disallowed expenses
Expenses not allowed as deduction for the purpose of computation of income from business or profession ----------	Admissible expenses	Inadmissible expenses	Not an expenses	allowable expenses	inadmissible expenses
Expenditure incurred for acquiring know-how and patents shall qualify for depreciation @ -----------	20%	. 25%	30%	35%	25%
Any income form house property held for charitable or religious purpose is ----------	fully taxable	exempted	Partially taxable.	Not at all taxable	exempted
Rent actually reveiced by the owner of the house property from the tenant is called ---	Actual rent received	Real rental value	Fair rental value	Annual rental value	acctual rent received
Value of house property has determined by the municipal authorities for levying municipal taxes is known as ------------	Annual rental value	Fair rental value	Municipal rental value	Anual rental value	Municipal rental value
An amount of rent which a similar property can fetch in a similar locality if it is let out is called --------	MRV	FRV	ERV	KRV	FRV
The rent fixed under rent control act wherever applicable is called --------	Standard rental value	Real rental value	Actual rent	Annual rental value	standard rental value
A higher amount of MRV and FRV subject to standard rent is -----------------	ERV	FRV	MRV	NRV	ERV
Default in collection of rent from the tenants is termed as -------------	Real rent	Actual rent	Unrealised rent.	Annual rent	unrealised rent
The sum for which the house property might reasonably be expected to be let from year to	Annual value	Realised rent	Expected rent	Monthly rent	annual value

year is known as -------------					
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
Transfer of unadjusted loss of any previous year to succeeding years to set off against any income is called as ------------- of losses	Set off	Carry forward	Both	none	set off
Speculation loss can be carried forward for the maximum of -----------	8 years	10 years	4 years	5 years	4 years
Short term capital loss can be carried forward for ---------------	4 years	8 years	12 years	4 years	8 years

Tax planning – Advance payment of Tax – Tax deducted at source - E-TDS software - Returns to be submitted by various assessee – Different types of tax planning - Tax software – e-filing of income tax return

TAX PLANNING

Logical analysis of a financial situation or plan from a tax perspective, to align financial goals with tax efficiency planning. The purpose of tax planning is to discover how to accomplish all of the other elements of a financial plan in the most tax-efficient manner possible. Tax planning thus allows the other elements of a financial plan to interact more effectively by minimizing tax liability.

Tax planning encompasses many different aspects, including the timing of both income and purchases and other expenditures, selection of investments and types of retirement plans , as well as filing status and common deductions. However, while tax planning is an important element in any financial plan, it is important to not let the "tax" tail wag the financial "dog." This can ultimately be counterproductive, as virtually all courses of financial action will have some tax consequences, and they should not be avoided solely on this basis.

The avid goal of every taxpayer is to minimize his Tax Liability. To achieve this objective taxpayer may resort to following Three Methods :

- Tax Planning
- Tax Avoidance
- Tax Evasion

It is well said that "Taxpayer is not expected to arrange his affairs in a such manner to pay maximum tax " . So, the assessee shall arrange the affairs in a manner to reduce tax. But the question what method he opts for ? Tax Planning, Tax Avoidance, Tax Evasion ! Let us see its meaning and their difference.

EXEMPTIONS UNDER TAX PLANNING

Tax Planning involves planning in order to avail all exemptions, deductions and rebates provided in Act. The Income Tax law itself provides for various methods for Tax Planning, Generally it is provided under exemptions u/s 10, deductions u/s 80C to 80U and rebates and relief's. Some of the provisions are enumerated below :

- Investment in securities provided u/s 10(15) . Interest on such securities is fully exempt from tax.
- Exemptions u/s 10A, 10B, and 10BA
- Residential Status of the person
- Choice of accounting system
- Choice of organization.

For availing benefits, one should resort to bonafide means by complying with the provisions of law in letter and in spirit.

Where a person buys a machinery instead of hiring it, he is availing the benefit of depreciation. If is his exclusive right either to buy or lease it . In the same manner to choice the form of organization, capital structure, buy or make products are the assesse's exclusive right. One may look for various tax incentives in the above said transactions provided in this Act, for reduction of tax liability. All this transaction involves tax planning.

Need of Tax Planning

Tax Planning is resorted to maximize the cash inflow and minimize the cash outflow. Since Tax is kind of cast, the reduction of cost shall increase the profitability. Every prudence person, to maximize the Return, shall increase the profits by resorting to a tool known as a Tax Planning.

How is Tool of Tax Planning Exercised ?

Tax Planning should be done by keeping in mine following factors :

- The Planning should be done before the accrual of income. Any planning done after the accrual income is known as Application of Income an it may lead to a conclusion of that there is a fraud.
- Tax Planning should be resorted at the source of income.
- The Choice of an organization, i.e. Taxable Entity. Business may be done through a Proprietorship concern or Firm or through a Company.
- The choice of location of business , undertaking, or division also play a very important role.
- Residential Status of a person. Therefore, a person should arranged his stay in India such a way that he is treated as NR in India.
- Choice to Buy or Lease the Assets. Where the assets are bought, depreciation is allowed and when asset is leased, lease rental is allowed as deduction.
- Capital Structure decision also plays a major role. Mixture of debt and equity fund should be balanced, to maximize the return on capital and minimize the tax liability. Interest on debt is allowed as deduction whereas dividend on equity fund is not allowed as deduction

Methods Of Tax Planning

Various methods of Tax Planning may be classified as follows :

1. ***Short Term Tax Planning*** *:* Short range Tax Planning means the planning thought of and executed at the end of the income year to reduce taxable income in a legal way.

