



KARPAGAM ACADEMY OF HIGHER EDUCATION
(Deemed University Established Under Section 3 of UGC Act 1956)
Coimbatore - 641021.
DEPARTMENT OF COMMERCE
SYLLABUS

SUBJECT NAME: INCOME TAX
SEMESTER: IV

SUB CODE:16CCU403A
CLASS: II B.COM CA

17CCU403A	INCOME TAX	Semester IV			
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		6	-	-	4

Course Objective:

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

Learning Outcome: To provide basic knowledge and equip students with application of principles and provisions of Income-tax Act, 1971 and the relevant Rules.

UNIT- I

Introduction: Basic concepts: Income, agricultural income, person, assessee, assessment year, previous year, gross total income, total income, maximum marginal rate of tax; Permanent Account Number (PAN) **Residential status;** Scope of total income on the basis of residential status-Exempted income under section 10

UNIT- II

Computation of Income under different heads-1: Income from Salaries; Income from house property

UNIT-III

Computation of Income under different heads-2: Profits and gains of business or profession; Capital gains; Income from other sources

UNIT- IV

Computation of Total Income and Tax Liability: Income of other persons included in assessee's total income; Aggregation of income and set-off and carry forward of losses; Deductions from gross total income; Rebates and reliefs Computation of total income of individuals and firms; Tax liability of an individual and a firm; Five leading cases decided by the Supreme Court

UNIT-V

Preparation of Return of Income: Filing of returns: Manually, On-line filing of Returns of Income & TDS; Provision & Procedures of Compulsory On-Line filing of returns for specified assesses

Suggested Readings :**Text Book**

1. Gaur and Narag.(2017). *Income Tax Law and Practice* [44th Edition]. Luthiana, Kalyani Publisher.

References book:

1. Singhanian, Vinod K. and Monica Singhanian (2017). *Students' Guide to Income Tax*[54th Edition, University Edition]. New Delhi, Taxmann Publications Pvt. Ltd
2. Ahuja, Girish and Ravi Gupta (2017). *Systematic Approach to Income Tax* [35th Edition]. New Delhi, Bharat Law House.



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LECTURE PLAN
DEPARTMENT OF COMPUTER SCIENCE

STAFF NAME: P.SANGEETHA AND R.NAVEENA
SUBJECT NAME: INCOME TAX
SEMESTER: IV

SUB.CODE: 16CCU403A
CLASS: II B.COM (CA)

UNIT-I
Introduction and basic concept

SL No	Lecture Duration (Hr)	Name of the Topic	Support Material/Page Nos
1	1	Income Tax Act 1961 ,History of IT act	T: 1/3 – 1/5
2	1	Tax, types of tax	T: 1/6 – 1/7
3	1	Definitions – Agricultural Income, Assesses,	T: 1/8
4	1	Assessment and Previous year –Income tax	T1: 1/10
5	1	Definitions – Person, Income	R1: 1/39 – 40
6	1	Tax treatment of income	R1: 1/41
7	1	Residential status of an Individual , basic and additional conditions	R1: 43 – 45
8	1	Determination of residential status of an individual	T: 1/36 – 1/47
9	2	Determination of Residential status of an individual – Sums	T: 1/40 – 1/47
10	1	Residential status of a Firm, Company	T: 1/36 – 1/47
11	1	Residential status of AOP and BOI	T: 1/36 – 1/47
12	1	Scope of income or incidence to tax , general format	T: 1/47 – 1/54
13	2	Computation of total income – General format	T: 1/55 - 1/65
14	2	Exempted income u/s 10	T: 1/67 - 1/89
15	1	Recapitulation and discussion of important questions	
Total no. Hours planned for Unit – I			18

UNIT II

Computation of Income under different heads-I

SL. No.	Lecture Duration (Hr)	Name of the Topic	Support Material/Page Nos
1	1	Meaning and characteristics of salary	T: 2/1 – 2/3
2	1	Salary features.	T: 2/3 – 2/4
3	1	Computation of income from salaries – General format	T: 2/3 – 2/4
4	2	Allowances – Fully exempted and fully taxable allowances	T: 2/18 – 2/20
5	1	Partially taxable allowances	T: 2/21 – 2/25
6	1	Perquisites – Taxable and exempted	T: 2/26 – 2/32
7	2	Profit in lieu of salary, Gratuity, pension	T: 2/57 – 2/69
8	2	Provident fund and leave encashment	T: 2/57 – 2/69
9	1	Computation of total salary income – Sums	R2 : 161-166
10	2	Computation of total salary income – Sums	R2 : 161-166
11	2	Income from House Property – Annual value, different types of annual rental value ,	R2: 166 - 170
12	1	Computation of House property income -Problems	R2: 171 - 173
13	2	Computation of House property income-Problems	R2: 171 - 173
14	1	Recapitulation and discussion of important questions	
Total no. Hours planned for Unit - II			20

UNIT III

Computation of Income under different heads-II

SL. No.	Lecture Duration (Hr)	Name of the Topic	Support Material/Page Nos
1	1	Business income , Meaning and definition	T: 2/205
2	1	Computation of business income – General format	T: 2/228- 2/232
3	2	Computation of business income --Problems	T: 2/232- 2/237
4	1	Computation Professional Income - General format	T: 2/255
5	2	Professional Income -Problems	T: 2/256
6	2	Scope of charge , Types of Capital gains ,Exempted capital gain	T: 2/342-2/343
7	1	Exempted capital gain	T: 2/342-2/343
8	2	Computation of capital gain -Problems	T: 2/340-2/342
9	1	Computation of capital gain -Problems	T: 2/340-2/342
10	2	Income from other sources-meaning and rules	T: 2/403 – 2/408
11	2	Computation of total income from other sources-Problems	T:2/410-2/418
12	1	Recapitulation and discussion of important questions	
Total no. Hours planned for Unit - III			18

UNIT IV**Computation of Total Income and Tax Liability**

SL. No.	Lecture Duration (Hr)	Name of the Topic	Support Material/Page Nos
1	1	Income from other persons included in assessee's total income	T: 2/472
2	2	Aggregation of Income	T: 2/419
3	1	Set- off and losses – Meaning and provisions	T: 2/449 - 451
4	1	Set- off and carry forward of losses - rules	T: 2/452 - 2/454
5	1	Set- off and carry forward of losses -Problems	T: 2/466
6	2	Set- off and carry forward of losses -Problems	T: 2/466
7	2	Deduction from gross total income	T: 2/528 – 2/535
8	2	Computation of total income of individuals and firms	T: 2/514
9	1	Computation of total income of firms	T: 2/514
10	1	Tax Liability of individual and firm	T:3/9
11	1	Tax Liability of individual - Problems	T:3/10
12	2	Tax Liability of firm - Problems	T:3/10
13	1	Recapitulation and discussion of important questions	
Total no. Hours planned for Unit - IV			18

UNIT V

Preparation of Return of Income

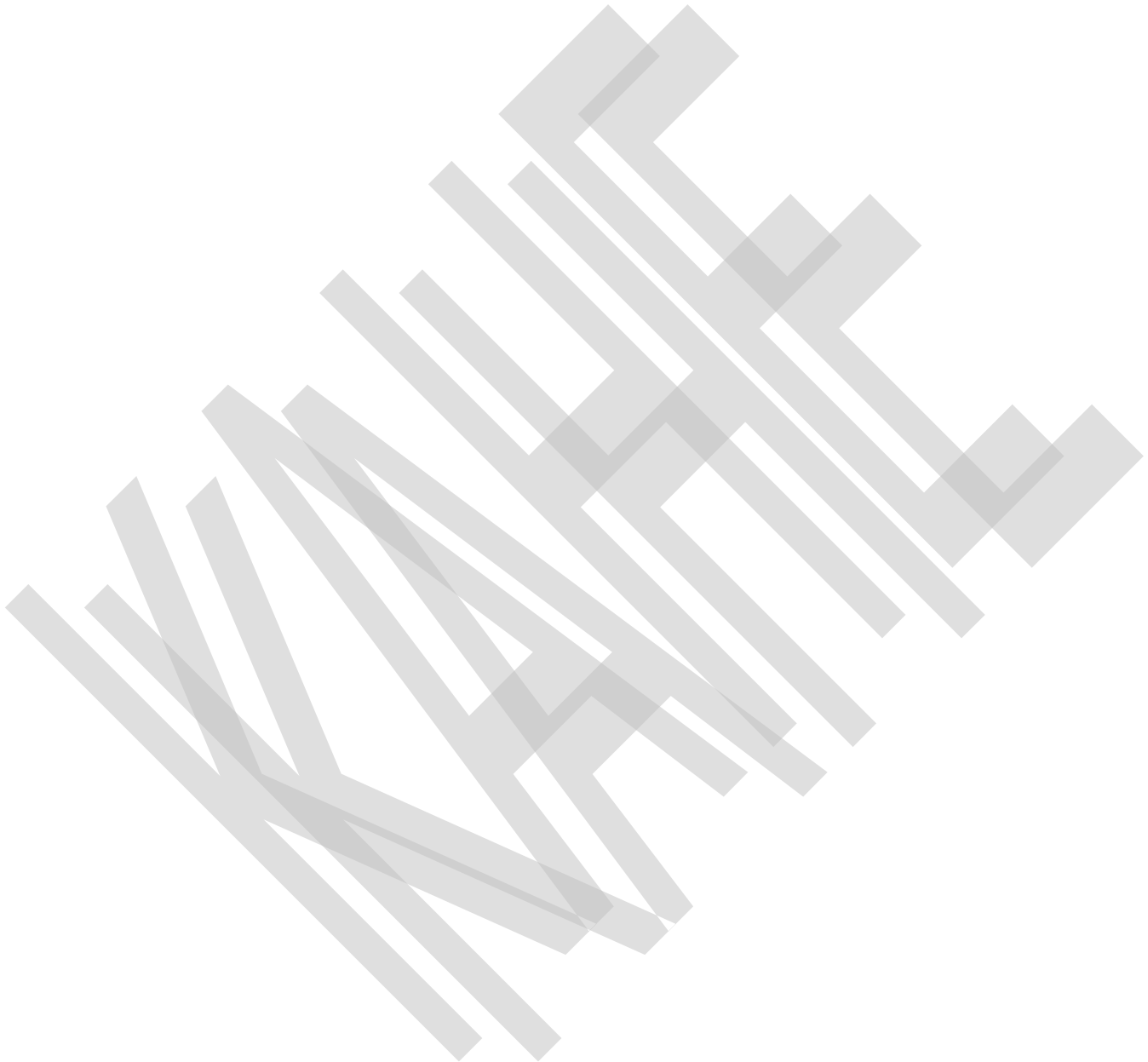
SL. No.	Lecture Duration (Hr)	Name of the Topic	Support Material/Page Nos
1	1	Filing of Returns	T1: 5/18
2	2	Manually filing of returns of income	T1: 5/19
3	2	On-Line filing of returns of income	W1
4	2	Tax to be detectable at sources	T1: 5
5	2	Provision of compulsory on-line filing of returns	T1: 3/8- 3/15
6	2	Procedure of compulsory on- line filing of returns	T1: 3/16- 3/22
7	1	Recapitulation and discussion of important questions	
8	1	Recapitulation and discussion of ESE questions	
8	1	Recapitulation and discussion of ESE questions	
9	1	Recapitulation and discussion of ESE questions	
10	1	Recapitulation and discussion of ESE questions	
Total no. Hours planned for Unit - V			16

TEXT BOOK

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

REFERENCE BOOK

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



UNIT-I

Syllabus:

Introduction: Basic concepts: Income, agricultural income, person, assessee, assessment year, previous year, gross total income, total income, maximum marginal rate of tax; Permanent Account Number (PAN) **Residential status;** Scope of total income on the basis of residential status-Exempted income under section 10

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 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 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.

ASSESSMENT YEAR – S. 2(9)

Section 2(9) defines an “Assessment year” as *“the period of twelve months starting from the first day of April every year”* “An assessment year begins on 1st April every year and ends on 31st March of the next year. For example, Assessment year 2015-16 means the period of one year beginning on 1st April, 2015 and ending on 31st March, 2016. In an assessment year, income of the assessee during the previous year is taxed at the rates prescribed by the relevant Finance Act. It is therefore, also called as the “Tax Year”.

PREVIOUS YEAR- S. 2(34)

Definition: Section 3 defines “Previous year” as *“the financial year immediately preceding the assessment year”*. Income earned in one financial year is taxed in the next financial year. The year in which income is earned is called the “previous year” and the year in which it is taxed is called the “assessment year”.

This will be explained from the following illustrations:

Illustration -1:

For assessment year 2015 – 16, immediately preceding financial year 2014-15 .i.e. from 1st April, 2014 to 31st March 2015 will be the previous year” in other words, for the Previous Year 2014-15, Assessment Year will be 2015-16. In the above case, income is earned during Previous Year 2014-15 will be taxed in the next financial year 2015-16.

PERSON –S. 2(31)

Definition:

Section 2(31) gives an inclusive definition of “person”

“Person” includes:

- a) an individual;
- b) a Hindu undivided family (HUF);
- c) a company;
- d) a firm;
- e) an Association of Persons (AOP) or a Body of Individuals, (BoI) whether incorporated or not;
- f) a local authority; and
- g) every artificial juridical person not falling within any of the preceding categories

Inclusive definition:

Since the above definition of “person” is inclusive one and not exhaustive, there may be cases, when an entity not falling in the above seven categories may still be treated as “person” inviting the provisions of the Act.

ASSESSEE –S. 2(7)

Definition :U/s 2(7) “Assessee” means a person by whom income tax or any other sum of money is payable under the Act and it includes.

- a. every person in respect of whom any proceeding under the Act has been taken for the assessment of his income or loss or the amount of refund due to him.
- b. a person who is assessable in respect of income or loss of another person or who is deemed to be an assessee, or
- c. an assessee in default under any provision of the Act

The definition of “assessee” is also inclusive one and may include any other person is not covered in the above categories. In other words, the definition of the assessee is so wide that so as to include a person himself or hire representative such as legal heir, trustee etc. Moreover, importance is given not only to the amount of tax payable but also to refund due and the proceedings taken.

Definition of the ‘assessee’ covers the following class of persons:

1. A person by whom income tax or any other sum of money is payable under the Act
2. A person in respect of whom any proceeding under the Act has been taken for the assessment of his :
 - a. income or
 - b. loss or
 - c. the amount of refund due to him
3. A person who is assessable in respect of income or loss of another person or
4. A person who is deemed to be an assessee,
5. an assessee in default under any provision of the Act.

ASSESSMENT - S 2(8)

An assessment is the procedure to determine the taxable income of an assessee and the tax payable by him. S. 2(8) of the Income Tax Act, 1961 gives an inclusive definition of assessment

INCOME- S 2(24)

Definition;

Although, income tax is a tax on income, the Act does not provide any exhaustive definition of the term “Income”. Instead, the term ‘income’ has been defined in its widest sense by giving an inclusive definition. It includes not only the income in its natural and general sense but also incomes specified in section 2 (24).

Broadly the term “Income includes the following:

- i. profits and gains ;
- ii. dividend;
- iii. Voluntary contributions received by certain institutions viz.
 - a. a trust or an institution created or established wholly or partly for charitable or religious purposes(including a legal obligation),
 - b. a scientific research association U/s 10(21),
 - c. a fund or trust or institution for promotion of sports-S 10(23),
 - d. any university or other educational institution- S 10(23),
 - e. any hospital or other institution S 10(23C)
 - f. an electoral trust
- iv. Receipts by employees:
 - a. the value of any perquisite or profit in lieu of salary taxable U/s 17(2)/(3)
 - b. any special allowance or benefit, 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 ;
 - c. any allowance granted to the assessee either 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 ;
- v. the value of any benefit or perquisite, whether convertible into money or not, obtained
 - a. 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

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in respect of any obligation which, but for such payment, would have been payable by the director or other person aforesaid ;

b. by any representative assessee U/s 160 or by any person on whose behalf or for whose benefit any income is receivable by the representative assessee and any sum paid by the representative assessee in respect of any obligation which, but for such payment, would have been payable by the beneficiary;

vi. Incomes from business – s-28

a. managerial compensation – S. 28(ii) ,

b. income derived by a trade, professional or similar association from specific services performed for its members S. 28(iii),

c. Export benefits – Duty drawback, cash assistance and DEPB -S. 28(iiia), iiib)and (iiic),

d. the value of any benefit or perquisite taxable the value of any benefit or perquisite taxable – S 28 (iv);

e. sum received from non-compete agreements - S 28 (va);

f. Balancing charge/other receipts earlier allowed as deduction–S 41

g. the profits and gains of any business of insurance carried on by a mutual insurance company or by a co-operative society-S.44 any surplus taken to be such profits and gains by virtue of provisions contained in the First Schedule

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

vii. any capital gains chargeable under section 45;

viii. any sum earlier allowed as deduction and chargeable to income-tax under Section 59

ix. any winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature whatsoever ;

x. any contribution received from employees towards any provident fund or superannuation fund or Employees State

Insurance Act, 1948 , or any other fund for the welfare of such employees ;

xi. any sum received under a Key man insurance policy including

the sum allocated by way of bonus on such policy.

xii. any sum of money or value of property received as gift –S 56(2) and Shares of closely held companies transferred to another company or firm are covered in the definition of gift except in the case of transfer of such shares for reorganization of business by amalgamation or demerger etc .