Example : Suppose , at the end of the income year, an assessee finds his taxes have been too high in comparison with last year and he intends to reduce it. Now, he may do that, to a great extent by making proper arrangements to get the maximum tax rebate u/s 88. Such plan does not involve any long term commitment, yet it results in substantial savings in tax.

2. ***Long Term Tax Planning*** *:* Long range tax planning means a plan chaled out at the beginning or the income year to be followed around the year. This type of planning does not help immediately as in the case of short range planning but is likely to help in the long run ;

e.g. If an assessee transferred shares held by him to his minor son or spouse, though the income from such transferred shares will be clubbed with his income u/s 64, yet is the income is invested by the son or spouse, then the income from such investment will be treaded as income of the son or spouse. Moreover, if the company issue any bonus shards for the shares transferred , that will also be treated as income in the hands of the son or spouse.

3. ***Permissive Tax Planning*** *:* Permissive Tax Planning means making plans which are permissible under different provisions of the law, such as planning of earning income covered by Sec.10, specially by Sec. 10(1) , Planning of taking advantage of different incentives and deductions, planning for availing different tax concessions etc.

4. ***Purposive Tax Planning*** *:* It means making plans with specific purpose to ensure the availability of maximum benefits to the assessee through correct selection of investment, making suitable programme for replacement of assets, varying the residential status and diversifying business activities and income etc.

TAX EVASION

When any individual make false claims to reduces his total income or by not providing any information regarding his total income then its called Tax Evasion. By doing so his tax liability is reduced which will result that he has to pay less tax.

Tax Evasion is an illegal act and its also an immoral, anti-social and anti-national act. To deal with such kind of activities, Direct Tax Laws has made strict provisions which will results in heavy penalties or even tax evaders can be put behind the bars.

How can an person reduces his taxable income :-

- By not recording sale made by him,
- Claiming bad debts or losses which never occurred,
- Making personal expenses as business expenses,
- Claiming false donation made under different sections like u/s 80G,
- By not showing capital gain,
- By not showing income from benami transaction,
- By showing excessive salary paid,

Tax Avoidance

Tax avoidance means reducing your tax liability without breaking any law. In this an individual look for loopholes in the law and make most of those loopholes to reduce the tax liability. In simple word you can say that Tax Avoidance is a legal means to reduce your tax liability by taking advantage of lack of provision in the law and it will result in less tax paid by you. By using Tax Avoidance you satisfy all provisions of law but in same time you reduce your tax liability too. In tax avoidance no penalties or such things is imposed on you as you are not breaking any law you just using loopholes in laws. However now legislature has added an provision in Direct Tax laws to check tax avoidance.

Tax Planning

Tax planning is a way by which you arrange your financial affairs in such a way that without breaking up any law you take full advantage of all Exemptions, Deductions, Rebate and Reliefs allowed by law so that your tax liability will be reduced.

Actually Government provide deductions, exemptions, reliefs or rebate for the benefits of economy and society. Like if you made donation to Scientific research [u/s 8GGA] then its good for Society and economy too.

Objective of Tax planning :-

- Claim Deductions under sections 80C to 80U,
- It will reduce your tax liability and you have to pay less tax,
- Minimize the war between Tax Payer and Tax Administrator, Tax payer wants to pay less tax and Tax Administrator wants to extract most of the tax, by using Tax Planning this war is minimized as tax payer is using all legal ways to reduce tax liability,
- Makes Investment :- By tax planning, an Tax payer will invest his money in some good funds which will result in productive returns for tax payer and transfer money to government for investment too.
- Helps in growth of economy,
- Makes society grow,
- Money saved by you will result in investment which will result in employment generation.

Importance Of Tax planning :-

For Tax payer :-

Tax payer has to pay less tax by using tax planning because he is using all available exemptions, deductions,reliefs, and rebates. All is done within the boundaries of Law.

For Government :-

To use deduction or exemptions you have to invest money in some scheme which results that you money is transferred back to government and then they can use it to develop the country.

For Society :-

If government invest or start any new project or even tax payer invest his saved money so he will generate employment, Government can invest in better projects which develops society.

COLLECTION AND RECOVERY OF TAXES AND TAX PLANNING

COLLECTION OF TAXES

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

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 prepones 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.

To deduct 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 cetificate 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

When has tax to be paid and on what basis?

Yes, tax to be paid during the financial year on the basis of pay as you earn such payments have to be made in instalments 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.

Due dates and % of installments for Advance Tax

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

Due Date of instalments	**Amount payable**
1st on or before 15th September.	Amount not less than 30% of such advance tax.
2nd on or before 15th December.	Amount not less than 60% of such advance tax after deducting amount paid in earlier installment.

3rd on or before 15th March.	Entire balance amount of such advance tax.

In case of companies, there are 4 instalments of advance tax payable on or before 15th June (15%); 15th Sept. (45%); 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.

Interest for short payment of advance-tax

INTEREST U/S. 234-B FOR SHORT PAYMENT OF ADVANCE TAX	
Shortfall in payment of Advance tax of more than 10%.	Simple interest @ 1% for month or part thereof is chargeable w.e.f. 1st April of the Assessment Year to the date of determination of income u/s. 143(1) or regular assessment u/s 143(3) on the assessed tax. ‘‘Assessed tax’’ means the tax on the total income determined under sub section (1) of section No. 143 or on regular assessment u/s 143(3), as reduced by the amount of tax deducted or collected at source.

Interest for deferment of advance-tax calculated

Interest for deferment of advance-tax is calculated in the following manner.

(A) INTEREST U/S. 234-C FOR DEFERMENT OF ADVANCE TAX (Non Corporate assessees)	
1 If no advance tax is paid or the advance tax paid in 1st installment on or before 15th	Simple interest @ 1% p.m. is chargeable on the amount of shortfall for a period of 3 months.

September is less than 30% of the tax payable on the returned income as reduced by taxes deducted at source. 2. If no advance tax is paid or if the advance tax paid in 2nd installment on or before 15th December is less than 60% inclusive of 1st installment of the tax payable on the returned income as reduced by taxes deducted at source. 3. If the advance tax paid on the current income on or before the 15th day of March is less than the tax due on the returned income	Simple interest @ 1% p.m. is chargeable on the amount of shortfall for a period of 3 months. Simple interest @ 1% is chargeable on the amount of shortfall from the tax due on the returned income.
B. INTEREST U/S 234C FOR THE CORPORATE ASSESSEES	
1. If advance tax paid on or before June 15th is less than 12%. 2. If advance tax paid on or before Sept. 15th is less than 36%. 3. If advance tax paid on or before Dec., 15th is less than 75%. 4. If advance tax paid on or before March 15th is less than tax due on returned income (100%).	Simple interest @ 1% p.m. is chargeable on the amount of shortfall for a period of three months. Simple interest @ 1% p.m. is chargeable on the amount of shortfall for a period of three months. Simple interest @ 1% p.m. is chargeable on the amount of shortfall for a period of three months. Simple interest @ 1% is chargeable on the amount of shortfall from the tax due on the returned income.

However, no interest is leviable if the short fall in payment of advance-tax is on account of under estimation or failure to estimate the amount of capital gains or any income from winnings from lotteries, crossword puzzles, races, and other games including an entertainment program on television or electronic mode, in which people compete to win prizes etc., and the assessee has paid the tax on such income as part of the remaining instalments of advance tax which are due or if no instalment is due, by 31st March, of the Financial Year.

Interest for short payment of advance-tax

INTEREST U/S. 234-B FOR SHORT PAYMENT OF ADVANCE TAX	
Shortfall in payment of Advance tax of more than 10%.	Simple interest @ 1% for month or part thereof is chargeable w.e.f. 1st April of the Assessment Year to the date of determination of income u/s. 143(1) or regular assessment u/s 143(3) on the assessed tax. ''Assessed tax'' means the tax on the total income determined under sub section (1) of section No. 143 or on regular assessment u/s 143(3), as reduced by the amount of tax deducted or collected at source.

The documents to be enclosed with the return

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

1. Acknowledgment slip 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.
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 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.

(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 forgiving 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.

PERMANENT ACCOUNT NUMBER (PAN)

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.

Application of 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.

The Finance Act, 2006 has provided that for the purpose of collecting any information, the Central Govt. may by way of notification specify any class or classes of persons for allotment of PAN and such persons shall apply to the Assessing Officer within the prescribed time. Provision for Suo moto allotment of PAN has also been introduced w.e.f.1.6.2006 as per which the assessing officer may allot a Permanent Account No. to any person whether or not any tax is payable by him having regard to the nature of transactions.

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.

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

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.

Conditions for Claim of Deduction of Interest on Borrowed Capital for Computation of Income From House Property

- 3.7(i) For the purpose of computing income / loss under the head `Income from House Property' in respect of a self-occupied residential house, a normal deduction of Rs.30,000/- is allowable in respect of interest on borrowed capital. However, a deduction on account of interest up to a maximum limit of Rs.1,50,000/- is available if such loan has been taken on or after 1.4.1999 for constructing or acquiring the residential house and the construction or acquisition of the residential unit out of such loan has been completed within three years from the end of the financial year in which capital was borrowed. Such higher deduction is not allowable in respect of interest on capital borrowed for the purposes of repairs or renovation of an existing residential house. To claim the higher deduction in respect of interest upto Rs.1,50,000/-,the employee should furnish a certificate from the person to whom any interest is payable on the capital borrowed,specifying the amount of interest payable by such employee for the purpose of construction or acquisition of the residential house or for conversion of a part or whole of the capital borrowed, which remains to be repaid as a new loan.

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.

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
   1. 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 Governmet). Such amount is calculated branch wise if such institution adopted core banking solutions.
   2. 5,000 in any other case.

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 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.

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 doesnot 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.

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 eachof the due dates specified in section 211, the appropriate 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.

(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 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.

(*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 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 [67][Principal Chief Commissioner or] Chief Commissioner or [67][Principal 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.

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 :—

(*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 [84][Principal Chief Commissioner or] 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 form[64]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.