RESIDENTIAL STATUS –Section 6

Concept of Residential Status: Under Section 5 total income of an assessee is be chargeable to tax depending upon the residential status of a person and place and time of accrual of such income and the rules for determining residential status of various types of persons are contained in Section 6.

Classification of persons:

Provisions for determination of the residential status are different for different categories of the assessee viz:

- a) individuals;
- b) Hindu Undivided Families (HUF)
- c) Firms or Associations of Persons(AOP);
- d) Companies; and
- e) Every other person

Residential status of individual:

Resident or Non-resident(NR) -Section 6(1):To determine the residential status of an individual, it is to be ascertained whether he is resident or a non –resident during the previous year. An individual will be a resident in India in any previous year, if he satisfies **at least one** of the following **TWO basic conditions**—

- 1) He is in India in the previous year for a period of **182 days**

or more OR

- 2) He is in India for a period of **60** days or more during the previous year **AND 365** days or more during **4** years immediately preceding the previous year

Exception:

The Second condition of **60 days or more** is extended to **182 days or more** in following two circumstances:

i) **An Indian citizen leaves India** during the previous year for the purpose of taking up employment outside India. OR

as a member of the crew of an Indian ship OR .

ii) **An Indian citizen or a person of Indian origin comes on visit** to India during the previous year. For this purpose, 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 .In both the above cases, an individual needs to be present in India for a minimum of **182 days or more** to become resident in India **instead of 60 days**.

If the individual satisfies any of the two conditions, he is a resident in India and if he does not satisfy any of the conditions, he is a non resident during that particular assessment year.

Resident and Ordinarily Resident [R & O R]- S-6(6) Once an individual satisfies any of the above two basic conditions for a particular assessment year, next step would be to determine whether he will be a resident and ordinarily resident of India in that assessment year. S 6(6) provides that a person will be

“Resident and ordinarily resident” in India in any assessment year if he satisfies **BOTH** of the following two conditions Viz he has been:-

1) resident in India in at least **2 out of 10 previous years** according to the above basic conditions immediately proceeding the relevant previous year. **AND**

2) in India for a period of **730 days or more during 7 years** immediately preceding the relevant previous year.

Resident and Not Ordinarily Resident [R & N O R]

A resident individual, who does not satisfy BOTH of the above conditions given above, will be a Resident but Not Ordinarily Resident in India. In other words, an individual becomes resident but not ordinarily resident in India If he Satisfies at least one of the basic conditions but satisfies **NONE** of the additional conditions OR Satisfies **ONLY ONE** of the two additional conditions.

Non Resident

An individual is a non-resident in India if he satisfies none of the basic conditions. It must be noted that if a person satisfies the additional conditions but does not satisfy the basic conditions, he will still be treated as Non-Resident. In such a case, additional conditions are not relevant.

Illustration -1:

Rajesh leaves India for the first time on December 20, 2004 during the financial year 2014-15 he came to India once on May 27 for a period of 45 days. Determine his residential status for the assessment year 2015-16.

Solution:

During the previous year 2014-15, Rajesh is in India only for 45 days. He does not satisfy any of the basic conditions laid down in section 6(1). Hence Rajesh is a non-resident in India for the assessment year 2015-16.

1. Determine the scope of total income in respect of the following incomes if the assessee is a

(1) resident or

(2) a resident and ordinarily resident or

(3) a non resident

New York business income controlled from India Rs. 100000

Mumbai Business Controlled from Paris Rs. 40000

Salary in New York as Indian ambassador Rs. 90000

Profit on sale of shop in Kolkatta paid in Karachi Rs. 50000

Acting in Indian film –fee received in Rome Rs. 70000

Past untaxed profits remitted to India from London Rs. 120000.

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S.NO	Particulars	Resident	Not ordinary resident	Non-Resident
1	New York business income controlled from India	100000	100000	
2	Mumbai Business Controlled from Paris	40000	40000	40000
3	Salary in New York as Indian ambassador	90000		
4	Profit on sale of shop in Kolkatta paid in Karachi.	50000	50000	50000
5	Acting in Indian film –fee received in Rome 70000	70000	70000	70000
6	Past untaxed profits remitted to India from London.	-	-	-
	Total	350000,	250000,	160000

Illustration 2:

Blair, a French Citizen had the following incomes .Compute his Total Income for Asst. Year 2015-16 if he is a (1) resident or (2) not ordinarily resident or (3) a not resident .

Income from House property in India Rs. 30000

Income from property in Rome Rs. 20000

Interest from Bank account in India Rs. 2400

Income from business in Bangladesh controlled from IndiaRs.32000

Interest from Bank account in U.S. Rs. 22000

Salary earned and received in Tokyo Rs. 24000

Income earned and received in London Rs. 26000

Dividend from British Company received in India Rs.34000.

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S.NO	Particulars	Resident	Not ordinary resident	Non-Resident
1	Income from House property in India	30000	30000	30000
2	Income from property in Rome	20000		
3	Interest from Bank account in India	2400	2400	2400
4	Income from business in Bangladesh controlled from India.	32000	32000	
5	Interest from Bank account in U.S.	22000		
6	Salary earned and received in Tokyo	24000		
7	Income earned and received in London	26000		
	Total	156400	64400	32400

Illustration 3:

which of the following incomes are taxable when the residential status of Mr. Umesh is

1) Resident 2) not ordinary resident 3) non resident

1. Income accrued in Canada but received in India Rs. 2,000.

2. Rs. 5,000 were earned in Africa and received there but brought to India.

3. Rs. 5,000 earned in India but received in Canada.

4. Rs. 10,000 earned and received in Sri Lanka from a business controlled from India.

5. House property income (computed) from Sri Lanka Rs. 2,000.

6. Rs. 4,000 was past untaxed foreign income which was brought to India during the previous year.

7. Profit earned from a business in Kanpur Rs. 10,000.

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Solution

Computation of Taxable income

Particulars	Resident	Not ordinart resident	Non resident
Income received in india	2000	2000	2000
Income received in africa and received their but brought to india	5000	-	-
Income earned in india but received in canada	5000	5000	5000
Income earned and received in srikanka but controlled in india	10000	10000	-
House property income from srilanka	2000	-	-
Past untax	-	-	-
Profit earned from business in kanpur	10000	10000	10000
Total	34000	27000	17000

Illustration 4:

The following are the details of income of Shri Ram :

- 1.share of income from a joint venture in india Rs.10000
- 2.dividend Rs.1000
- 3.income from agriculture in pakistan Rs.20000
4. Salary received in india but the services for the same were rendered in iran Rs.9,800
- 5.income from business(controlled from india)in pakistan Rs.10000 and the income remitted to india.
- 6.income eraned and received in pakistan from bank deposits Rs.5000.
- 7.income accured in india but received in iran Rs.10000.

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Solution

1.	Share of income from a joint venture in india	10000	10000	10000
2.	Dividend	-	-	-
3.	Income from agriculture in pakistan	20000	-	-
4.	Salary received in india but the services for the same were rendered in iran	9800	9800	9800
5.	Income from business controlled from india in Pakistan and the income remitted to india	10000	10000	-
6.	Income earned and received in Pakistan from bank deposits	5000	-	-
7.	Income accrued in india but received in iran	10000	10000	10000
	Total	64800	39800	29800

Illustration 5:

The following are the incomes of shree Deepak for the previous year 2014-15:

- 1.Dividend from Indian company Rs.10000.
- 2.profit from business in japan received in india Rs.120000.
- 3.profit from business in Pakistan deposited in bank there.this business is controlled from india Rs.200000
- 4.profit from business in indore(controlled by London head office)Rs110000.
- 5.interest received from a non resident Mr.Abdul,on the loan provided to him for a business carried on in india Rs.50000.
- 6.income was earned in America and received there but brought in india Rs.80000
- 7.share of income from Indian partnership firm Rs.150000.
- 8.income from house property in india received in America (computed)Rs.62000.
- 9.interest on debenture of an Indian company received in dubai Rs.25000
- 10.capital gain on sale of agriculture land situated at ajmeer Rs.48000.

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Solution

Computed from taxable income

S no	Particulars	Resident	Not ordinary resident	Non resident
1.	Dividend from Indian company	exm	Exm	Exm
2.	Profit from business japan received In india	120000	120000	120000
3.	Profit from business in Pakistan but control from india	200000	200000	-
4.	profit from business in indore	110000	110000	110000
5.	Interest received from non- resident Mr.Abdul carried on business in india.	50000	50000	50000
6.	Income was earned in America and received in india	80000	-	-
7.	Income share of from Indian partnership	exm	Exm	Exm
8.	Income from house property	62000	62000	62000
9.	Interest on debenture of an Indian company	25000	25000	25000
10.	Capital gain of sale of agriculture land situated at ajmeer	48000	48000	48000
	Total	695000	615000	415000

Illustration 6:

Mr.Anand furnishes the following particulars of his income earned during the previous year relevant to the assessment year 2015-2016:

- 1.interest on German development bonds (one third is received in india)51000.
- 2.income from agriculture in Bangladesh ,remmited to india Rs.31000.
3. Income from house property in Canada received in U.S.A Rs.110000.
4. Income earned from business in Kuwait business be
- 5.Dividend from an Indian company Rs.15,000/-

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6.Royalty received in Singapore from Mr.David,a resident in India,for technical services provided for a business carried on in Singapore Rs.25000/-

7.Profit from a business in Chennai this business is controlled from Singapore Rs.1.25.000/-

8.Profit on sale of a building in india but received in Nepal Rs.2,50,000/-

9.Income from agriculture in Punjab received in Mumbai Rs.30,000/-

10.Profit from business in Indonesia this business is controlled from Delhi (60% of the profit deposited in a bank there and 40% is remitted to india)Rs.40,000/-

11.Interest received from Mr.Dayal, a non-resident,on the loan provided to him for a business in india Rs.28,000/-

Solution

S.NO	PARTICULARS	RESIDENT	NOT-ORDINARY RESIDENT	NON-RESIDENT
1.	Interest on German development bonds 1/3 rd received In India.	17000	17000	17000
	Interest on German developement bonds 2/3rd received In German.	34000	-	-
2.	Income from agriculture in Bangladesh	31000	-	-
3.	Income from property in Canada received in USA.	110000		
4.	Income earned from business in Kuwait partly received in India.	25000	25000	25000
	Income earned from business in Kuwait Business being control from Mumbai.	40000	40000	-
5.	Dividend from Indian Company.	Exm	Exm	exm
6.	Royalty received in Singapore from and also technical services provided in	25000	-	-

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	Singapore			
7.	Profit from a business in Chennai.	1250000	125000	125000
8.	Profit on sale of building in India.	250000	250000	250000
9.	Income from agriculture in Punjab received in Mumbai.	Exm	Exm	exm
10.	Profit from business in Indonesia business control from Delhi.	40000	40000	-
11.	Interest received from Dr.Dayal a non-Resident on the loan provided to him for a business in India.	28000	28000	28000
	Total	725000	525000	445000

Illustration 7:

MR.K an indian citizen leaves india for the first time on 31st may 2010 and comes back on 15th may 2013. He again leaves india on 10th june 2010 to come back on 14th january 2015. He is living in India since then. Determine his status for previous year 2014-15.

Assessment year 2015-2016.

Previous year 1-4-2014 to 31-3-2015.

Basic condition:

Leaves -> 1-4-14 to 10-6-2014 = 30 + 31 + 10 = 71 days

Come back -> 14-1-15 to 31-3-2015 = 18 + 28 + 31 = 77 days

Total = 148 days

2013-2014 = 25-5-2013 to 31-3-2014 = 17 + 30 + 31 + 31 + 30 + 31 + 30 + 31 + 31 + 28 + 31

= 321 days

2012-2013 = nil

2011-2012 = nil

2010-2011 = 1-4-10 to 31-5-10 = 30 + 31 = 61 days

Total = 382 days

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Additional condition:

MR.K stayed in india 2 out of 10years in the preceeding previous year.

He stayed in india morethan 430 days for the 7 years of preceeding previous year.

2013-14 =321 days

2012-13 =nil

2011-12 =nil

2010-11 =61 days

Total 382 days.

2009-2010=full

2008-2009=full

2007-2008=full

Mr.k is resident and ordinary resident.

6. a) Mr.roy comes yo india on 10th may 2012 after staying for 10 years in USA.He stays in india up to 4th jan 2015 and leaves india on 5th jan 2015 for USA.During his stay in india he did not stay for more than 15 days at any particular palce as he was exploring the possibilities of a new business.determine his residential status for the previous year 2014-2015.

b) what different it will make if he comes to india after 4 years stay in USA and prior to that he was in india.

Assessment year=2015-2016

Previous year=1-4-2014 to 31-3-2015

Comes to india 10th may 2012

Stayed in india 4th jan 2015

He leaves india 5th jan 2015

Basic condition:

1-4-2014 to 5-1-2015=30+31+31+31+31+31+31+30+31+15=280 days

He stayed in india more than 182 days in the relevent previous year.

So he is called resident.

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Additional condition:

1.he stayed in india 2 out of 10 years preceeding prevoius year

2.he did not stayed in india 730 days (691)in 7 years of previous year

2013-2014 =365 days

2012-2013=2012-2013=10-5-12 to 31-3-2013=22+30+31+31+30+3130+31+31+28+31
=326 days

2011-2012=nil

2010-2011=nil

2009-2010=nil

2008-2009=nil

2007-2008=nil

Total =691 days

He did not satisfied both additional conditional of one and two .so he is called resident but not ordinary resident.

b)Mr.roy comes to india after 4 years

basic condition:

assessment year=2015-2016

previous year=1-4-2014 to31-3-2015

1-4-2014 to 5-1-15=30+31+30+31+31+30+31+30+31+5 =280 days

He stayed in india more than 182 days in the relevent previous year.

Additional condition:

Mr.roy stayed in india 2 out of 10 years preceeding previous year.

He stayed in india 730 days(1057)in seven years of preceeding previous year.

2013-2014 =365 days

2012-2013 =10-5-12 to 31-3-13 =326 days

2011-2012 =nil

2010-2011 =nil

2009-2010 =nil

2008-2009 =nil

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2007-2008	=366 days
Total	=1057 days

He stayed both additional condition.

EXEMPTIONS & EXCLUSIONS U/S. 10:

Agricultural Income u/s. 10(1)

Agriculture income is exempted from tax if it comes from within the definition of “agricultural income”

Receipts by a member, from a HUF u/s. 10(2)

Sum received by an individual, as a member of HUF, either out of the family or out of income of estate belonging to the family, is exempted from tax.

Share of Profit from partnership firm u/s 10(2A)

Share of profit received by partners from a firm is not taxable in the hands of partners.

Leave Travel Concession in India u/s. 10(5)

The value of leave travel concession received or due to an individual is exempted to the extent it is actually spent.

Gratuity u/s. 10(10)

Gratuity is paid for long and meritorious services rendered by an employee. • With the enactment of the payment of Gratuity Act, 1972, gratuity payment has become legally compulsory. Where the payment of Gratuity Act, 1972 is inapplicable, an employee can claim gratuity under the terms of contract of employment .

Tax treatment of Gratuity

- For Govt. employees – fully exempt from tax
- For Non-Govt. employee covered by payment of Gratuity Act 1972. –
- Least of the following three is exempt from tax 1. 15 days salary (7days salary in case of seasonal establishment) based on salary last drawn for each year of service 2. Rs. 10,00,000 (Rs 3,50,000 up to 23rd may 2010)

Gratuity actually received

Non- Govt. employee not covered by the payment of Gratuity Act 1972

- Least of the following three is exempt from tax 1. Rs 10,00,000 2. Half months average salary for each completed year of service 3. Gratuity actually received

Compensation received at the time of Voluntary Retirement u/s. 10(10C)

Compensation on voluntary retirement of an employee of a public sector company and other entities shall be exempted from tax to the extent of Rs. 5,00,000.

- Public sector undertaking and other entities include
- Company
- Local authority
- Establishment under central and state govt.
- Cooperative society
- Other state govt. and central govt. Institutions.

Amount received under Life Insurance Policy u/s 10(10D)

Any sum received under life insurance policy, including the sum allocated by way of bonus on such policy shall be totally exempt from tax.

Payment received from Provident Fund u/s. 10 (11), (12)

Any payment from a provident fund to which the provident fund Act ,1925 applies or from any other provident fund set up by Central Govt. and notified in the official gazette is totally exempted from tax. • Section 10 (12) Accumulated balance due and become payable to an employee participating in a recognised provident fund, is exempt from tax.

Payment received from an Approved Superannuation Fund u/s. 10(13)

Payment received from an approved superannuation fund is exempted from tax.

House Rent Allowance u/s. 10 (13A).

Exemption in respect of house rent allowance is least of the following three • Amount equal to 50 percent of salary, where house is situated in metros and 40 percent of salary where residential house is situated at any other place.

- Actual house rent allowance received
- Excess of rent paid over 10 percent of salary.

salary for calculation purpose

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- Basic salary • Dearness allowance and grade pay • Does not include any allowance and perquisites.

Special Allowance u/s. 10 (14):

Conveyance Allowance, Daily Allowance, Uniform Allowance, Helper Allowance, Research Allowance • Allowances are exempt to the extent the amount is utilised for the specific purpose for which allowance is received. • Transport Allowance, Children Education Allowance, Children's Hostel Expenditure Allowance. (fixed amount per month)

Transport Allowance

Transport allowance is granted to meet his expenditure for the purpose of commuting between the place of his residence and place of duty . • Exemption • Up to Rupees 800 per month • Rupees 1600 per month in the case of blind or orthopedically handicapped employees.