ETDS

NSDL e-TDS/TCS Return Preparation Utility (RPU)

Since FY 2003-04, all corporate deductions should file Income tax returns for deduction of tax at source (TDS) only in electronic form. Further, from FY 2004-05, in addition to corporate educators, filing of TDS returns in electronic form is mandatory for government deductors also. ITD has notified revised file formats for preparation of TDS and TCS returns in electronic form. Deductors/collectors can prepare the e-TDS/TCS returns as per these file formats using in-house software or any other third party software and submit the same to any of the TIN-FCs established by NSDL. Deductors/collectors can also directly upload the e-TDS/TCS returns through NSDL-TIN website. NSDL has developed software called e-TDS/TCS Return Preparation Utility (RPU) to facilitate preparation of e-TDS/ TCS returns. This is a freely downloadable VB based utility. Separate utilities are available for preparation of each type of return.

RPU for Quarterly Returns

From FY 2005-06 onwards, TDS/TCS returns have to be filed every quarter (i.e. quarterly statements); however, as advised by Income Tax Department, acceptance of TDS/TCS statements pertaining to Financial Years prior to 2007-08 has been discontinued at TIN. The following utilities can be used to prepare regular quarterly statements:

- NEW e-TDS/TCS Return Preparation Utility Ver. 1.3 (based on JAVA platform) for Regular & Correction quarterly e-TDS/TCS statements from FY 2015-16

Correction Statements

Corrections required in the regular quarterly statements can be furnished by submitting a correction statement in the prescribed format. The following utilities can be used to prepare correction quarterly statements:

- e-TDS/TCS Return Preparation Utility Ver. 1.3 (based on JAVA platform) for Regular & Correction quarterly e-TDS/TCS statements from FY 2007-08

Feedback Form

Guidelines for usage of these RPUs are provided in the respective utilities. The users are advised to read these guidelines carefully before the utility is used to prepare the returns. Users may ensure that they download the latest version of the utility at the time of preparation of return. Users must pass the e-TDS/ TCS return file generated using RPU through the **File Validation Utility (FVU)** to ensure format level accuracy of the file. This utility is also freely downloadable from NSDL TIN website. In case the e-TDS/TCS return contains any errors, user should rectify the same in the excel utility itself. After rectifying the errors, user should pass the rectified e-TDS/ TCS return through the FVU. This process should be continued till an error free e-TDS/ TCS return is generated.

Disclaimer

These utilities have been developed by NSDL for small deductors/collectors and returns exceeding 20,000 deductee records should not be prepared using this utility. NSDL does not warrant any accuracy of the output file generated using any of these utilities. All users are advised to use latest FVU and check the format level correctness of the file before submitting the same to TIN-FC. In case FVU reports any error in the file, then the users are advised to rectify the same. Further, deductors/collectors are advised to ensure that the e-TDS/TCS returns are filed before the last date specified by Income Tax Department. Non-functioning or non availability of this utility may not be considered as a reason for inability to file the return before the last date.

5 STEPS FOR FILING E-TDS RETURN WITH NO TROUBLE

Filling e-TDS return is compulsorily for company and government deductors as per section 206 of Income tax law. So, it is the need of time to learn how to fill e-TDS return, if you are interested to work as accountant in company or government sector.

Before learning simple steps, you should know, what is e-TDS? E-TDS means electronic tax deducted at source. It is duty of above mentioned deductors to deduct the amount income tax when they pay to others and prepare return in form No.24, 26 or 27 or 24Q, 25Q or 26Q in electronic media as per prescribed data structure in either a floppy or a CD ROM. The floppy or CD ROM prepared should be accompanied by a signed verification in Form No.27A.

Following are the returns for TDS and TCS and their periodicity:

Form No	Particulars	Periodicity
Form 24	Annual return of "Salaries" under Section 206 of Income Tax Act, 1961	Annual
Form 26	Annual return of deduction of tax under section 206 of Income Tax Act, 1961 in respect of all payments other than "Salaries"	Annual
Form 27	Statement of deduction of tax from interest, dividend or any other sum payable to certain persons	Quarterly
Form 27E	Annual return of collection of tax under section 206C of Income Tax Act, 1961	Annual
Form 24Q	Quarterly statement for tax deducted at source from "Salaries"	Quarterly
Form 26Q	Quarterly statement of tax deducted at source in respect of all payments other than "Salaries"	Quarterly
Form 27Q	Quarterly statement of deduction of tax from interest, dividend or any other sum payable to non-residents	Quarterly
Form 27EQ	Quarterly statement of collection of tax at source	

Central Board of Direct Taxes (CBDT) has appointed National Securities Depository Ltd. **(NSDL),** Mumbai as e-TDS Intermediary.

5 Simple Steps for filling e- TDS Return

Ist Step-Choose the format or data structure for preparing e-TDS return

Income tax department and NSDL have made different format according to nature of payments. So, accountant should choose any one from following format.

1. (a) Annual e-TDS return:

o File Format for Form 24 o File Format for Form 26 o File Format for Form 27

(b) Annual e-TCS return:

o File Format for Form 27E

(c) Quarterly return:

o File Format for Form 24Q

o File Format for Form 26Q

o File Format for Form 27Q

o File Format for Form 27EQ

Data structure for Form 24Q of the quarter ending 31-March

2nd Step -E-TDS return for successful acceptance

1. E-TDS clean text ASCII format: You can use any software like ms excel, compu tax or Tally.ERP or NSDL's software **Return Preparation Utility** (e-TDS RPU-Light) for making e-TDS return but E-TDS file formats must be in clean text ASCII format with 'txt' as filename

extension.

2. Correct Tax deduction Account Number (TAN) of the Deductor is clearly mentioned in Form No.27A as also in the e-TDS return, as required by sub-section (2) of section 203A of the Income-tax Act.

3. The particulars relating to deposit of tax deducted at source in the bank are correctly and properly filled in the table at item No.6 of Form No.24 or item No.4 of Form No.26 or item No.4 of Form No.27, as the case may be.

4. The data structure of the e-TDS return is as per the structure prescribed by the e-Filing Administrator.

5. The Control Chart in Form 27A is duly filled in all columns and verified and as enclosed in paper form with the e-TDS return on computer media.

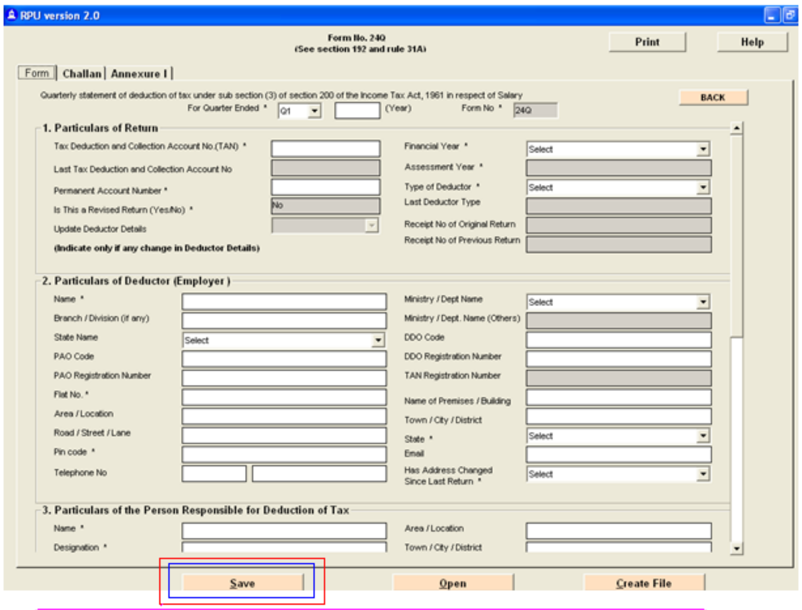
6. The Control totals of the amount paid and the tax deducted at source as mentioned at item No.4 of Form No.27A tally with the corresponding totals in the e-TDS return in Form No. 24 or Form No. 26 or Form No.27, as the case may be.

7. Bank Branch code or BSR code is a 7 digit code allotted to banks by RBI. This is different from the branch code which is used for bank drafts etc. This no. is given in the OLTAS challan or can be obtained from the bank branch or from www.tin-nsdl.com. It is mandatory to quote BST code both in challan details and deductee details. Hence, this field cannot be left blank. Government deductors transfer tax by book entry, in which case the BSR code can be left blank.

The due dates for filing quarterly TDS returns, both electronic and paper are as under:

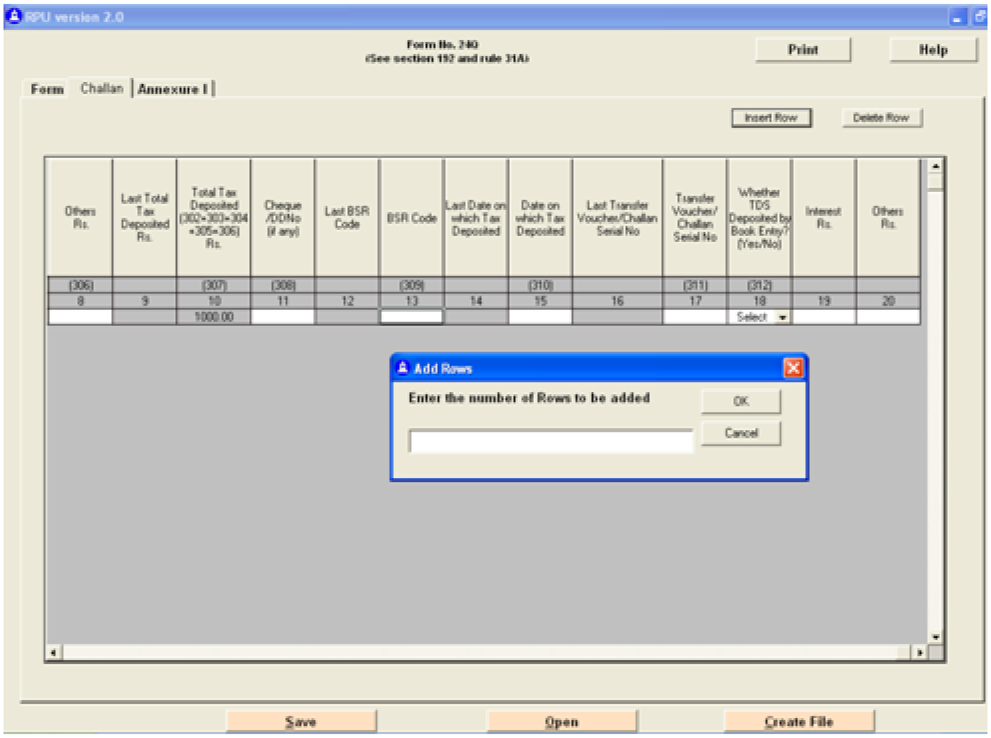
Quarter	Due Date	Due Date for 27 Q
April to June	July 15	14 July
July to September	October 15	14 October
October to December	January 15	14 January
January to March	June 15	14 June