Conveyance Allowance

Conveyance allowance is granted to meet expenditure on conveyance in performance of duties of an office. • Exemption – 1. Amount of the allowance or 2. The amount utilised for the specific purpose – whichever is lower.

Daily Allowance

• Exemption – • Amount of the allowance or • The amount utilised for the specific purpose – whichever is lower.

Uniform Allowance

• Exemption – • Amount of the allowance or • The amount utilised for the specific purpose – whichever is lower.

Research Allowance

• Exemption – • Amount of the allowance or • The amount utilised for the specific purpose – whichever is lower

Children Education Allowance

• The allowance is given for children's education • Rupees 100 per month per child up to a maximum of 2 children.

Helper Allowance

• Exemption – • Amount of the allowance or • The amount utilised for the specific purpose – whichever is lower.

Hostel Expenditure Allowance

• The allowance is granted to an employee to meet the hostel expenditure on his child • Rupees 300 per month per child up to a maximum of two children.

Interest on Securities u/s. 10(15)

Income by way of interest, premium, etc from certain securities, certificates, bonds, deposits etc. as specified / notified in the official gazette are exempted from tax.

Educational Scholarships u/s. 10(16)

Scholarship granted to meet the cost of education is totally exempt from tax and will not be included in the computation of total income of assessee.

Income of a minor child u/s 10 (32)

[including basic provisions of sec 64(1A)]

• In case the income of an individual includes the income of his minor child in terms of section of 64(1A), such individual shall be entitled to exemption of Rs 1500 in respect of each minor child.

• Section 64(1A) All income which arises or accrues to the minor child shall be clubbed in the income of his parents.

Dividends and Interest on Units u/s. 10(34) (35).

- Income by way of dividends 10(34)
- Income by way of dividend is exempted from tax in the hands of shareholders.
- Income from mutual fund 10(35)
- Any income received in respect of units of a Mutual Fund/ specific company is exempted from tax.

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POSSIBLE QUESTIONS

PART A (ONLINE EXAMINATION)

PART B 2 Marks

1. Write a note on residential Status of Individual
2. Write a short note on Foreign Income
3. Write slab rate of individuals
4. Explain not ordinary resident
5. Define Income
6. Define Agricultural Income
7. Write a short note on Assessee
8. Explain Resident

PARTT C (6 Marks)

1. Define the following
 - i) Agricultural income
 - ii) Assessee
 - iii) Person
 - iv) Income as per Act.
2. Define a) Assessment year and b) Previous Year
3. Mr. Kanan an Indian citizen leaves India for the first time on 31st May 2009 and comes back on 15th May 2012. He again leaves India on 10th June 2013 to come back on 14th January 2014. He is living in India since then. Determine his residential status for the previous year 2016-17
4. An Individual Left India for Iran on 15th July 2011, for taking up job in engineering firm there. He returned to India on 15th September 2013. He was never out of India in the past. State what is his residential status will be for previous year 2017-18
5. What is the residential status of an individual for the assessment year 2017-18 who came to India for the first time in 2011-12 and was in India as follows:

Previous Year	Presence in India
2015-16	150 days
2014-15	200 days
2013-14	185 Days
2012-13	15 Days

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6. What are the different categories of assessee according to their residential status?
7. How would you determine the residential status of a HUF?
8. What is the scope of total income of a person under income tax act 1961?
9. Explain the Residential status of Individual under Income Tax Act 1961.
10. Which of the following incomes are taxable when the residential status of Mr. Umesh is:
- (i) Resident, (ii) Not Ordinarily Resident, (iii) Non-Resident.
- Income accrued in Canada but received in India Rs.2,000
 - Rs.5,000 were earned in Africa and received there but brought to India.
 - Rs.5,000 earned in India but received in Canada.
 - Rs.10,000 earned and received in Sri Lanka from a business controlled from India.
 - House property income (computed) from Sri Lanka Rs.2,000.
 - Rs.4,000 was past untaxed foreign income which was brought to India during the previous year.
 - Profit earned from a business in Kanpur Rs.10,000
11. The following are the details of income of 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.

12. Following are the income of Sri Rathnam for the previous year 2016-17
- a. Profit from the business in Bangalore Rs.10,000
 - b. Income accrued in India but received in Japan Rs. 4,000
 - c. Profit from business in Canada but received in India Rs. 5,000

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- 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.

13. From the following particulars compute the total income of Mr. C A for the assessment year 2017-18 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.

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

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

16. Give any fifteen income which are totally exempt from income tax.

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

18. 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

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

d. Profit from business 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.

19. Determine the residential status in the following cases

a. Gating, a foreign citizen, leaves India for the first time in the last 20 years on November 25, 2011. During the calendar year 2012, he comes to India on September 1 and stays for a period of 20 days. During the calendar year 2013 he does not visit India at all but comes to India on January 15, 2014. Determine the residential Status of Mr. Gating for the assessment year 2017-18

b. Dr. K.S. Sharma, an Indian working in U.S.A. Every year he comes to India on leave and stays with his parents who are staying in Calicut. What would be the residential status of Dr. K.S. Sharma during the assessment year 2015-16. If he comes to India on 20th September 2013 and stayed up to 31st March 2014. His total stay during the preceding 7 Years was 500 days. He had left India on 31st March 2006.

QUESTION	OPTION A
Income tax is a -----	direct tax
Income tax was passed in the year -----	1960
Income tax Act extends to -----	Whole of India
Rate of Income tax are fixed under -----	The income tax act
An example to direct tax is -----	Income tax
Every year the residential status of an assessee -----	may change
In which section of Income tax act exempted incomes have been mentioned?	Sec 2
The current previous year is -----	2012-13
The current assessment year is -----	2012-13
The sum of five heads of income is called -----	Gross total income
Any person who is liable to pay any tax or any other money under Income tax act is-----	Assessee
Incomes which do not form the part of total income is called as --- income.	Deduction
the total income computed will be rounded off the nearest multiples by-----	100's
Tax on tax is called as -----	surcharge
The concession in the amount of tax liability subject to certain conditions are called-----	tax rebate
According to Income Tax Act 1961, Person includes,	Individual
person who does not fulfill the statutory obligations given under the Act is called –	ordinary assessee
Income not earned and not accrued in India is ----- income.	Foreign income
A person not only liable for his own income, but also for others income or loss is called --	ordinary resident
Agricultural income is ----- income	fully exempt
Part I of Schedule I of the finance Act 2016 has given rates of Income tax for the assessment year -----	2014-15
Education cess is leviable on -----	Income tax
Education cess is leviable @ -----	3%
Residential status is to be determined for -----	Previous year

Maximum exemption on which income tax is not chargeable for the assessment year 2016-17 is -----	Rs. 1,00,000
Income tax rules was passed in the year -----	1961
Education cess is leviable @ -----	3%
While determining the residential status of individual basic conditions are given u/s ----	6(1)
While determining the residential status of individual additional conditions are given u/s -	6(1)
If an individual satisfies any one condition of the basic conditions and both the conditions of the additional conditions , then he is called -----	Non resident
If an individual does not satisfies any one condition of the basic conditions then he is said to be -----	Non resident
Income earned and received outside India is taxable to -----	All assesseees
Maximum amount on which income tax is not chargeable for the assessment year 2016-17 is-----	Rs.1,00,000
The period during which certain incomes have been exempted from tax subject to certain conditions is called -----	Tax rebate
Income of the previous year is taxable in the assessment year ---- ---	2014-15
An individual who wants to be resident in India u/s 6(I) (a) must stay in India for atleast -----	182 days
The exemption limit of income not taxable for the assessment year is ---	Rs. 1,00,000
Where impact and incidence falls on a same person then it is called -----	direct tax
Every assessee is a person but every person need not be a -----	Assessee
Income tax is a -----	Indirect tax
A life insurance policy taken by the employer on the lives of employee is known as---	Insurance policy
Surcharge is to be levied of the total income exceed -----	Rs. 25,00,000
Residential status of individual is given u/s -----	6
Income earned and received out side India from any other sources is taxable -----	Only resident
Gratuity received by the employees working on government service shall be -----	fully exempt
The full amount of scholarship granted to meet the cost of education is -----	Taxable
Income earned and received outside India from a business controlled or profession set up in India is taxable to -----	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
Rs.2,000 earned in India but received in Canada is taxable to -----	Resident
Profit earned from the business in Mumbai is taxable -----	All assesseees
Salary received by a member of parliament is -----	Exempt from tax
A University teacher is a -----	Government employee
Income from tea cultivation and manufacturing of tea business has to be divided in two parts -----	40% is agricultural income
Embezzlement of cash by cashier is -----	A revenue loss
Dividend by an Indian company paid out side India is :	Income accruing in India
Proceeds of benefit match received by a cricket player are -----	Professional income
Embezzlement of cash in a money lending business shall be treated as -----	business expenditure
The previous year means -----	The accounting period of the assessee
In case of company assessee control and management is situated in India means -----	Resident
Share of income from firms is ----- income	fully taxable

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UNIT - I

OPTION B	OPTION C	OPTION D	
indirect tax	business tax	not a tax	
1961	1962	1963	
Whole of India except Jammu and Kashmir	Whole on India except Sikkim. not applicable	Whole of India except Gujarat	
The finance act	Notification of CBDT	Sub rules	
Sales tax	Customs duty	excise duty	
will certainly change	will not change	citizen	
Sec 10	Sec 80	sec82	
2014-15	2015-16	2015-16	
2016-17	2014-15	2015-16	
net total income	total income	exempted income	
resident	Citizen	NRI	
Exempted	total	Rebate	
1000's	10's	500's	
gross tax	net tax.	total tax	
tax exemption	tax holiday	tax perquisite	
HUF	firm	all the above	
Representative assessee	assessee- in- default.	deemed assessee	
Indian income	total income.	net income	
Representative assessee	Assessee – in – default.	NRI	
partially exempt	fully taxable.	not an income	
2015-16	2016-17	2013-14	
Income Tax + Surcharge	Surcharge	total tax	
2%	1%	5%	
Assessment year	Accounting year	financial year	

Rs. 1,35,000	Rs. 1,85,000	Rs.2,50,000	
1962	1963	1964	
2%	1%	5%	
6(2)	6(3)	6(4)	
6(2)	6(3)	6(4)	
Not ordinary resident	Resident	assessee	
Not ordinary resident	Resident	person	
Resident only	Resident and not ordinary resident.	person	
Rs. 1,35,000	Rs2,50,000	Rs.2,00,000	
Tax exemption	tax Holiday	tax deduction	
2015-16	2016-17	2013-14	
365 days	730 days	1,000 days	
Rs.50,000	Rs. 1,50,000	.Rs.2,50,000	
Indirect tax	Not at all tax	none	
Resident	Citizen	NRI	
direct tax	Not at all tax	corporation tax	
Keyman	Insurance allowance	premium	
Rs.75,00,000	Rs. 1,00,00,000	Rs. 50,00,000	
8	10	12	
NOR	Non resident	citizen	
fully taxable	Partially taxable.	none	
Exempted	Rebate	debate	
NOR	non resident	citizen	

NOR	non resident	citizen	
NOR	non resident	taxable to all	
Resident only	resident and not ordinary resident	citizen	
Taxable salary income	Taxable as income from other sources.	taxable as business income	
Semi – government employee	Private employee	not an employee	
50% is agricultural income	60% is agricultural income	70% is agricultural income	
A capital loss	A casual loss.	not a loss	
Income deemed to accrue in India	income earned in India	income earned outside India	
A casual income	An exempted income	not an income	
Revenue loss incidental to business	capital expenditure	receipt	
financial year before the assessment year	Calendar year before the assessment year .	next year	
Not ordinary resident	Non resident	citizen	
fully exempted	partially taxable	partially exempted	

ANSWER
direct tax
1961
whole of India
The finance act
Income tax
may change
Sec 10
2015-16
2016-17
gross total income
assessee
Exempted
10's
surcharge
tax rebate
all the above
assessee in default
foreign income
representative assessee
fully exempt
2015-16
income tax + surcharge
2%
previous year

Rs.2,50,000
1962
2%
6(1)
6(3)
resident
non- resident
resident only
Rs. 2,50,000
tax holiday
2016-17
182 days
Rs.2,50,000
direct tax
assessee
direct tax
keyman
Rs.1,00,00,000
6
only resident
fully exempt
Exempted
only resident

not taxable
taxable to all
all assessees
Exempt from tax
semi government employee
60% is agricultural income
a revenue loss
income deemed to accrue in India
a casual income
revenue loss incidental to business
financial year before the assessment year
resident
fully exempted

UNIT II

Computation of Income under different heads-I

Salaries and House Property : Computation of Income from Salaries and Income from house property

I - 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

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(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

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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. $(15 / 26 \times [\text{basic salary} + \text{Dearness Allowance}] \times \text{No. of years of service} + 1$ [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 $(1/2 \times \text{average salary of last 10 months} \times \text{completed years of service})$.
3. Rs. 10, 00,000 (amount specified by government).

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

Illustration:1

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

His average salary for 10 months preceding Sept. 2016 was Rs:2500 p.m. He received a gratuity

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of Rs;60,000. Compute his taxable gratuity.

Solution:

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

$\frac{1}{2}$ month's salary for every completed years of service $(2500 \times \frac{1}{2} \times 42) = \mathbf{52,500}$

Actual amount of gratuity received = Rs: 60,000

Statutory limit = Rs: 10,00,000

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

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Computation of taxable Amount of Gratuity

Illustration 2:

Mr. Athul, covered under the Payment of Gratuity Act, 1972, retires on 10th January, 2017 after serving the company for 16 years. At the time of retirement his basic salary was Rs:4,400 p.m. and DA Rs:800 p.m. On retirement he receives Rs:1,00,000 as gratuity. Compute the amount of gratuity exempt U/s 10(10).

Solution :

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

15 days salary for every completed years of service:

$$(4400+800) \times 15/26 \times 16 \text{ years} = \mathbf{48,000}$$

Actual amount of gratuity received = Rs:

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

Therefore exempted amount = 48,000.

Leave Salary

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

The tax treatment of leave encashment is as under:

- (i) **Encashment of leave while in service.** This is fully taxable and so is added to gross salary.
- (ii) **Encashment of leave on retirement.** For the purpose of exemption of accumulated leave encashment, the employees are divided into two categories. They are Govt employees and Other employees.

•State or Central Government employees:

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

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Other employees:

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

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

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

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

Illustration:3

Mr. Afsal was employed in a company. He took voluntary retirement on 1st December, 2016 after completing 25 years of service. On 1st January, 2017 his salary was Rs: 4,000 p.m. after adding the annual increment. The total leave availed during service is 10 months and actual amount received is Rs: 1,60,000 on encashment. Compute the amount exempt regarding encashment of earned leave.

Solution:

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

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

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

Illustration:4

Mr. Abhijith retired on 31st October, 2016 after serving 20 years. He received Rs: 96,000 as

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leave encashment for 12 months. His average salary at the time of retirement amounted to Rs: 7,400. He had 2 months leave at his credit. Find the taxable amount of leave encashment.

Solution:

Exempted amount of leave encashment is least of the following:

Cash equivalent of earned leave (2 months leave x Rs:7,400) = **Rs: 14,800**

Ten months average salary (10 months x Rs; 7,400) = Rs: 74,000

Actual amount of leave salary received = Rs: 96,000

Statutory Limit = Rs: 3,00,000

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

Retrenchment Compensation 10(10B)

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

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

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

Illustration:5

Mr, Adithya Raveendran is employed in a company at Allahabad since 1st October,2016. He is getting a salary of Rs:12,000 p.m. and Rs:2,400 p.m. as DA since 1-1-2011. His service was terminated on account of retrenchment of employees on 1-7-2016 and he was paid Rs:96,000 as compensation. Compute taxable amount of compensation for the AY 2017-18.

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Solution:

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

15 days salary for every completed years of service = $14 \times \frac{1}{2} \times 14400 = \text{Rs: } 1,00800$. Maximum limit Rs: 5,00,000

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

Therefore, taxable amount of retrenchment compensation = $96,000 - 96,000 = \text{Nil}$

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 $\times 3 \times$ No. of fully completed years of service
 - 2. Last drawn salary \times 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:

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- 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 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:

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- a) House Rent Allowance actually received by the assessee
- b) Excess of rent paid by the assessee over 10% of salary due to him
- c) An amount equal to 50% of salary due to assessee (If accommodation is situated in Mumbai,

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

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

While claiming exemption the following points are considered :

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

Illustration:6

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

Solution:

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

Particulars	Rs:	Rs:
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Amount received during the financial year for HRA		24,000
Less: Exemption u/s 10(13A) Rule 2A Least of the followings:		
(a) Actual amount received	24,000	
(b) 50% of Salary of Rs 64,800	32,400	
(c) Rent paid less 10% of Salary [$2,000 \times 12 - 10\%$ of 64,800]	17,520	17,520
Taxable HRA		6,480

Entertainment Allowance

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

Special Allowances for meeting official expenditure

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

Special Allowances to meet personal expenses:

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

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

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

iii. **Transport Allowance:** This allowance is generally given to government employees to compensate the cost incurred in commuting between place of residence and place of work. An amount upto Rs.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

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such allowance or Rs.10000 per month, whichever is less.

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

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

Fully Exempt Allowances

(i) Foreign allowance: This allowance is usually paid by the government to its employees being Indian citizen posted out of India for rendering services abroad. It is fully exempt from tax.

(ii) Allowance to High Court and Supreme Court Judges of whatever nature are exempt from tax.

(iii) Allowances from UNO organization to its employees are fully exempt from tax.

Perquisites

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

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

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

1. Value of rent free accommodation provided to the employee by the employer.
2. Value of concession in the matter of rent in respect of accommodation provided to the employee by his employer.
3. Value of any benefit or amenity granted free of cost or at a concessional rate in any of the
 - a) by a company to an employee who is a director thereof
 - b) by a company to an employee who has substantial interest in the company
 - c) by any employer to an employee who is neither a director, nor has substantial interest in the company, but his monetary emoluments under the head 'Salaries' exceeds Rs.50, 000.
4. Any sum paid by the employer towards any obligation of the employee.
5. Any sum payable by employer to effect an assurance on the life of assessee.
6. The value of any other fringe benefit given to the employee as may be prescribed

Classification of Perquisites

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

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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

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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/s 22B of the High Court Judges (Conditions of Service) Act, 1954 and Supreme Court Judges u/s 23A of the Supreme Court
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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.

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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

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employee

3. Accommodation in a hotel

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

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

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

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

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

Definition of salary for rent free accommodation:

Basic Salary + Taxable cash allowances + Bonus or Commission + any other monetary payment.

(It does not include dearness allowance if it is not forming part of basic salary for retirement benefit, allowances which are exempt from tax, value of perquisites specified under Section 17(2), employer's contribution to provident fund account of employees).

Sweeper, gardener or watchman provided by the employer

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

Free Supply of Gas, Electricity or Water

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

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rules:

- a) If the employer provides the supply of gas, electricity, and water from its own sources, the manufacturing cost per unit incurred by the employer shall be the value of perquisite.
- b) If the supply is from any other outside agency, the value of perquisite shall be the amount paid
- c) Where the employee is paying any amount in respect of such services, the amount so paid shall be deducted from the value of perquisite calculated under (a) or (b).
- d) Where the connection for gas, electricity, water supply is in the name of employee and the bills are paid or reimbursed by the employer, it is an obligation of the employee discharged by the employer. Such payment is taxable in case of all employees under Section 17 (2) (iv).

Free Education

- a) Cost of free education to any member of employees' family provided in an educational institution owned and maintained by the employer shall be determined with reference to reasonable cost of such education in a similar institution in a nearby locality. For education facilities provided to the children of employee (excluding any other member of house hold), the value shall be nil, if the cost of such education per child does not exceed Rs.1, 000 per month.
- b) Where free education facilities are allowed to any member of employees' family in any other educational institution by reason of his being in employment of that employer, the value of perquisite shall be determined as in (a).
- c) In any other case: The value of benefit of providing free or concessional educational facilities for any member of the house hold (including children) of the employee shall be the amount of expenditure incurred by the employer.
- d) While calculating the amount of perquisite in all in above cases, any amount paid or recovered from the employee in this connection, shall be deducted

Free Transport

The value of any benefit provided by any undertaking engaged in the carriage of passengers or goods to any employee or to any member of his household for private journey free of cost or at concessional rate in any conveyance owned or leased by it shall be taken to be the

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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

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- 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 under a keyman insurance policy including the sum allocated by way of bonus on such policy.

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Illustraton:7

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

Solution:

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

Provident Fund

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

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

(i)Statutory Provident Fund

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

Contribution is made by Employer and Employee.

Assesse's Contribution: will get Deduction u/s

80C Employer's Contribution- Not taxable

Interest credited- Fully exempted

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

(ii)Recognized Provident Fund

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

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u/s 80C

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

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

(iii)Unrecognized Provident Fund

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

iv) Public Provident Fund

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

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

Interest credited- Fully exempted

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

Deductions :

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

government employees (State or Central Government) to the extent of least of following 3 amounts:

(i)Rs.5000

(ii)20% of basic salary

(iii)Amount of Entertainment Allowance actually received during the

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year. 2. Professional Tax [Section 16(iii)] of the Act.

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

Illustration:8

Following particulars are furnished by Muhammed Labeeb, a citizen and resident in

India: Basic salary after deduction of contribution to RPF Rs: 2,40,000

Own contribution to RPF Rs:20,000

Interest credited to RPF @9.5%

Rs:3,600

HRA (house is at Kolar and rent paid amount to Rs:30,000) Rs:

14,400 Unit-linked insurance plan contribution paid by employer Rs:

2,000.

Compute taxable income from salary of Muhammed Labeeb for the A.Y.2017-18

Solution:

Computation of Income from Salary for the assessment year 2017-18

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

Notes: Least of the following is exempt:

Actual HRA Rs:14,400

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

Illustration :11

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

Solution:

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

10 months average salary (7400 x10) Rs:74000

Actual amount of leave encashment received Rs:96,000

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

Maximum limit Rs:3,00,000

Computation of taxable Amount of Leave Salary

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

Illustration:12

From the following particulars calculate the salary income of Mr. Reshin for the assessment year .2017-18

Basic pay Rs: 5500 p.m. HRA Rs:2400 .m.

DA Rs: 5,000 p.m.

Entertainment Allowance Rs:1,200

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

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

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

Solution:

Computation of income from salary of Mr. Reshin for the Assessment Year .2017-18

Basic pay	66000
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HRA (28800-26400)	2400
D A	60000
Entertainment allowance	14400
CCA	7200
Education allowance (9600-2400)	7200
Employer's contribution to RPF in excess of 12%	1320
Income from Salary	1,58,520

Illustration:13

Mr. Akhildas is employed as an engineer in Indian railways. He is getting Rs:7,000 p.m. as basic pay; Rs:2,500 p.m. as D.A. and Rs:2,500 p.m. as dearness pay. During the year 2016-17, he received the following allowances also:

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

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

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

Rs: 250 p.m. as CCA.

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

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

Compute his taxable salary for the AY .2017-18

Solution:

Computation of taxable salary of Mr.Akhildas for the A Y .2017-18

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

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Running allowance received	16,500	
Less: 70% of allowance or Rs:10,000 p.m, whichever is less)	10,000	6500
Education allowance (200x12x2)	4,800	
Less:exemptionfor2children (100x12x2)	2,400	2,400
Hostel allowance (500x12)	6,000	
Less: exempted (300x12)	3,600	2,400
Uniform Allowance (400x12)	4,800	
Less: exempted	4,800
CCA (250 x12)		3,000
Gross Salary		1,73,300
Less : Deduction u/s 80C (PF)		12,000
Income from Salaries		1,61,300

Calculation of exempted amount of HRA:

Least of the following is exempted:

$$\text{HRA received (Rs:1,250 x12)} = 15,000$$

$$\text{Excess of rent paid over 10\% Of salary (18,000-12,000)} = 6,000$$

$$40\% \text{ of salary (1,20,000x40\%)} = 48,000$$

Illustration :14

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

Solution:

Least of the following is exempted:

$$\text{Actual Entertainment Allowance received (500x12)} = 6,000$$

$$\text{Statutory Limit} = \text{Rs: 5,000}$$

$$20\% \text{ of Salary (2,40,000 x 20\%)} = \text{Rs: 48,000}$$

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

II- 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

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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.

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

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

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

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

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

Unrealized Rent

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

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

Deduction from Net Annual Value

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

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

1. **Purpose of loan:** The loan

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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. [Section 25]

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

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for self-occupation, he is entitled to exercise an option in terms of which, the annual value of one house property as specified by him will be taken at Nil. The other self occupied house property/is will be deemed to be let-out and their annual value will be determined on notional basis as if they had been let out.

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

Illustration:1

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

Solution:

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

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

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

Illustration:2

Calculate annual rental value from the following particulars for the assessment year 2017-18

14.Actual rent Rs: 14,000 p.m.; MRV Rs: 1,20,000 p.a.; FRV Rs:1,32,000 p.a. Standard rent Rs: 1,38,000. During the P.Y. the assessee is not able to realise two months rent.

Solution:

Expected Rental Value = 1,32,000

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

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Therefore, GAV = 1,68,000.

Annual Value = 1,68,000 – unrealised rent
= 1,68,000 -- 28,000 = 1.40,000.

=====

Illustration:3

Compute gross annual value for the AY 2013-14:

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

Solution:

Expected Rental Value = Rs: 1,30,000

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

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

=====

Illustration:4

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

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

Solution:

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

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Illustration:5

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

MRV Rs: 12,500; Rent received Rs:10,000 ; Municipal taxes Rs:2,500 ; Ground rent Rs:250 ; Repairs Rs:2,000 ; Interest on loan taken for construction Rs: 2,500.

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

Solution:

Computation of Income from house property

Let out portion:

GAV (MRV =6250 or Rent received, whichever is higher) : 10,000

Less : municipal rent ($\frac{1}{2}$) : 1,250

Net Annual Value : 8,750

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

Deductions:

30% of annual value : 2,625

Interest on loan taken for construction : 1,250

----- :3,875

Income from let out portion 4,875

Self-occupied portion:

Net Annual Value : Nil

Deductions:

Interest on loan taken for construction : 1,250

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Income from self occupied portion	--1,250

Income from House Property	3,625

Illustration:6

First House:

Annual Value	:	11,000	
Less : Deductions:			
Standard deduction (30%)	:	3,300	
Interest on loan	:	<u>1,000</u>	
		4,300	6,700

Second House:

Annual Value	:	14,400	
Less : Loss for vacancy period	:	3,600	
Unrealised rent	:	<u>13,000</u>	
		<u>16,600</u>	<u>--2,200</u>
Income from House Property	=		4,500.
			=====

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POSSIBLE QUESTIONS

PART –A

MULTIPLE CHOICE QUESTIONS

ONLINE EXAMINATION

PART B

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

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

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

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

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

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

- a. Basic salary Rs. 15,000 p.m. ;
- b. DA (given as the terms of employment) Rs 5,000 p.m. ;
- c. Entertainment allowance Rs. 1,000 p.m. ;
- d. Medical allowance Rs. 500 p.m. ;
- e. House rent allowance Rs. 4,000 p.m. ;
- f. Rent paid for the house Rs. 5,000 p.m. ;
- 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 2017-18

4. Mr. G.R. returned to India after serving a British Company for 25 years. He joined service with an Indian company at Mumbai [Population more than 25 lakhs] during 2012-13. He furnishes the following particulars of his income for the year ending 31-3-2017 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.

5. Explain the fully taxable and partially taxable allowances.

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

7. Compute gross salary from information given below

- a. Salary @ Rs. 3,500 p.m.

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

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

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

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

Calculate gross salary.

9. Mr. Lalu retired on 30.11.16 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.

10. 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

PART C

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11. 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 1.7.2016 to 1.7.2017 was Rs.5,000 p.m.

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

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

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

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

- Salary rs.8,000 p.m.
- Arrears if salary rs.4,000
- D A Rs.2,000 p.m
- Employer is paying insurance premium of Rs.16,000 p.a. in Ramakants life
- Bonus received Rs.15,000
- Education allowance for grand child Rs.400 p.m.

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- 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 to 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 2016-17
- He is provided with a mobile bill of which is paid by company Rs.6,000

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

15. Find out Mr. Swamy's income from House Property from the following information.

Municipal Valuation Rs.96,000.

Fair Rent Rs.88,000.

Standard Rent Rs.90,000.

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

Self Occupied 1-4-10 to 30-11-10.

Let Out 1-12-10 to 31-3-11.

Municipal Taxes Due Rs. 6,000.

Municipal Taxes Paid Rs. 3,000.

Interest on borrowed Money Rs. 10,000.

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

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

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

1/3rd of the house is used by a tenant to whom it is let out @ Rs. 3,000 p.m. and it was self occupied for one month during the previous year. The municipal rental value of the house is Rs.96,000 p.a. on which municipality levies 10% tax. These taxes are paid by the

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occupants. Compute net annual value of the house property of the previous year 2014-15 if each portion is an independent unit.

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

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

As per agreement rent increases to Rs.14,000 p.m from 1.10.2013. But amount of increased rent is paid in May 2013. Compute his income for the previous year 2016-17

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

Unit 1 : own residence

Unit 2 : let out

Unit 3 : own business

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

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

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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.

QUESTION	OPTION A
The maximum exemption of gratuity shall be -----	Rs. 2,40,000
The maximum exemption in case of leave encashment shall be-----	Rs. 2,40,000
compensation received on voluntary retirement is exempt u/s 10 (10c) to the maximum extent of -----	Rs. 2,40,000
Employers contribution to statutory provident fund shall be -----	fully exempt
Interest credited to Statutory provident fund shall be -----	fully exempt
Employer contribution to Recognized provident fund shall be -----	fully exempt
Interest credited to Recognized Provident fund shall be -----	Fully exempt
Employer contribution to Unrecognized provident fund shall be -----	Fully exempt
Interest credited to unrecognized provident fund shall be-----	Fully exempt
Payment from statutory provident fund and public provident fund shall be-----	taxable
Pymment from Recognized provident fund after 5 years of service shall be-----	taxable
Pymment from Unrecognized provident fund before 5 years of shall be-----	taxable
The payment of Gratuity Act was passed in the year -----	1972
----- is a fixed monetary amount paid by employer to the employee for meeting some particular expenses.	Allowances

----- is determining on the basis of rising prices of commodities in general.	Dearness allowances
----- is given to compensate for the high cost of living in capital city.	Medical allowance
----- to cover the service of warden in the case of educational institutions.	Wardenship allowance
----- is given to meet the medical expenses of the employees and his family members.	Medical allowance
----- is given by the employer to the employee to meet the expenses in connection with rent of the accommodation.	House rent allowance
House rent allowance paid to the judge of supreme court is -----	fully exempt
Children education allowance is exempted upto ----- per child upto the maximum of two children.	Rs.100p.m
Hostel expenditure allowance is exempted upto ----- per child upto the maximum of two children.	Rs.100p.m
The amount of exemption for running flight allowance is -----	70% of such allowance or Rs 3,000 p.m
allowances received by an employer of UNO from his employer is -----	Fully taxable
While computing salary income deduction are allowed u/s -----	16
Salary due on last day of every month means -----	Last day of the respective month
In salary income all perquisites are given u/s-----	21(3)
Any benefit or amenity allowed by employer to employee is -----	allowance
Bonus received under some legal or contractual obligation is called -----	Statutory bonus
Provident fund governed by Provident fund Act 1925 is called as -----	Statutory Provident fund
Tiffin allowance is a -----	fully taxable allowance
Foreign allowance given to government employee posted abroad is -----	Fully exempted
Perquisites can be only in the form of -----	Monetary benefit
Lunch allowance is a -----	fully taxable allowance
Statutory limit u/s 16(ii) for deduction of entertainment allowance in case of Government employee is -----	Rs.5,000
Commutated value of pension is fully exempted in case of -----	Govt. Employee

Medical allowance received by an employee is ----- allowance	fully taxable
Any compensation received by an employee from his employer at the time of termination of employment is known as -----	allowances
Reduction admissible from tax liability is known as -----	exemption
While computing the exemption limit for House rent allowance , the term salary means-----	basic pay only
The value of rent free accommodation in case of non-government employee, if population is more than 25 lakhs means-----	20% of salary
15 days average salary for gratuity is equal to amount multiplied by-----	15/24
While computing house property income, deduction for interest on loan for the previous year 2015-16 u/s 24 is -----	fully allowed
Annual rental value minus municipal taxes = -----	Gross rental value
Allowable standard deduction from net annual value u/s 24 is -----	30%
In house property income , joint expenses will be apportioned on the basis of -----	FRV
Income received as rent from sub letting would be taxable under the head -----	Other sources
House used for the assesses own business, then the annual value is taken as -----	Let out property
If loan is taken for construction on or before 1-4-99 and construction is completed with in 3 years , the allowable deduction will be -----	Rs.30,000
Allowable deduction from self occupied house is -----	Interest on loan
Allowable deduction from net annual value for let out house property will be -----	Standard deduction
If the property used for own business then the net annual value will be -----	MRV
Commutated value of pension is fully exempted in case of ----- --	Govt. Employee
allowances received by an employer of UNO from his employer is -----	Fully taxable

While computing house property income, deduction for interest on loan for the previous year 2015-16 u/s 24 is -----	fully allowed
Proceeds of benefit match received by a cricket player are ----- ---	Professional income
Embezzlement of cash in a money lending business shall be treated as -----	business expenditure
The previous year means -----	The accounting period of the assessee
In case of company assessee control and management is situated in India means -----	Resident
Share of income from firms is ----- income	fully taxable

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UNIT - II

OPTION B	OPTION C	OPTION D	
Rs.2,50,000	Rs.3,50,000	Rs.10,00,000	
Rs.3,50,000	Rs.3,00,000	Rs.5,00,000	
Rs.3,50,000	Rs.5,00,000	Rs.7,50,000	
exempt upto 12% of salary	Exempt upto 10% of the salary	exempted upto 15% of salary	
Exempt upto 12% p.	exempt upto 9.5% p.a	exempted upto 15% of salary	
fully taxable	exempt upto 12% p.a	exempted upto 15% of salary	
fully taxable	exempt upto 9.5% p.a	Exempted upto 14% of salary	
fully taxable	exempt upto 12% p.a	Exempted upto 14% of salary	
fully taxable	exempt upto 12% p.a	Exempted upto 14% of salary	
fully exempt	Taxable to the extent of employers contribution and interest thereon.	partly taxable	
fully exempt	Taxable to the extent of employers contribution and interest thereon.	partially exempted	
fully exempt	Taxable to the extent of employers contribution and interest thereon.	partially exempted	
1927	1952	1955	
Perquisites	Basic salary	medical facility	