UNIT: V - TAXPLANNING AND TAX DEDUCTED AT SOURCE



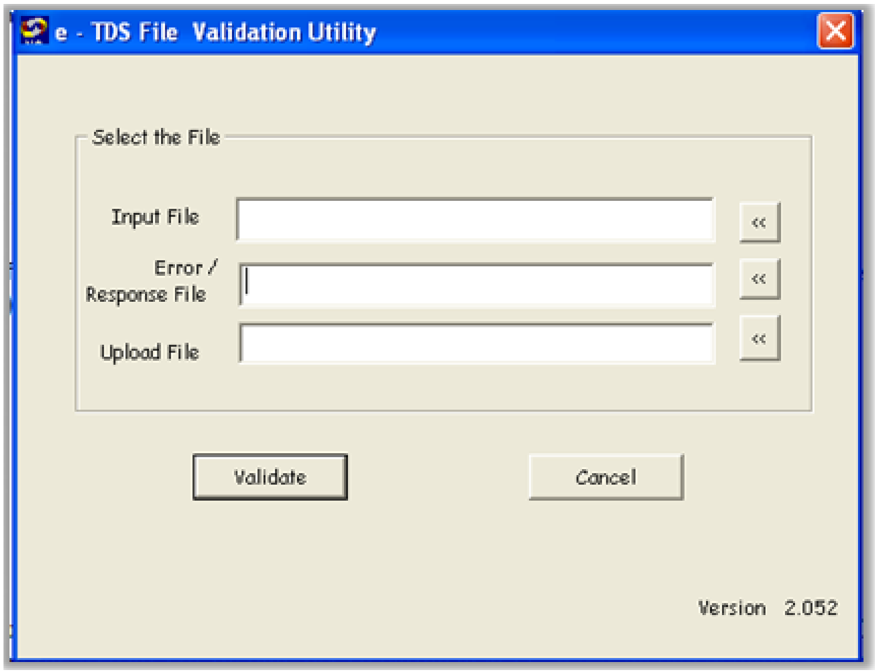
Click on save after filling the form of e-TDS

Prepared by,
Dr.K.Jothi, Associate Professor in Commerce, KAHE



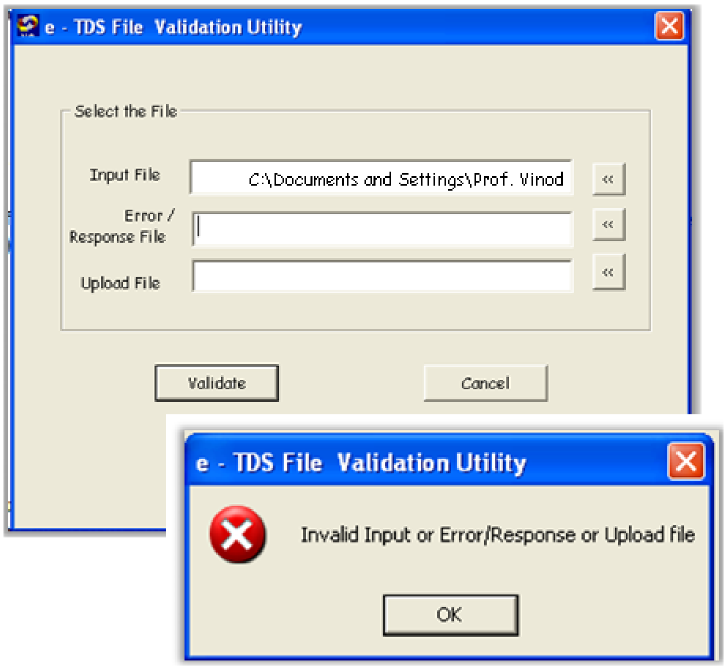
3rd Step - Validate or verify your prepared e-TDS return

After the file has been set as per the file format, it should be verified using the File Validation Utility(FVU) (download here) provided by NSDL.



4th Step - Rectify the errors and verify the file

In case file has any errors the FVU will give a report of the errors. Rectify the errors and verify the file again through the FVU.



5th Step - Filling of e-TDS Return

A) Go to TIN – FC (center) near to your office e-TDS returns can be filed at any of the TIN-FC opened by the e-TDS Intermediary for this purpose. Addresses of these TIN-FCs are available at the website onhttp://www.incometaxindia.gov.in/ or at http://www.tin-nsdl.com/ .

B) Filling of e-TDS Return Online

Now, you have also facility to file your e-TDS return online for this you have to register to NSDL.