City compensatory allowances	Medical allowances.	uniform allowances	
City compensatory allowance	Dearness allowances.	lunch allowances	
Dearness allowance	Medical allowance	non – practicing allowances	
Uniform allowance	Daily allowance	lunch allowance	
City compensatory allowance	Medical allowance.	wardenship allowances	
fully taxable	partially taxable.	none	
Rs.200 p.m	Rs.300 p.m	RS. 400 pm	
Rs.200 p.m	Rs.300 p.m	Rs.400 pm	
70% of such allowance or Rs.10,000 p.m	fully exempted	Rs. 1500pm	
Fully exempt	partially taxable.	none	
18	19.	20	
first day of the month	every 15th of the month	every 10th of the month	
19(4)	17 (2)	18(3)	
Perquisites	Deductions,	rebate	
Gratuitous bonus	recognised bonus	unrecognised bonus	
Unrecognized provident fund	Public provident fun	Recognised provident fund	
Partially allowance	Fully exempted allowance.	not an allowances	
fully taxable	partially taxable	rebate	
Facilities	financial benefits	cash	
Partially allowance	Fully exempted allowance.	not an allowances	
Rs.7,500	25% of employee salary	50 % of salary	
an employee of private sector	an employee of a public sector undertaking.	all employees	

fully exempt	exempted upto the amount of actual expenditure incurred on medical treatment.	not taxable	
perquisites deduction	profit in lieu of salary. Rebate.	basic pay debat	
basic pay + DA(enters)	basic pay + DA(enters) + commission (fixed %)	all allowances	
15 % of salary	7.5 % of salary	10% of the salary	
15/26	15/30	15/28	
Partially allowed	fully taxable	partially taxable	
Net annual value	Fair rental value	MRV	
40%	50%	60%	
ARV	MRV	ERV	
House property	Business income	Capital gain	
nil	Self occupied property.	full	
Rs1,50,000	Rs.1,80,000	Rs.1,50,000	
Standard deduction	Joint expenses	loan from house property	
pension	gratuity	entertainment allowance	
FRV	Actual rent received	Nil	
an employee of private sector	an employee of a public sector undertaking.	all employees	
Fully exempt	partially taxable.	none	

Partially allowed	fully taxable	partially taxable	
A casual income	An exempted income	not an income	
Revenue loss incidental to business	capital expenditure	receipt	
financial year before the assessment year	Calendar year before the assessment year .	next year	
Not ordinary resident	Non resident	citizen	
fully exempted	partially taxable	partially exempted	

ANSWER
Rs.3,50,000
Rs.3,00,000
Rs.5,00,000
fully exempt
fully exempt
exempt upto 12% of salary
exempt upto 9.5 % of salary
fully exempt
fully exempt
fully exempt
taxable to the extemt of empyers contribution and interest thereon
fully exempt
1972
allowance

dearness allowance
city compensatory allowance
warship allowance
medical allowance
house rent allowance
fully exempt
Rs.100 p.m.
Rs.300 p.m.
70% of such allowance or Rs.6,000 p.m.
fully exempt
16
last day of the respective month
17(2)
perquisites
statutory bonus
Statutory provident fund
fully taxable allowance
fully exempt
facilities
fully taxable allowance
Rs.5,000
Govt. Employee

fully taxable

profit in lieu of salary

rebate

Basic pay + DA(enters)+commission (Fixed%)

15% of salary

15/26

fully allowed

Net annual Value

30%

MRV

other sources

Nil

Rs.30,000

Interest on loan

Standard deduction

Nil

Govt. Employee

fully exempt

fully allowed
a casual income
revenue loss incidental to business
financial year before the assessment year
resident
fully exempted

UNIT III

Computation of Income under Different Heads-II

Computation of Income under Different Heads-II:

Profits and gains of business or profession; Capital gains; Income from other sources

Computation of Income under different heads-2

Profits and gains of business or profession; Capital gains; Income from other sources

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

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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.
(section 28)

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;

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- 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 under the
- 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 any 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.

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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.

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

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

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

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

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

Speculative Transactions and Taxability of Speculation Business

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

Deduction In Respect Of Losses Incidental to Business

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

- (a) Loss should be real in nature and not notional or fictitious;
- (b) It should be a revenue loss and not capital;
- (c) Loss should have resulted directly from carrying on of business i.e. it should be incidental to business;
- (d) Losses should have actually occurred during the previous year;
- (e) There should be no direct or indirect restriction under the Act against the deductibility of such loss. E.g. Loss of stock-in-trade on account of fire, embezzlement/theft of cash in course of business, or loss on account of advances/guarantees granted during course of business, are admissible in the computation of taxable income on the basis of common principles of accounting and commercial expediency.

Amounts expressly 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 as 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

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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.

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

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

- (a) A sum equal to the amount so deposited or
- (b) 40% of the profits from such business (before making deduction under this section and before setting off brought forward business losses) whichever is less.

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

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

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

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

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

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

Expenditure on scientific research (section 35)

The word 'Scientific Research' has been defined as 'an activity for the extension of knowledge in the fields of natural or applied sciences including agriculture, animal husbandry

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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

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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.

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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)

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- 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

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- 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 from house property let
- Capital gain
- Dividend
- Bank interest
- Winning from lotteries
- Race course

Taxable business income

xxxx

COMPUTATION 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

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Professional receipts

- Consultation fees
- Operation fees
- Visiting fees
- Sale of medicines
- Gift 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

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- 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

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Total professional receipts

Less: Professional expenses

- Office expenses
- Salary of staff
- Cost of 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 structures100%

(II) Furniture And Fittings:

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

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(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 Blocks15%

(6) Ships and vessels20%

(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 refills50%

(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 Works80%

(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 nature25%

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

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

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’

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

Municipal taxes on house property let out

Rs:3,000 Bad debt written off Rs:15,000

Provision for bad and doubtful debts Rs: 16,000

Provision for taxation Rs: 15,000

Depreciation Rs: 25,000

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

Compute taxable business profit.

Solution:

Computation of income from business

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

Illustration:2

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

PROFIT AND LOSS ACCOUNT

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

Solution:

Computation of income from business for the A Y 2017-18

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Net Profit as per P&L Account		1,11,500	
Add : Expenses Disallowed:			
Household expenses	2,000		
Income tax	900		
Gift	900		
LIC Premium	2,100		
Bad debt reserve	800	6,700	
Income from business		1,18,200	

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Illustration:3

Dr. Biju is a medical practitioner in Mahe. From the following, calculate his income from profession for the AY 2017-18

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

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municipal tax=30% of MRV ; Repairs Rs:10,000 ; and renovation expenses Rs:30,000.	
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Solution:

Computation of income from profession for the AY 2017-18

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

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Illustration:4

The following is the Receipts and Payments account of Mr. Akhilesh, a practicing Chartered Accountant for the year ended 31-03-2017:

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

Loan from bank was taken for the construction of the house in which he lives. MRV of the house is Rs: 8,000 and the local taxes Rs: 800 p.a. One-fourth of travelling expenses are not allowable. Compute income from profession for the A Y 2017-18

Solution:

Computation of income from business for the AY 2015-16

Particulars	Rs:	Rs:
Audit Fees	19,210	
Consultation Fee	10,000	
Tribunal appearance	15,000	
Miscellaneous	20,000	

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Presents from clients	10,000	74,210
Less: Allowable Expenses:		
Office expenses	10,000	
Office rent	5,000	
Salaries and wages	12,050	
Printing and stationery	1,000	
Subscription	3,000	
Purchase of books (100% depreciation)	1,300	
Travelling expenses (5,800 x $\frac{3}{4}$)	4,350	36,700
Income from Profession		37,510

Illustration:5

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

W.D.V. on 01-04-2015 Rs: 14,00,000 Additions made on 01-06-2012 Rs:

6,00,000

Rate of depreciation 10%

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

Solution:

Computation of Depreciation

Factory building : W.D.V on 1-4-2014

Rs: 14,00,000

Additions made on 1-6-2014

Rs: 6,00,000

Rs: 20,00,000

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

Amount received from the sale of scrap

Rs:10,000

Rs: 70,000

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

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

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Illustration:6

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

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

Solution:

Computation of Depreciation

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

Illustration:7

From the following Profit and Loss Account of a Merchant for the year ending 31st March, 2017. Compute his income from business and his total income for assessment year 2017-18

Profit and Loss Account

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To Trade expenses	700	By Gross Profit	35,200
To Salary	2,500	By Dividend from a	
To Rent, Rates and Taxes	2,400	Cooperative Society	3,000
To Income-tax	1,400	By Income from Property	850
To Discount and allowance	300	By Interest from Government	
To Household expenses	2,000	Securities (gross)	2,000
To Life Insurance Premium	1,000		
To Interest on Capital	500		
To Interest on loan	700		
To Advertisement	800		
To Postage and Telegram	50		
To Audit Fee	200		
To Provision for gratuity	4,000		
To Fire Insurance Premium	730		
To Provision for bad debts	2,000		
To Provision for Income-tax	1,800		
To Depreciation	4,000		
To Net Profit	15,970		
	41,050		41,050

Computation of Total Income for the Assessment Year 2017-18

Income from house property:

– Income from property	850	
Less: 30% under Section 24	(255)	
Income from house property		595

Income under the head Business

Net Profit	15,970
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Add: Inadmissible items:

– Income tax	1,400
– Household Expenses	2,000
– Life Insurance Premium	1,000
– Interest on Capital	500
– Provision for gratuity	4,000
– Provision for bad debts	2,000
– Provision for Income-tax	1,800

Less: Income to be shown separately:

– Dividends from a cooperative society	3,000
– Income from property	850
– Interest from Government Securities	2,000

Taxable Profits from Business	22,820
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Income from other sources:

Dividends from cooperative society	3,000
Interest from Government Securities	2,000
Income from other sources	5,000

<i>Gross Total Income:</i>	28,415
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Notes:

1. Provision for gratuity is not admissible. However, payment of actual gratuity is allowed.
2. It is assumed that income from property is by way of rent received and as per the provision of Section 24 of the Act, thirty percent thereof has been deducted as repair allowance

CAPITAL GAINS

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

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

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

Exclusions —

- a. Stock-in-trade
- b. Personal effects of the assessee i.e., personal use excluding jewellery, costly stones, silver, gold
- c. Agricultural land in a rural area i.e., an area with population more than 10,000.
- d. 6½% Gold Bonds, 1977 or 7% Gold Bonds, 1980 or National Defence Bonds, 1980 issued by the Central Government
- e. Special Bearer Bonds, 1991 issued by the Central Government.
- f. Gold Deposit Bonds issued under Gold Deposit Scheme 2000

Kinds of capital assets

There are two kinds of capital assets

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

- a. Quoted or unquoted equity or preference shares in a company
- b. Quoted Securities
- c. Quoted or unquoted Units of UTI
- d. Quoted or unquoted Units of Mutual Funds specified u/s. 10(23D)

e. Quoted or unquoted zero coupon bonds

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

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

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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

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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.

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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 1st 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 fair 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 fair 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

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.

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

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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 takes 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.

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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

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

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

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

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

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

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

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

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Investment in Financial Assets (Section -54 EC)

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

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

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

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

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

Investment into a residential house (Section 54F)

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

Cost of New House X Capital Gains

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Amount of exemption = -----
Net Consideration

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

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

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

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

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

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

1. The transfer is affected in the course of or in consequence 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

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

Exemption of LTCG is given to the extent of the outlay for aforesaid asset and activities.

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

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

h) Shifting of an industrial undertaking from urban area to any Special Economic Zone (Sec54GA) Capital gain arising out of shifting of industrial undertaking from urban area to any Special Economic Zone are exempt if 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 within 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.

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

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

1. The assessee utilizes the net consideration for subscription in equity shares of an eligible company before the due date of furnishing the return of income. If he invests less than the net consideration in equity shares, the proportionate capital gains shall be exempt.
2. The company utilizes the money within one year from the date of subscription in equity shares
3. If the company does not utilize the consideration, received for issue of shares to the assessee, for purchase of new plant and machinery before the due date of furnishing return of income by the assessee, the consideration not so utilized shall be deposited in specified banks or institution in notified scheme.

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

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

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

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

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

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

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

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

In case the shares / securities are transferred in demat' form, for computing capital gain

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chargeable to tax, the cost of acquisition and period of holding of any security shall be determined on First in – First - out (FIFO) basis.

Illustration:1

Mr. Vishal sold his residential house for Rs:4,50,000 in November, 2016. Indexed cost of this house was Rs: 1,80,000. He paid 3 % of sale as commission to broker. He purchased another house on 26th January, 2013 for Rs:2,00,000. Compute his capital gains for the AY 2017-18

Solution:

Computation of capital gains for the AY 2017-18

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

Illustration:2

Mr. Irfan provides you the following information to the sale of residential house. Calculate his capital gain for the AY 2017-18

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

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

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

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

The Cost Inflation Index in 1988-89 was 161 and for 2016-17 was 1125

Solution:

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Computation of capital gains for the AY 2017-18

Particulars	Rs:	Rs:
Sale of asset in August,2012		30,00,000
Less: Indexed cost of acquisition($483000 \times 852/161$)		25,56,000
Capital Gain		4,44,000
Less: Exemption u/s 54 being cost of house purchased within one year	2,00,000	
Exemption u/s 54EC	1,00,000	3,00,000
Taxable Capital Gain		1,44,000

Illustration:3

Mr. Anandamurthy showed his block of assets as on 1-4-2012 at a WDV of Rs:1,50,000. He purchased another asset within the block during the year 2012-13 for Rs:40,000. The entire block of assets is sold during the previous year for Rs:2,00,000. Calculate capital gain for the assessment year 2017-18

Solution:

Computation of capital gains for the AY 2017-18

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

Illustration:4

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Mr. Varma purchased a plot in 1986-87 for Rs: 1,40,000. It was sold on 15-1-2013 for Rs:15,80,000 and he paid Rs:1,00,000 as brokerage. He invested Rs:2,00,000 in NHAI bonds on 31-3-2013 and Rs: 3,10,000 in bonds issued by Rural Electrification Corporation Ltd. on 1-8-2013. Compute his taxable capital gain, if the CII for 1986-87 was 140 and for 2016-17 is 1125

Solution:

Computation of capital gains for the AY 2017-18

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

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

Illustration:5

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

Solution:

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Computation of capital gains for the AY 2017-18

Particulars	Rs:	Rs:
Selling price of agri. land		7,20,000
Less: Indexed Cost (75,000 x 852/125)		5,11,200
LTCG		2,08,800
Less: Cost of new agri. land	80,000	
Deposit in Capital Gains Account	50,000	1,30,000
Income Tax Law and Practice Taxable Capital Gains		78,800

Illustration:6

From the following information of Narayanamurthy, compute the capital gains for the AY 2016-17

Cost of acquisition of residential house in 1983-84

Rs:3,48,000. Sale consideration on 01-07-2012 Rs: 31,00,000.

Cost of acquisition of new house prior to the date of filing the IT return

Rs:8,00,000. The CII in 1983-84 and in 2012-13 was 116 and 852 respectively.

Solution:

Computation of capital gains for the AY 2017-18

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

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Taxable Capital Gains	Nil
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Illustration:7

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

Solution:

Computation of Capital Gains for the AY 2017-18

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

INCOME FROM OTHER SOURCES

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

The following incomes are chargeable to tax:-

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

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

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

Any immovable property (i) without consideration, the stamp value of which exceeds Rs 50,000- the stamp duty is taxable.(ii) for a consideration which is less than the stamp duty value of the property by an amount exceeding Rs 50,000- the stamp duty is taxable

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.

Unlike above, if more than one transaction of Gift, below Rs 50,000, than they shall not be

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

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

4. Movable property transferred for inadequate consideration: If difference between actual consideration and fair market value is more than Rs 50,000, all transactions of one financial year combined together, then the difference is fully taxable. If difference is up to Rs 50,000, then 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 section 10(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:

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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.

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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.

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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 name 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].

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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.

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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.

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Bond washing transaction

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

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

Grossing up of Interest:

Interest is paid after TDS at following rates:

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

Listed / Non listed securities: 10%

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

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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

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- e. National Plan Savings certificates
 - f. Post Office National Savings Certificates
 - g. Post Office Savings Bank Account
 - (i) Individual account – maximum exemption limit Rs 3,500
 - (ii) Joint account – maximum exemption limit Rs 7,000
 - 2. Interest on National Relief Bonds (only for individual and HUF)
 - 3. 7% Capital Investment Bonds (only for individual and HUF)
 - 4. Interest 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. Interest 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 1/3 per cent of such income, whichever is less.

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

DEDUCTIONS AGAINST INCOME FROM OTHER SOURCE U/S 57

- a. commission or remuneration for realising dividend or interest on securities – Section 57(i)
- b. Repairs, depreciation in case of letting out of plant, machinery, furniture, building etc.
- c. Standard deduction in case of family pension – 57(iia)
- d. Any other expenditure of revenue nature [57(iii)]
- e. Interest on borrowed capital [loan taken to invest in shares/ debentures etc.]

Illustration:1

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Mr. S.B.Singh, a College Professor, furnished the following particulars. You are required to compute income from other sources:

Examination remuneration Rs: 7,000 Royalty from books and articles Rs: 25,000

Winnings from card games Rs: 6,700 Winnings from State lottery Rs: 30,000

Expenditure on purchase of lottery tickets Rs: 12,000.