POSSIBLE QUESTIONS

PART A – ONE MARK – ONLINE EXAMINATION

PART - B (8 MARKS)

1. Ex plain the methods of collection of taxes .

2. What is meant by TDS? State the procedure for computation of TDS as per Act.

3. State the procedure for refund of TDS and issue of duplicate TDS certificate.

4. Give the details regarding the due dates for filing of tax returns.

5. Discuss the interest for short payment of advance tax as per Act.

6. What are the documents to be enclosed while filing of income tax return?

7. Discuss the interest for non payment of advance tax.

8. What do mean by PAN? Who shall apply for PAN?

9. Explain the requirement of PAN.

10. Discuss the importance of getting PAN Card.

11. State the income tax rules regarding the following ,

    a. TDS from salaries and b. TDS on interest income

12. Explain the rules regarding the direct payment of tax.

13. Discuss the steps for filing E-TDS return with illustration.

Prepared by,
Dr.K.Jothi, Associate Professor in Commerce, KAHE

14. What is meant by tax planning? How is tool of tax planning exercised?

15. Explain the methods of tax planning.

16. Write the concept of the following.

    a. Tax evasion, b. Tax Avoidance and c. Tax planning

17. Explain the objectives and importance of tax planning.

KARPAGAM ACADEMY OF HIGHER EDUCATION

(Deemed to be University)

(Established Under Section 3 of UGC Act 1956)

Department of Commerce

Subject: DIRECT TAXATION **CLASS : I M.COM / I MCOM CA**

Semester: II **SUB CODE: 17CMP203/17CCP203**

PART – A (ONE MARK)

POSSIBLE QUESTIONS - UNIT –IV

QUESTION	OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
"Tax planning is a moral way of tax saving, in it a tax payer reduce tax liability honestly and it's a long term process." This definition is given by-	Prof. Coldar	Prof. Dalton	Alderson	Andrew	prof Dalton
Nature of tax planning includes-	Legal l	Mora	Honest effort	All of these	legal
Object of tax planning is-	Avoidance of tax	Minimize of tax liability	Payment of tax at time	Differment of tax	minimise of tax liability
In the tax avoidance the provisions law-	Not abided	Misused	Wrong interpretatio n	All of above	not abited
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 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 amout 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 tah 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 tah 60% of advance tax is to be paid on2nd 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 the rate of interest is to be charged at ------ of tax	1%	2%	3%	4%	1%
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 aggregare of dividend payavble 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 exces tax	TDS	refund	tax	TIN	refund
If refund claims upto Rs.10,00,000, prior permission from ------------------ of income tax shall be obtained	Chief commission er	commission er	assistant commission er	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 passwed by a lower authority in respect of any case	refund	appeal	payment of tax	tax	appeal
An applealate authority under Income tax is ---------------	IT Dept	Assessing officer	appleate tribunal	supreme court	superme 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 e-TDS	Electronic TDS	Email TDS	Excell TDS	Excess TDS	Electronic TDS
User must pass the e-TDS /TCS return file generatd using RPU through the	File Validation Utility	Email TDS	special characters	Scrap	file validation utility
Expand TIN	Taxpayers Identification Number	Tax Include Number	Tax imported number	Tax Important Number	Tax payers Identificatio Number
A ------------- means electronic tax deducted at source	E-TDS	TDS	TIN	TAN	e-TDS
Expand NSDL	National Securities Depository Ltd	National Savings Scheme	National Depository Ltd	National Saving Ltd	National Securities Deposotory Ltd
First step for filing fo e-TDS return is ---------	choose the format	tax avoidance	tax evasion	filling of e-TDS	Choose the format
Final step for filing fo e-TDS return is ---------	choose the format	tax avoidance	tax evasion	filling of e-TDS	

The ------------- involves planning in order to avail all exemptions, deductions and rebates provided in Act	Tax planning	tax avoidance	tax evasion	tax exemption	tax planning
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 reduces 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
Objective of Tax planning is to--------------	increase tax liability	decrease the tax liability	no change	tax evasion	decreases tax liability
A -------------- means the planning thought of and executed at the end of the income year to reduce taxable income in a legal way.	short term planning	long term planning	permissive term planning	purposive tax planning	short term planning
A------------------ means a plan chaled out at the beginning or the income year to be followed around the year.	short term planning	long term planning	permissive term planning	purposive tax planning	long term planning
A----------------means making plans which are permissible under different provisions of the law, such as planning of earning income covered by Sec.10,	short term planning	long term planning	permissive term planning	purposive tax planning	permissive tax planning
It means making plans with specific purpose to ensure the availability of maximum benefits to the assessee through correct selection of investment	short term planning	long term planning	permissive term planning	purposive tax planning	purposive tax planning
Tax Planning is resorted to maximize the cash inflow and minimize the cash -------------	inflow	outflow	no change	increase	outflow

Logical analysis of a financial situation or plan from a tax perspective, to align financial goals with ---------------	Tax planning	tax avoidance	tax evasion	tax exemption	tax planning
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
Nature of tax planning includes-	Legal l	Mora	Honest effort	All of these	legal

Object of tax planning is-	Avoidance of tax	Minimize of tax liability	Payment of tax at time	Differment of tax	minimise of tax liability
A -------------- means the planning thought of and executed at the end of the income year to reduce taxable income in a legal way.	short term planning	long term planning	permissive term planning	purposive tax planning	short term planning
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

Reg No ………………………….