Solution:

Computation of Income from Other Sources For the AY 2017-18

Particulars	Rs:
Examination remuneration	7,000
Royalty from books and articles	25,000
Winnings from card games	6,700
Winnings from State lottery	30,000
Income from other sources	68,700

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Illustration :2

Compute income from other sources:

Dividend (Gross) Rs:9,600

Expenses incurred for its collection Rs: 500

Receipts from letting of plant and machinery Rs: 10,000

Repairs of Plant and Machinery Rs: 4,000

Insurance premium in respect of plant and machinery Rs: 2,000

Depreciation allowed for letting Rs:4,000

Solution:

Computation of Income from Other Sources For the AY 2017-18

Particulars	Rs:	Rs:
Receipts from letting of P&M		10,000
Less: Admissible expenses:		
Repairs of P&M	4,000	
Insurance premium in respect of P&M	2,000	
Depreciation allowed for letting	4,000	10,000
Income from other sources		Nil

Illustration:3

From the following particulars submitted by Sri. Mani Shankar Iyer, compute his income from other sources for the AY 2017-18

As Director of ABC Ltd. he received Rs: 12,000 p.m. as salary and Rs:1,200 p.m. as entertainment allowance. The company provides him a car for both official and personal use. The personal use is estimated to be 50%. The company incurs an expenditure of Rs:16,000 on

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running and maintenance of the car {for both official and personal use) and depreciation of the car may be taken as Rs: 14,000. He was also a Director in another company from which he received Rs: 13,000 as Director's fee. Interest received on deposits with a Co-operative bank limited Rs:2,000. Dividend received from a foreign company Rs: 6,000. Received winnings from lottery Rs: 24,500 Income from agricultural land in England Rs: 78,000. Honorarium for delivering lectures in a registered society Rs:1,200.

Solution:

Computation of Income from Other Sources For the AY 2017-18

Particulars	Rs:
Director's fee	13,000
Interest on deposits with Co-operative Bank	2,000
Dividend from a foreign company	6,000
Winnings from lottery (24500 X 100/70)	35,000
Agri. Income from England	78,000
Honorarium for Lectures	1,200
Income from other sources	1,35,200

Illustration:4

Compute income from other sources of Mr. Ajayakumar for the AY 2017-18 His investments are

5% govt. securities Rs: 70,000

7.5% Agra Municipal Bond Rs: 50,000

9% debentures of a company Rs:30,000

Solution:

Computation of Income from Other Sources For the AY 2017-18

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Particulars	Rs:
Interest on Govt. Securities (70,000 x 5%)	3,500
Interest on Agra Municipal Bond (5,000 x 7.5 %)	3750
Interest on debentures (30,000 x 9%)	2,700
Interest on Capital Investment Bond	Exempt
Income from Other Sources	9,950

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Illustration:5

The following are the details relating to Mr. Siddharth for the P.Y. 2015-16. Compute income from other sources: Income from agriculture in Pakistan Rs: 5,000 Interest on post office savings bank Rs: 1,000 Dividend from foreign company Rs: 700 Dividend from Indian company Rs: 1,000 Rent from sub-letting house Rs: 26,250 Expenses for sub-letting house Rs: 1,000 Winning from lottery (Net) Rs: 14,000

Solution:

Computation of Income from Other Sources For the AY 2017-18

Particulars		Rs:
Income from agriculture		5,000
Interest on P.O.S.B.		Exempt
Dividend from foreign company		700
Dividend from Indian company		Exempt
Rent from sub-letting house	26,250	
Less: Expenses	1,000	25,250
Winnings from lottery (14,000 x 100/70)		20,000
Income from Other Sources		50,950

POSSIBLE QUESTIONS

PART A

MULTIPLE CHOICE QUESTIONS

ONLINE EXAMINATION

PART B

1. What are disallowed expenses while computing Professional income?
2. Write down the format to compute professional gain of a medical practitioner?

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3. Bring out the general format for computing the professional gain of an advocate.
4. What are allowable expenses under the head profits and gains of business or profession?
5. List the disallowed income under the head profits and gains of business or profession.
6. Give the specimen for computation of business income.
7. List the general income under the head income from other sources
8. Write down the provisions regarding gift under the head income from other sources.

PART C

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		

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To Interest on capital	2,000	
To Net profit	<u>22500</u>	
	<u>45300</u>	<u>45300</u>

Compute the taxable profits from business. The amount of depreciation is Rs.1,000 Interest on loan .was paid on 1.8.2017 Due date of filing of return is 31.7.2015.

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	98,000
To Telephone installation Charges	15,000	service	
To Electricity bill	4,200	By Dividend from Indian	
To Salary to staff	66,000	companies (Gross)	6,00
To Stipends given to Trainees	12,000	By Dividend on units of	
To Charities	1,200	UTI	4,000
To Gifts given to relatives	9,600	By Accountancy works	24,000
To Car expenses	21,000		

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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			
Equipments	6,000		
To purchase of medicine	36,000		

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To Depreciation on X- Ray Machine	4,000
To income Tax	5,500
To Donation	4,000
To Motor car expenses	9,600
To depreciation car	4,800
To Net Income	93,100

2,47,000

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 ending 31-3-2017. 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

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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		
	<u>90,900</u>		<u>90,900</u>

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 .S.Rangnathan.

	Rs		Rs
To Salaries	90,000	By Gross Profit	3,50,000

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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		
	<u>3,59,600</u>		<u>3,59,600</u>

- (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 31-3-2016 is Rs. 2,000.

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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
	<u>1,23,240</u>		<u>1,23,240</u>

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- (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		

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Net Profit 39,000

1,66,000

1,66,000

General expenses include Rs. 4,000 paid as compensation to an old employee whose services were terminated in the interest of the business and Rs.2,200 by way of help to a poor student. Depereciation calculated according to the rates comes to Rs. 2,900. Sales tax was paid on 1-5-2011. Date of filing of returns is 31-7-2016. 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

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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
	<u>1,23,240</u>		<u>1,23,240</u>

(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	By rent from house property	4,800
To entertainment expenses	600	By interest on commercial	2,000
To commission paid to			

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collect	25	securities	
interest on securities	1,000		
To embezzlement by cashier	600		
To municipal tax on HP	450		
To bad debts allowed	1,625		
To repairs to house	9,180		
To office expenses	5,000		
To depreciation	1,320		
To LIC premium	40,100		
To net profit			
	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 2017-18 :

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

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To depreciation	4,000	By dividend on shares	8,000
To advertisement	5,000	By dividend on units of	5,000
To income tax appeal	11,000	UTI	
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

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19. 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: 1125)for Rs 50,000 (W.D.V on 1-4-2011 Rs 35,000)	Rs. 60,000
(iii) Machinery purchased on 1-5-2015 for Rs 10,000	Rs. 12,000

Compute the capital gain.

20. Sale price of jewellery in Oct. 2016 (C.I.I. : 1024) Rs. 22,00,000

Cost fo acquisition in 1983-84 (C.I.I:116) Rs. 3,00,000

Amount invested in construction of new house up to 31-7-2011 Rs. 4,00,000

Amount deposited in Capital Gain Deposit Scheme for Completing the construction of house
(Deposited in 27-6-2012) Rs 12,00,000

- Compute the taxable capital gain assuming that he does not own any other house.
- Compute deemed capital gain if he is able to invest Rs. 10,00,000 out of amount deposited in Capital Gain Deposit Scheme?

21. 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.

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22. Explain the exempted capital gain u/s 54 and u/s 10 of Income tax Act 1961.

23. 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 2016-17 previous year and in this process sold some of assets whose details are given below:

Asset Acquired in	P& M	Land	Building
	(1987)	(June 1983)	(1987)
	Rs	Rs	Rs
Sale proceeds	10,00,000	7,00,000	12,00,000
W.D.V. on 1-4-2010 [cost u/s 50(2)]	4,40,000	-	7,32,500
Cost of acquisition	6,000	1,00,000	10,00,000
Amount invested during Dec.2013			
due to shifting	8,00,000	2,00,000	5,00,000

Compute the taxable Capital Gain for the Previous year 2015-16 if [C.I.I f or 1983-84 is 116; 86-87: 140 and 2016-17 is 1125]

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24. Mr. H submits the following particulars about sale of assets during the year 2016-17

Asset	Jewellery	Plot	Gold
	Rs	Rs	Rs
Sale Price	4,50,000	17.24,000	3,00,000
Expenses on sale	NIL	24,000	NIL
Cost of acquisition	50,000	2,00,000	80,000
Year of acquisition	1987-88	1984-85	1999-2000
C.I.I	150	125	389

He has purchased house for Rs 12,00,000 on 1-3-2015. Calculate the amount of taxable capital gain if C.I.I for 2016-17 is 1125

25. 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

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FMV on 1-4-81		Rs.1,00,000		
Sale Price	2,60,000	13,00,000	6,00,000	10,00,000

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

26. 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 1-6-2016;
- (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 1-11-2016;
- (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 1-12-2016;
- (vi) Received Rs 1,60,000 as gift from his non- resident friend on 1-2-2016.

27. From the following information compute the income from other sources for the previous year 2016-17:

- (i) Card games loss Rs. 12,000.
- (ii) Form the activity of owning and maintaining horse for race purposes
 - a. Loss at Bombay Rs. 40,000
 - b. Profit at Bangalore Rs. 20,000.
- (iii) Dividend (Gross) from Indian Companies Rs.6,000.

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(iv) Betting in Horse races Rs.4,000.

28. 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.

29. Mr.G.Bedi owns horses at Bombay and Bangalore. 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 Bangalore 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 1-7-2016 on betting during horse races at Bombay. Compute his taxable income under other sources.

30. Harikrishnan a resident individual submits the following particulars of income for the previous year ending March 31 2017.

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Dividend from REC international Ltd Rs.4,800. Dividend declared on 16.05.2013 by Sundasram Finance Ltd Rs.2,700, interest paid on capital borrowed for the purpose of investment in share of Sundaram Finance Ltd Rs.4200. Collection charges in respect of dividend Rs.50.

Winning from lottery: Net amount Rs.70,000. TES Rs.30,000 Winning from card games Rs.23,500. Interest on securities issued by the government of Singapore Rs.20,570.

Determine the income chargeable under the head income from other sources for the previous year 2016-17.

31. 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

QUESTION	OPTION A
The accounting system under which transactions are recorded on the basis of receipts and payments whether it is relating to current year or not is called -----	Mercantile system
Expenditure incurred for acquiring fixed assets is -----	Capital expenditure
Expenditure incurred to carry out the regular activities is -----	Capital expenditure
Expenses allowed as deduction for the purpose of computation of income from business or profession are -----	Admissible expenses
Expenses not allowed as deduction for the purpose of computation of income from business or profession -----	Admissible expenses
Income tax wealth tax and advance income tax are -----	disallowed expenses
Cultivation expenses are -----	disallowed expenses
Expenditure incurred for acquiring know-how and patents shall qualify for depreciation @ -----	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%
While computing business income speculation loss is -----	Allowed expenditure
In a business if any payment more than Rs.20,000 is made in cash the disallowed deduction will be -----	25%
Patent right is -----	Tangible asset
Profit on sale of license is taxable under the head-----	Profits and gains of business or profession
Any expenditure incurred to acquire technical know-how developed in India by an approved institution can be depreciated @-----	20%
Amount of expenditure incurred on or after 01.04.1998 on preliminary expenses cannot exceed----- of the cost of project	2%
copy right is -----	Tangible asset
Depreciation is allowed on professional books -----	100%
Consultancy fee received by a lawyer is ----- income	Taxable
All those assets to which one rate of depreciation is applicable are known as -----	Block of assets

The actual cost of acquisition of asset minus depreciation equal to -----	WDV
Balance amount of depreciation not deductible due to insufficiency of income during any particular year is called -----	Absorbed depreciation
In case of doctor gift from patients are -----	Professional receipt
While computing business income , all personal expenses are -----	allowed expenses
Amount given to university for research allowed @ -----	100%
Rate of depreciation on neon sign board is @ -----	10%
Which is an activity of purchase and sell of goods with the intention of profit?	Business
Which is an occupation requiring intellectual skill?	Business
Which includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture.	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
Expenses, which are not debited, to profit & loss a/c but which are allowed by the Income Tax Act are -----	Added
Income that is credited to profit & loss a/c but not taxable at all or taxable under some different head is to be-----	Added
Income that is not credited to profit & loss a/c, but which is chargeable to tax as business income is to be -----	Added
Under Section ----- following are the income chargeable to tax	25
Profits and Gains of any business or profession that is carried on by the assessee at any time during the -----	assessment year
While determining the depreciation on fixed assets ----- value is taken into consideration	Straight line
Rate of additional depreciation is charged at -----	10%
disallowed expenses under business income Is -----	income tax
. Fines and penalties for breach of any laws are -----	Allowed expenditure
Personal Drawings under business income is -----	Allowed expenditure
Household expenses under business income is -----	Allowed expenditure
----- refers to those activities where the livelihood is earned by the person through their intellectual or manual skill.	Business
Profits and gains of business or profession is chargeable u/s ----- of Income tax act.	24-28
Rate of depreciation on neon sign board is @ -----	10%
Rate of depreciation on residential building is @ -----	5%

An example for admissible expense is	sales tax
An example for inadmissible expense is	personal expenses
The income relating to business is called -----	Allowed expenditure
The incomes not related to business are	bad debts recovered
Rate of depreciation on furniture and fittings is @ -----	5%
Rate of depreciation on computers is @ -----	20%
Rate of depreciation on books used for business or profession is @ -----	20%
Rate of depreciation on commercial building is @ -----	5%
Which includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture.	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
Expenses not allowed as deduction for the purpose of computation of income from business or profession -----	Admissible expenses
Proceeds of benefit match received by a cricket player are -----	Professional income
Embezzlement of cash in a money lending business shall be treated as -----	business expenditure
The previous year means -----	The accounting period of the assessee
In case of company assessee control and management is situated in India means -----	Resident
Share of income from firms is ----- income	fully taxable

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UNIT - III

OPTION B	OPTION C	OPTION D	
cash system	Credit system	debit system	
Revenue expenditure	Deferred revenue expenditure	not an expenditure	
Revenue expenditure	Deferred revenue expenditure	not an expenditure	
Inadmissible expenses	Not an expenses	admissible income	
Inadmissible expenses	Not an expenses	admissible income	
Allowed expenses	Deductions	rebate	
Allowed expenses	Deductions	rebate	
25%	30%	40%	
50%	75%	100%	
Disallowed expenditure	Not an expenditure.	None	
30%	75%	100%	
Intangible asset	An allowance	fixed asset	
House property	Capital gain	other sources	
25%	30%	40%	
4%	5%	7%	
Intangible asset	An allowance	fixed asset	
50%	60%	40%	
Non- taxable	Not a fee	exempted	
Exempted assets	Deductable assets	total assets	

Annuity value	Block of assets	exempted assets	
unabsorbed depreciation	Total depreciation	depreciation	
Business receipt	Trade receipts	not a receipt	
disallowed expenses	deduction	rebate	
125%	150%	175%	
15%	20%	40%	
Profession	distribution	supplier	
Profession	distribution	supplier	
Profession	distribution	supplier	
deduct	multiply	divide	
deduct	multiply	divide	
deduct	multiply	divide	
deduct	multiply	divide	
26	27	28	
financial year	fiscal year	previous year	
written down	annuity	sinking fund	
20%	30%	40%	
sales tax	excise duty	customs duty	
Disallowed expenditure	allowed income	disallowed income	
Disallowed expenditure	allowed income	disallowed income	
Disallowed expenditure	allowed income	disallowed income	
Trade.	Profession	commerce	
28-44	30-48	42-50	
15%	20%	40%	
10%	15%	20%	

income tax	wealth tax	advance income tax	
sales tax	excise duty	customs duty	
Disallowed expenditure	allowed income	disallowed income	
commission received	sales tax refund	house property	
10%	15%	20%	
40%	60%	80%	
40%	60%	80%	
10%	20%	30%	
Profession	distribution	supplier	
deduct	multiply	divide	
Inadmissible expenses	Not an expenses	none	
A casual income	An exempted income	not an income	
Revenue loss incidental to business	capital expenditure	receipt	
financial year before the assessment year	Calendar year before the assessment year .	next year	
Not ordinary resident	Non resident	citizen	
fully exempted	partially taxable	partially exempted	

ANSWER
Mercantile system
capital expenditure
Revenue expenditure
admissible expenses
inadmissible expenses
disallowed expenses
disallowed expensed
25%
100%
disallowed expenditure
100%
Intangible asset
house property
25%
2%
Intangible asset
60%
taxable
block of assets

WDV
absorbed depreciation
Professional receipt
Disallowed expenses
175%
10%
Business
profession
business
add
deduct
deduct
added
28
previous year
written down
20%
income tax
Disallowed expenditure
Disallowed expenditure
disallowed expenditure
Profession
28-44
10%
5%

sales tax
personal expenses
allowed income
house property
10%
60%
60%
10%
business
add
admissible expenses
a casual income
revenue loss incidental to business
financial year before the assessment year
resident
fully exempted

UNIT IV

Computation of Total Income and Tax Liability:

Computation of Total Income and Tax Liability:

Income of other persons included in assessee's total income; Aggregation of income and set-off and carry forward of losses; Deductions from gross total income; Rebates and reliefs
Computation of total income of individuals and firms; Tax liability of an individual and a firm;
Five leading cases decided by the Supreme Court

TOTAL INCOME

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

Total Income and the income which is so included is called Deemed Income. It is as per the provisions contained in Sections 60 to 64 of the Income Tax Act. For example: A purchased a house property in the name of his wife B. A let out this house property. The rental income earned by A in name of his wife B is taxable in the hands of A.

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.

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 an individual , 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 such asset 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 power in case of a company or is entitled to not less than 20% of the profits in case of a concern other than 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 wife 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 mean 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.

Aggregation of Income

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

Cash credits (sec 68)

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

Unexplained investments (sec 69)

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

Unexplained money, etc (Sec 69A)

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

explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, the money and the value of the bullion, jewellery or other valuable article may be deemed to be the income of the assessee for such financial year.

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

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

Unexplained expenditure, etc (69C).

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

Amount borrowed or repaid on hundi (69D.)

Where any amount is borrowed on a hundi from, or any amount due thereon is repaid to, any person otherwise than through an account payee cheque drawn on a bank, the amount so borrowed or repaid shall be deemed to be the income of the person borrowing or repaying the amount aforesaid for the previous year in which the amount was borrowed or repaid, 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 70 to 80 in respect of any short-term capital asset is a loss, the assessee shall be entitled to have the amount of such loss set off against the income, if any, as arrived at under a similar computation made for the assessment year in respect of any other capital asset.

(3) Where the result of the computation made for any assessment year under sections 70 to 80 in respect of any capital asset (other than a short-term capital asset) is a loss, the assessee shall be entitled to have the amount of such loss set off against the income, if any, as arrived at under a similar computation made for the assessment year in respect of any other capital asset not being a short-

However the following are the exceptions to the general rule.

(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 from 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 be set-off against income from any other head during the same year.

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

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

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

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

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

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

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

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

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

(iii) The loss may be carried forward and set-off against the income from business or profession

though not necessarily against the profits and gains of the same business or profession in which

the loss was incurred. However, a loss carried forward cannot, under any circumstances, be set-off against the income from any head other than “Profits and gains of business or profession”.

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

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

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

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

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

Also, it can only be set off against the income of only a speculation business. It may be observed that it is not necessary that the same speculation business must

continue in the assessment year in which the loss is set off. However, filing of return before the due date is necessary for carry forward of such a loss.

The following are the other important points regarding carry forward of business losses.

1. Losses of discontinued business of an industrial undertaking after reestablishment or revival. If on account of natural calamities the business of an industrial undertaking is discontinued; but revived within 3 years thereafter, the unabsorbed losses of the undertaking shall be carried forward and set off against the profit of the revived business or any other business up to a maximum period of 8 years.
2. Treatment of losses after succession takes place by inheritance : The loss incurred by the father in the course of carrying on his business can be carried forward and set off by his son , if he succeeds to the business of his father on account of his death.
3. Provisions relating to carry forward and set off of accumulated loss and unabsorbed depreciation allowance in amalgamation or demerger, etc 72A.

Losses in speculation business (sec 73)

- (1) Any loss, computed in respect of a speculation business carried on by the assessee, shall not be set off except against profits and gains, if any, of another speculation business.
- (2) Where for any assessment year any loss computed in respect of a speculation business has not been wholly set off under sub-section (1), so much of the loss as is not so set off or the whole loss where the assessee had no income from any other speculation business, shall, subject to the other provisions of this Chapter, be carried forward to the following assessment year, and
 - (i) it shall be set off against the profits and gains, if any, of any speculation business carried on by him assessable for that assessment year ; and
 - (ii) if the loss cannot be wholly so set off, the amount of loss not so set off shall be carried forward to the following assessment year and so on.

Losses under the head Capital gains (sec 74)

(1) Where in respect of any assessment year, the net result of the computation under the head Capital gains is a loss to the assessee, the whole loss shall, subject to the other provisions of this Chapter, be carried forward to the following assessment year, and

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

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

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

(2) No loss shall be carried forward under this section for more than eight assessment years immediately succeeding the assessment year for which the loss was first computed.

(3) In respect of allowance on account of depreciation or capital expenditure on scientific research, the provisions of sub-section (2) of section 72 shall apply in relation to speculation business as they apply in relation to any other business.

(4) No loss shall be carried forward under this section for more than eight assessment years immediately succeeding the assessment year for which the loss was first computed.

Illustration:1

The business income of an individual for the AY 2017-18 has been determined by the AO at Rs: 3,50,000. Later, it is found that he has not considered the following while determining the income: Depreciation for the current year Rs: 12,000

Unabsorbed depreciation carried forward Rs: 15,000

Unabsorbed business loss carried forward from AY 2011-

12 Rs: 3,000 Determine the total income for the AY 2017-18.

Solution:

Computation of Total Income for the AY 2017-18

Particulars	Rs:
Business income as determined by A O	3,50,000
Less: Current year's depreciation	12,000
	3,38,000
Less: Unabsorbed Business Loss of 2011-12	3,000
	3,35,000
Less: Unabsorbed Depreciation	15,000
Total Income	3,20,000

Illustration:2

From the following information of a trader, compute the gross total income for the AY 2017-18

- 1) Income from H.P. Rs: 2,50,000
- 2) Business Loss Rs: 60,000
- 3) Current year's depreciation Rs: 10,000
- 4) Business loss of preceding years Rs: 50,000
- 5) Unabsorbed depreciation of preceding years Rs: 30,000
- 6) STCG Rs:40,000
- 7) LTCG Rs: 50,000

Solution :

Computation of Total Income for the AY 2017-18

Particulars	Rs:	Rs:
Income from H.P.		2,50,000
Less: Business loss	60,000	
Current depreciation	10,000	
Unabsorbed depreciation	30,000	1,00,000

		1,50,000
LTCG	50,000	
Less: STCG	40,000	10,000
Gross Total Income		1,60,000

DEDUCTIONS FROM GROSS TOTAL INCOME

In computing the total income of an assessee, deductions specified under sections 80C to 80U will be allowed from his Gross Total Income. However, the aggregate amount of deductions under this chapter shall not, in any case, exceed the gross total income of the assessee.

Total Income =

Gross Total Income – Deductions under sections 80C to 80U.

These deductions are divided into two categories. They are:

- A. Deductions in respect of certain payments
- B. Deductions in respect of certain incomes.

Deductions in respect of certain payments

SECTION 80C: Deduction in respect of life insurance premia, deferred annuity, contributions to provident fund, subscription to certain equity shares or debentures, etc. Persons Covered: Individual /HUF.

Eligible Amount: Any sums paid or deposited in the previous year by the assessee —

1. As **Life Insurance premium** to effect or keep in force insurance on life of (a) self, spouse and any child in case of individual and (b) any member, in case of HUF.

(i). Insurance premium should not exceed 20% of the actual capital sum assured, if the policy is issued before 1-04-2012.

(ii). The qualifying amount of life insurance premium on the insurance policy issued

on or after 1-04-2012 shall not exceed 10% of the actual capital sum assured.

(iii). The qualifying amount of life insurance premium on an insurance policy issued on or after 1-04-2013 shall not exceed 15% of the actual capital sum assured if it is on the life of a person who is (a) a person with disability or a person with severe disability or (b) suffering from decease or ailment specified u/s 80DDB.

2. To effect or keep in force **a deferred annuity contract** on life of self, spouse and any child in case of individual. Such contract should not contain a provision for cash payment option in lieu of payment of annuity.

3. By way of **deduction from salary payable by or on behalf of the Government** to any individual for the purpose of securing to him a **deferred annuity** or making provision for his spouse or children. The sum so deducted does not exceed 1/5th of the salary.

4. As contribution (not being repayment of loan) by an individual to **Statutory Provident Fund**; i.e., any provident fund to which the Provident Funds Act, 1925, applies.

5. As contribution to **Public Provident Fund** scheme, 1968, in the name of self, spouse and any child in case of individual and any member in case of HUF.

6. As contribution by an employee to a **recognized provident fund**.

7. As contribution by an employee to an **approved superannuation fund**.

8. any subscription to any such security of the central government or any such deposit scheme which is notified by the central govt.

9. Any sum deposited in a **10 year or 15 year account under the Post Office Savings Bank (CTD) Rules, 1959**, in the name of self and as a guardian of minor in case of individual and in the

11. As a contribution to Unit-linked Insurance Plan (ULIP) of UTI or LIC Mutual Fund (Dhanraksha plan) in the name of self, spouse and child in case of individual and any member in case of HUF.

12. To effect or to keep in force a contract for such annuity plan of the LIC (i.e., Jeevan Dhara, Jeevan Akshay and their upgradations) or any other insurer as referred to in by the Central Government.

13. As subscription to *any units of any Mutual Fund* referred u/s. 10(23D) (*Equity Linked Saving Schemes*).
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 **five year term deposit** in an account under the **Post Office Time deposit Rules, 1981**.

Extent of Deduction: 100% of the amount invested or Rs. 1,00,000/- whichever is less. However, as per Section 80CCE, the total deduction the assessee can claim u/ss. 80C, 80CCC and 80CCD(1) shall be restricted in aggregate to Rs. 1,00,000/-.

SECTION 80CCC- Deduction In Respect of Contribution to Certain

Pension Funds Persons Covered- Individual.

Eligible Amount- Deposit or payment made to LIC or any other insurer in the approved annuity plan for receiving pension.

Extent of Deduction- Least of amount paid or Rs. 1,00,000/- .

SECTION 80CCD- Deduction In Respect of Contribution to Pension Scheme of Central Government

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 2017-18, 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

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 of individual or 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 Central Government.

5. The deduction is allowed in the initial assessment year (i.e., the assessment year relevant to the previous year, in which the assessee starts paying the interest on loan) and 7 assessment years immediately succeeding the initial assessment year or until the interest is paid in full whichever is earlier.

Extent of Deduction- Entire amount of interest.

Section 80G Deduction In Respect of Donations to Certain Funds, Charitable Institutions, Etc.

Persons Covered- All assesseees [except for 80G (2)(c), which is applicable for donations made only by company] to the Indian Olympic Association or to any other Association or Institution for the development of infrastructure for sports & games or the sponsorship of sports & games, in India

Eligible Amount- Any sums paid in the previous year as Donations to certain funds, charitable institutions etc. specified u/s. 80G(2).

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 **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 development fund* set up and notified by Central Government for the purposes of Section 35CCA(1)(a);
7. Any sum paid to a *National Urban Poverty Eradication Fund* set up and notified by Central Government for the purposes of Section 35CCA(1)(d).

Extent of Deduction-100% of the amount paid as donation/contribution.

Section 80GGB Deduction in Respect of Contribution Given by Companies to Political Parties or an Electoral Trust"

Persons Covered- Indian company.

Eligible Amount- Contribution given by Indian companies to any political parties or an electoral

Extent of Deduction-100% of the amount paid as contribution.

Section 80GGC- Deduction In Respect of Contribution Given by any Person to Political Parties or an Electoral Trust"

Persons Covered- Any assessee (except local authority and every artificial juridical person wholly or partly funded by the Government).

Eligible Amount- Contribution given by assessee to political parties or an electoral trust. **Extent of Deduction-**100% of the amount paid as contribution.

Illustration:1

Ram Prakash (70 years of age) gives the following information. Compute deductible

amount under sec.80C for the A.Y. 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.

Solution :

Computation of Deduction under section 80 C for the A.Y.2017-18

Particulars	Rs:
LIC Premium ---self (20% of sum insured)	12,000
LIC Premium --- wife	5,000
Contribution to PPF	15,000
Accrued interest to NSC VIII th issue	7,500
Repayment of housing loan (80,000 – 34,000)	46,000
Total deduction	85,500

Illustration:2

From the following information, compute total income for the A.Y. 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.

Solution:

Computation of Total Income for the A.Y.2017-18

KARPAGAM ACADEMY OF HIGHER EDUCATION**CLASS: II B.Com CA****COURSE NAME: INCOME TAX****COURSE CODE: 16CCU403A****UNIT: IV****BATCH-2016-2020**

Particulars		Rs:
Business Income Being GTI		13,20,000
Less: Deduction u/s 80 C :		
PPF and NSC (Maximum deduction Rs:1,00,000)	1,00,000	
Deduction u/s 80DD:		
Medi. Treatment deduction allowed Rs:50,000)	50,000	
Deduction u/s 80E (interest on loan for high. Edu. Of grand son ---- Not deductible)	---	1,50,000
Total Income		11,70,000

Illustration :3

Compute total income of Mr. X, a disabled, for the A.Y 2017-18

1. Salary income is Rs: 4,30,000
2. He deposited Rs:20,000 in URPF.
3. He paid LIC premium Rs: 45,000 on a policy (issued on 15-6-2012) of Rs: 4,00,000
4. He donated Rs: 20,000 to National Children's Fund by cheque.

Solution:**Computation of Total Income for the A.Y.2017-18**

Particulars		Rs:
Salary Income being GTI		4,30,000
Less: Deduction u/s 80 C : LIC premium (10% of sum assured)	40,000	
Deduction under 80G Donation to NCF (50% of	10,000	

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20,000)		
Deduction under 80 U (Disabled)	50,000	1,00,000
Total Income		3,30,000

Illustration:4

Compute total income of Mr. Xaviour, a non-resident for the A.Y. 2017-18

1. Salary for 3 months received in India (computed) Rs: 18,000
2. Dividend received in Belgium from British companies Rs: 44,000
3. Interest on SB deposits in SBI Rs: 2,000
4. Taxable income from H.P. Rs:6,800.

Solution :**Computation of Total Income for the A.Y.2017-18**

Particulars	Rs:	Rs:
Salary		18,000
Income from H.P.		6,800
Interest on SB Deposits		2,000
Gross Total Income		26,800
Less: Deductions	Nil	
Total Income		26,800

Illustration:5

From the following , compute Total Income of Mrs. Rajalakshmi for the A.Y. 2017-18

Income from poultry farming Rs: 30,000

Interest from bank deposits Rs: 4,000

Dividend from shares held in an Indian company (Gross) Rs: 20,000

Income from units of Mutual Fund (Gross) Rs:8,000

Income from other sources Rs:42,000 Donation to National Defence Fund
Rs:2,000

Solution:**Computation of Total Income for the A.Y 2017-18**

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Particulars	Rs:	Rs:
Income from Business:		
Income from poultry farming		30,000
Income from Other Sources:		
Interest on deposits	4,000	
Dividend from shares in Indian company	Exempt	
Income from units of UTI	Exempt	
Other incomes	42,000	46,000
Gross Total Income		76,000
Less : Deduction u/s 80G		2,000
Total Income		74,000

Illustration:6

Mr. X earned GTI of Rs: 5,00,000 in the P.Y and made the following donations during the year by cheques:

- Rs: 10,000 to CM's Earthquake Relief Fund Maharashtra.
- Rs: 15,000 to National Foundation for Communal Harmony.
- Rs: 40,000 to municipality for family planning
- Rs: 25,000 to approved institutions

Compute the amount of deduction admissible u/s 80G for the A.Y.2017-18

Solution:**Computation of Deduction u/s 80G**

Particulars	Rs:	Rs:
a)CM's Earthquake Relief Fund (100% of amount donated)		10,000
b)National Foundation for Communal Harmony (100% of amount donated)		15,000
c and d) Qualifying amount is 10% of GTI (Rs: 50,000): Donation to municipality for Family planning	40,000	

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(40,000 x 100%)		
For the balance amount 50% (10,000 x 50 %)	5,000	45,000
Deduction u/s 80 G		70,000

Illustration: 7

From the following, prepare a statement of assessment of income of Mr. Ashikh for the A.Y 2017-18

- 1) Monthly salary Rs: 15,000 w.e.f. 01-07-2012.
- 2) His contribution to URPF is 15%
- 3) Employer's contribution is 10%
- 4) Dividend on preference share of an Indian company Rs: 8,000
- 5) Deposit made in a bank (interest 5 %) Rs:20,000
- 6) He owns a house, half of which is occupied by his son for his residence who is living separate from his father and the other half is let at Rs: 1,500 p.m. ; insurance premium Rs: 250; local taxes Rs:6,000
- 7) He has income from a firm Rs:12,000 and from the HUF Rs: 10,000.

Solution:**Computation of Total Income for the AY 2017-18**

Particulars	Rs:	Rs:
Income from salary (15,000 x 9)		1,35,000
Income from H.P.		
Gross Annual Value	36,000	
Less : Municipal Tax	6,000	
	30,000	
Less : Standard Deduction 30 % Of GAV	9,000	21,000
Income from business:		
Share from a firm	Exempt	
Share from HUF	Exempt	-----
Income from other sources:		

Dividend	Exempt		Page 92
Interest on FD	1,000	1,000	
Gross Total Income		1,57,000	
Less : Deduction under section 80 C		Nil	
Income Tax Law and Practice			
Total Income		1,57,000	

Illustration:8

Compute the taxable income of HUF:

Profit from business Rs: 32,000 Salary received by a member of the family Rs: 8,000

Director's fee received by Karta of the family Rs: 6,000 Profit from a firm Rs:10,000

Dividend (Gross) Rs: 5,000 Rental value of the property let out Rs: 12,000

Municipal taxes Rs: 600.

Solution: **Computation of Total Income of the HUF for the AY 2017-18**

Particulars	Rs:	Rs:
Income from business:		
Family business	32,000	
Profit from a firm	Exempt	32,000
Income from H.P. :		
Rental Value	12,000	
Less : Municipal Tax	600	
	11,400	
Less : Annual Value (30 %)	3,420	7,980
Total Income		39,980

Note: salary received by member of an HUF and director's fee received by the Karta are not taxable in the hands of HUF.