[17CMP203 / 17CCP203]

KARPAGAM ACADEMY OF HIGHER EDUCATION

(Deemed to be University)

(Established Under Section 3 of UGC Act 1956)

COIMBATORE- 641 021

FIRST INTERNAL EXAMINATION, JANUARY - 2018

I M.COM / I M.COM (CA) - SECOND SEMESTER

DIRECT TAXATION

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

PART - A (20X 1 = 20 Marks)

CHOOSE THE CORRECT ANSWER

1. Income tax is a -------

a. Direct tax b. Indirect tax c. Business tax d. Not a tax

2. Income tax was passed in the year -------

a. 1960 b. 1961 c. 1962 d.1963

3. The current assessment year is ------------

a. 2017-18 b. 2016-17 c. 2018-19 d. 2015-16

4. The sum of five heads of income is called ---------

a. Net total income b. Total income c. Exempted income d. Gross total income

5. Any person who is liable to pay any tax or any other money under Income tax act is----

a. Assessee b. resident c. Citizen d. NRI

6. Incomes which do not form the part of total income is called as ------------ income.

a. Deduction b. Exempted c. Total d. Rebate

7. The total income computed will be rounded off the nearest multiples by-----

a. 100's b.1000's c.10's d..500's

8. Tax on tax is called as ---------

a. Surcharge b. Gross tax c.Net tax. d. Total tax

9. Person who does not fulfill the statutory obligations given under the Act is called –

a.Ordinary Assessee b.Representative Assessee c. Assessee- in- default d. Deemed Assessee

10. Agricultural income is ------------- income

a. Fully exempt b. Partially Exempt c. Fully Taxable. d.not an income

11. Among the five heads of gross total income ------------- income is the first one.

a. Salary b. House property c. Business or profession d. capital gain

12. ------------ means payment of gross salary with deducting amount of income tax thereon.

a. Tax free salary b. Taxable salary c. Exempted salary d. business income

13. Employer contribution to Recognized provident fund shall be -----------

a. Fully exempt b. Fully taxable c. Exempt upto 12% p.a d. Exempted up to 15% of salary

14. The payment of Gratuity Act was passed in the year -----------

a .1972 b. 1927 c. 1952 d. 1955

15. Tiffin allowance is a ------------

a. fully taxable allowance b. Partially allowance c. Fully exempted allowance d. not

16. Perquisites can be only in the form of --------------

a. Monetary benefit b. Facilities c. services d.

17. Entertainment allowances can be claimed as deduction for-------------- employees

a. govt b. semi – govt c. Private d. no

18. Annual rental value minus municipal taxes = ----------------

a. Gross rental value b. Net annual value c. Fair rental value d. MRV

19. Allowable standard deduction from net annual value u/s 24 is ---------------

a. 30% b. 40% c. 50 % d. 60%

20. In house property income , joint expenses will be apportioned on the basis of -----------

a. FRV b.ARV c. MRV d. ERV

PART - B (3X2=6 Marks)

ANSWER ALL THE QUESTIONS

21. Give the general format for computation of total salary income.

22. List any four partially taxable allowances.

23. Compute ERV From the particulars given below

Mr. R has a house at Pune where rent control act is applicable. Its MRV is Rs.1,08,000 p.a. and FRV is Rs. 1,20,000 p.a standard rent is Rs. 1,02,000

PART - C (3X8=24 Marks)

ANSWER ALL THE QUESTIONS

24 a. Define the following terms as per Income Tax Act

i)Income ii) Assessee iii)Assesment and Previous year and iv) Block of assets

(OR)

b. Which of the following incomes are taxable when the residential status of Mr.Ramesh is: (i) Resident, (ii) Not Ordinarily Resident, (iii) Non_Resident.

- Income accured in Canada but received in India Rs.2,000
- Rs.5,000 were earned in Africa and received there but brought to India.
- Rs.10,000 earned and received in London from a business controlled from India.
- House property income (computed) from Srilanka Rs.2,000.
- Rs.4,000 was past untaxed foreign income which was brought to India during the previous year.
- Agriculture income from Gujrat Rs. 25,000
- Profit earned from a business in Kanpur Rs.10,000

25.a. Discuss any fifteen exempted income u/s 10 of Income Tax Act.

(OR)

b. Determine the residential status in the following cases

i. Mr. Anbu , a foreign citizen, leaves India for the first time in the last 20 years on November 25, 2014. During the calendar year 2015, he comes to India on September 1 and stays for a period of 20 days. During the calendar year 2016 he does not visit India at all but comes to India on January 15, 2017. Determine the residential Status of Mr. Anbu for the assessment year 2017-18.

ii. Dr. K.S. Sharma, an Indian working in U.S.A. Every year he comes to India on leave and stays with his parents who are staying in Calicut. What would be the residential status of Dr.K.S.Sharma during the assessment year 2017-18. If he comes to India on 20th September 2016 and stayed up to 31st March 2017. His total stay during the preceding 7 Years was 500 days. He had left India on 31st March 2012.

26.a. Mr. Mahesh 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.

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

(OR)

b. Mr. Madhu owns a house at Chandigarh. This house property is used in following manner :

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

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

1/3rd of the house is used by a tenant to whom it is let out @ Rs. 3,000 p.m. and it was self occupied for one month during the previous year. The municipal rental value of the house is Rs. 96,000 p.a. on which municipality levies 10% tax. These taxes are paid by the occupants. Compute net annual value of the house property of the previous year 2016-17, if each portion is an independent unit.