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 to be taxed or not. The residential status of an individual is determined on the basis of the duration of time spent 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. At 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 from 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, 00,000 for the assessment year 2013-14. 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: 3,00,000	: Nil
Rs: 3,00,001 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.

Illustration:1

Compute tax liability of Mr. Ramsanth for the A.Y. 2017-18

Income from business Rs: 1,80,000

Income from H.P. Rs: 35,000

Solution:

Income from business	Rs: 60,000
STCG	Rs: 5,000
LTCG	Rs: 1,00,000
Income from other sources	Rs: 15,000

Computation of tax liability for the A.Y 2017-18

Business income	60,000
LTCG	1,00,000
STCG	5,000
Income from other sources	15,000
Total Income	1,80,000
Tax on LTCG @ 20 %	20,000
On balance of Rs: 80,000	Nil
Total Tax	20,000
Education cess 3 %	600
Total Tax Liability	20,600

Illustration:2

Following details are available in respect of income of Mrs. Maya for the year 2017-18

- a) LTCG (indexed) Rs: 2,30,000

- b) Interest on bank time deposits Rs:10,000
- c) Dividend from co-operative society Rs: 5,000
- d) LIC premium paid Rs: 10,000
- e) Contribution to Public Provident Fund Rs:10,000

Calculate tax payable by Mrs. Maya for the assessment year 2017-18

Solution:

Computation of tax liability for the A.Y 2017-18

Particulars	Rs:
Long Term Capital Gains	2,30,000
Income from other sources:	
Interest from bank 10,000	15,000
Dividend from Co-operative society 5,000	
Gross total income	2,45,000
Less : Deduction u/s 80 C	15,000
Total Income	2,30,000
Tax on Rs: 2,00,000	Nil
Tax on Rs: 30,000 (LTCG) @ 20 %	6,000
Total	6,000
Add : Education Cess (6,000 x 3%)	180
Tax Payable	6,180

Note: Deduction u/s 80C to 80U are not available against LTCG.

Illustration:4

Mr. Muhammad Haneefa is an Assistant Professor in a college . Compute his total income and tax liability for the A.Y. 2017-18

- (a) Salary Rs: 20,000 p.m.
- (b) Royalty from books Rs: 36,000
- (c) Remuneration for examination duty Rs: 10,800
- (d) Wardenship Allowance Rs: 400 p.m.
- (e) Income from lottery (Net) Rs:21,000
- (f) Income from card games Rs: 12,800
- (g) Expenses on lottery tickets Rs: 20,000.

Solution:**Computation of tax liability for the A.Y 2017-18**

Particulars	Rs:	Rs:
Income from Salary:		
(a) Salary (20,000 x 12)	2,40,000	
(b) Wardenship Allowance (400 x 12)	4,800	
Gross Salary	2,44,800	
Less : Deduction	
Net Salary		2,44,800
Income from Other Sources:		
(a) Examination duty remuneration	10,800	
(b) Royalty from books	36,000	
(c) Lottery winnings (21,000 100/70)	30,000	
(d) Income from card games	12,800	

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Total		89,600
Gross Total Income		3,34,400
Less : Deduction u/s QQB (assumed as scientific books)		36,000
Total Income		2,98,400
Computation of Tax Liability:		
Up to Rs: 2,00,000	
For balance (98,400 x 10%)	9,840	
Total		9,840
Add : Education Cess (9,840 x 3%)		295
Total Tax Liability		10,135
Less : Tax Deducted at Source		9,000
Net Tax Liability		1,135

Illustration:5

Mr. Nair is working in a private company in Mumbai. He furnished the following details of his income for the financial year 2017-18

- Monthly salary Rs: 11,200
- D A per month Rs:3,850
- A rent free unfurnished accommodation for which he pays Rs: 340 p.m.
- A car with an engine capacity of 1.8 litres with a driver is provided by the employer. All expenses relating to the car is met by the employer. The car is used for both personal and official purposes.
- He is also getting an amount of Rs: 1,000 p.m.as entertainment allowance.
- He paid Rs: 1,200 as profession tax for the last financial year.
- Education allowance for two children @ Rs: 600 p.m.
- Cost of electricity bill paid by the company Rs: 22,000.
- His income from let out house property Rs: 25,000. He spent Rs: 12,000 for its repairs in the previous year.

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- j) He contributed Rs: 3,000 p.m. to a recognized provident fund. He also paid Rs: 16,000 towards his life insurance premium.

Solution: Computation of tax liability for the A.Y 2017-18

Particulars	Rs:	Rs:
Income from Salary:		
Salary (11,200 x 12)	1,34,400	
D A (3,850 x 12)	46,200	
Entertainment allowance (1,000 x 12)	12,000	
Educational allowance(600 x 12) -- (100 x 2 x 12)	4,800	
Perquisites :		
(e) Rent free unfurnished accommodation: 15 % of salary (Pvt. Employee at Mumbai) 22,680	18,600	
Less : Rent paid by employee (340 x 12) 4,080		
(f) Motor car (2,400 + 900) x 12	39,600	
(g) Electricity bill paid by the company	22,000	
Gross Salary	2,77,600	
Less : Deduction u/s 16 (iii)	1,200	
Net Salary		2,76,400
Income from H.P :	25,000	
Less : Deduction (30%)	7,500	17,500
Gross Total Income		2,93,900
Less : Deduction under section 80 C :		
RPF (3,000 x 12)	36,000	
Life Insurance Premium	16,000	52,000
Total Income		2,41,900
Tax on Income :		

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Up to Rs: 2,00,000	Nil	.	.	.
On Balance 41,900 x 10 %	4,190	.	.	.
Total	.	4,190	.	.
Add : Education Cess (4,190 x 3%)	.	126	.	.
TAX LIABILITY	4,316			

PART A**MULTIPLE CHOICE QUESTIONS****ONLINE EXAMINATION****PART – B**

1. Compute taxable income and loss to be C/F;

- (i) Business profit for the previous year 201-14 Rs.20,000
- (ii) B/F Business Loss of 2011-12 Rs. 10,000
- (iii) Capital loss on shares Rs. 60,000
- (iv) Loss from self- occupied house (u/s 24) Rs. 5000

2. The following are the particulars of income and loss of an individual under different heads of income. Set- Off losses in the assessment year 2015-16 and find out the net result:

Income from house property A	Rs. 5,000.
Loss from House property B	Rs (-) 8,000.
Income from interest on securities	Rs. 20,000.
Loss from a cycle business	Rs (-) 20,000.
Profit from speculation business	Rs. 20,000
Loss from short – term capital asset	Rs (-) 6,000
Long term capital loss	Rs.(-) 25,000
Long – term capital gain (Investments)	Rs. 21,000

3. From the following particulars of income of assesses A, B and C how the capital losses shall be setoff and carried forward for the previous year ending on 31.03.2015?

Rs.

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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

4 . Mr. Ram Patel submits the following information of his income and losses for the year ending 31.03.2015. compute total income, Rs.

1. Salary computed	24,000
2. Income from house property	
House A (income)	10,000
House B (loss)	40,000
House C (Self occupied) loss	28,000
3. Income from business:	
Cloth business Profit	10,000
Hardware business loss	12,000
Speculation profit	12,000
Speculation loss	17,000

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4. Capital gains:

Short term gain	8,000
Short term loss	24,000
Long term gain	8,000

5. Other sources :

Income from subletting	12,000
Loss from card games	6,000
Income from card games	9,000
Interest on securities gross	8,000

4. Determine the total income from the following particulars

	Previous Year 2012-2013	Previous Year 2013-2014
	Rs.	Rs.
House property Income (computed)	20,000	20,000
Salary Income (computed)	1,80,000	1,90,000
Business profit before depreciation	40,000	1,20,000
Depreciation for the year	1,20,000	1,40,000
Capital Gain – Short term	10,000	-
Income from other sources	20,000	40,000

5. Explain the provisions of set off and carry forward of losses?

6. Calculate set off and carry forward of losses and total income.

	Pre. Year 2014-15	Pre. Year 2015-16
	Rs.	Rs.
House property income (Computed)	20,000	20,000

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Salary income computed	1,80,000	1,90,000
Business profit before depreciation	40,000	1,20,000
Depreciation for the year	1,20,000	1,40,000
Capital gain – short term	10,000	nil
Income from other sources	20,000	40,000

7. The following are the particulars of income and loss of an individual under different heads of income. Set- Off losses in the assessment year 2015-16 and find out the net result and give comment on it

Long term capital gain	Rs. 25,000
Income from house property A	Rs. 10,000.
Loss from House property B	Rs (-) 25,000.
Income from interest on securities	Rs. 40,000.
Loss from a cycle business	Rs (-) 40,000.
Profit from speculation business	Rs. 50,000
Loss from short – term capital asset	Rs (-) 15,000
Income from House property C	Rs. 45,000

PART C

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 2010-11 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 2013.14.

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 liability Compute the tax liability if the total income of the female assessee was Rs. 7,45,520 for the previous year 2014-15

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.

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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 13.07.2015 (date of filing of return is 31.07.2015)

For construction of these units he took a loan of Rs.10,00,000 on 01.04.2012. 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 2014-15.

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

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

vi) Bank interest Rs. 450

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 an 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 2015-16.

17. The following are the particulars of the income of the university teacher during the year ending 31st March 2015

- a. Salary Rs. 37,400 per month plus Rs. 9,000 p.m. as grade pay from which 10 percent is deducted for SPF to which the university contributes 12 percent.
- b. Rent-free bungalow of the annual letting value of Rs. 18,000
- c. Wardenship allowance Rs. 2,000 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 2015

- 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 of Rs. 400 p.m. and other (whose annual value is Rs.1,000) remained vacant throughout the year on account of his employment at Ambala where he has taken a house on rent. The two houses subject to Municipal taxes of Rs.600 and 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 2015-16

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 2015 :

- (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.

QUESTION	OPTION A
Share held by an assessee for more than 12 months is termed as -- -----	Short term capital asset
Amount of gain arising from the transfer of capital asset is called as -----	Capital gain
Transfer includes,-----	Sale
The price which the assessee has incurred for acquisition of capital asset is termed as-----	Cost of acquisition
Capital expenditure incurred in making any additions or alterations to the capital asset is -----	Cost of improvement
Capital assets includes,	purchases
Capital asset does not include-----	Stock in trade
Capital gain = _____ - cost of acquisition (indexed) + cost of improvement	Sale price
In case of short term capital asset -----	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
A short term capital asset is the one held for not more than ----- -----	48 months
A long term capital gain is the one held the assets for more than -- -----	48 months
Rate of tax for long term capital gain is -----	10%
In capital gain, Exempted assets are given u/s -----	54
Rate of tax for short term capital gain (subject to STT) is ----- ----	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
Gain arising on the transfer of short term capital asset is known as -----	Short term capital gain
Gain arising on the transfer of long term capital asset is known as -----	Short term capital gain
Amount of gain arising from the transfer of capital asset is called as -----	Capital gain
As asset which does not cost anything to the assessee in terms of money in its creation or acquisition is called as -----	Depreciable assets

An example to self generated asset is -----	Goodwill
Transfer of an under taking for a lump sum consideration without assigning values to individual assets and liabilities is termed as -----	Slump sale
The term ----- means, aggregate value of total assets minus value of liabilities appearing in balance sheet.	Net asset
Capital gain is taxable to -----	all assesses
Long term capital loss can be set off from -----	short term capital gain
An acknowledgement of debt or claim in the form of debentures and bonds are called as -----	Securities Market
Securities of a company which is registered in any one of stock exchanges in India is termed as -----	Listed debentures
Securities of a company which is not registered in any one of stock exchanges in India is termed as -----	Listed debentures
The securities on which interest is receivable with out deduction of tax at source is called -----	Tax free securities
The securities on which interest is receivable after deduction of tax at source is -----	Tax free securities
Conversion of net interest into gross interest by applying specified rate of TDS is known as -----	Grossing up
Interest on securities after deducting the tax at source is -----	Net interest
Interest on securities before deducting the tax at source is -----	Net interest
The fifth and residuary head of income as per Income Tax Act 1961 is -----	Salary
Under the head income from other sources the specified income is given u/s-----	56(1)
Under the head income from other sources the general income is given u/s-----	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
Remuneration for delivering lectures or writing articles is -----	General income
Interest on securities is -----	General income
Rate of TDS for listed debentures of a company is -----	10%
Rate of TDS for casual income is -----	10%
Rate of TDS for unlisted debentures with surcharge is -----	10%
Rate of TDS for interest on government securities is -----	10%

Dividend received from Indian company is -----	Fully taxable
Winning from Lotteries, cross word puzzles, horse races and other races et are casual income and hence -----	Fully exempted
If total income of individual exceeds Rs. 10,00,000, add surcharge @ -----	5%
Share of income received by a member of HUF out of HUF income is -----	Taxable income
Bonus shares received by a dealer of shares is a -----	Capital receipt
Rate of TDS on bank interest is -----	10%
Income from letting of plant and machinery is taxable under the head -----	House property
Dividend from foreign company is taxable under the head -----	Income from other sources
Company formed and registered under companies Act 1956 is called -----	Indian company
A Company which is not a domestic company is -----	Domestic company
Gift is taxable under the head income from other sources, if its value exceeds -----	Rs.25000
Dividend from foreign company is taxable under the head -----	Income from other sources
Proceeds of benefit match received by a cricket player are -----	Professional income
Embezzlement of cash in a money lending business shall be treated as -----	business expenditure
The previous year means -----	The accounting period of the assessee
In case of company assessee control and management is situated in India means -----	Resident
Share of income from firms is ----- income	fully taxable

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UNIT - IV

OPTION B	OPTION C	OPTION D	
Long term capital asset	medium capital asset	total capital gain	
Profit	Income	receipt	
purchases	distribution	supply	
cost of improvement	Cost of inflation	selling price	
Cost of inflation	Cost of acquisition	selling price	
sales	building	trade expenses	
Gold bonds	both	none	
Purchase price	Transfer price	total price	
to be indexed	Conversion required	improvement	
Partially taxable	Fully exempted	taxable	
36 months	60 months	72 months	
36 months	60 months	75months	
20%	30%	40%	
55	56.	60%	
15%	30%	40%	
Taxable as long term capital gain	Exempted from tax	assets	
Long term capital gain	Medium term capital gain	liabilities	
Long term capital gain	Medium term capital gain	total capital gain	
Profit	Income	receipt	
Self generated assets	Capital assets	all of the above	

Land	plant	machinery	
Transfer	Extinguishments	relinquishments	
Net liability	Net worth	total worth	
only residents	only citizens	NRI	
	both long and short term capital gain.		
long term capital gain		any income	
Capital market	Money market	Stock market	
Unlisted debentures	Tax free debentures	Taxable debentures	
unlisted debentures	Tax free debentures	taxable debentures	
Taxable securities	Listed securities	not an income	
Less tax securities	Taxable securities	TDS	
Net value	Total value	Value	
Gross interest	Total interest	Net worth	
Gross interest	Total interest	Nil value	
House property	Income from other sources	Capital gain	
56(2)	56(3)	56(4)	
56(2)	56(3)	56(4)	
Rs.20,000	Rs.30,000	Rs.40,000	
Specified income	Gross income	net income	
Specified income	Gross income	net income	
20%	30.00%	40%	
20%	30.00%	40%	
20%	30.00%	40%	
20%	No TDS	TDS	

Partially taxable	Fully exempted	none	
Exempted upto Rs.5,000	Fully taxable	exempted up to RS.15,000	
12%	15%	20%	
Exempted income	Rebateable income	deductable income	
Revenue receipt	Exempt income.	taxable income	
20%	30%	40%	
Salary	Income from other sources	capital gain	
House property	business income	capital gain	
Foreign company	not a company	private company	
Foreign company	Indian company	private company	
Rs. 50, 000	Rs.60,000	Rs.80,000	
House property	business income	capital gain	
A casual income	An exempted income	not an income	
Revenue loss incidental to business	capital expenditure	receipt	
financial year before the assessment year	Calendar year before the assessment year .	next year	
Not ordinary resident	Non resident	citizen	
fully exempted	partially taxable	partially exempted	

ANSWER
Long term capital asset
capital gain
sale
cost of acquisition
cost of improvement
building
Stock in trade
sale price
No indexing
Fully exempted
36months
36 months
20%
55
15%
exempted from tax
short term capital gain
long term capital gain
capital gain
depreciable assets

goodwill
slump sale
net asset
all assessees
long term capital gain
securities market
Listed debentures
unlised debentures
taxable securites
tax free securities
Grossing up
Net interest
gross interest
income from other source
56(2)
56(1)
Rs.15,000
General income
General income
10%
30%
10%
No TDS

fully exempted
exempted upto Rs.5,000
12%
exempted income
capital receipt
10%
income from other source
Income from other sources
Indian company
Foreign company
Rs.50,000
Income from other sources
a casual income
revenue loss incidental to business
financial year before the assessment year
resident
fully exempted

UNIT V

Syllabus:

Preparation of Return of Income: Filing of returns: Manually, On-line filing of Returns of Income & TDS; Provision & Procedures of Compulsory On-Line filing of returns for specified assesses.

INTRODUCTION

The taxpayer has to communicate the details of his taxable income/loss to the Income-tax Department. These details are communicated to the Income-tax Department in the form of return of income. In this part you can gain knowledge about various provisions and procedure relating to furnishing (i.e. filing) the return of income. The provisions discussed in this part are applicable for furnishing the return of income for the assessment year 2017-18, i.e., financial year 2016-17.

Filing Income Tax Returns online has been possible for many years. In case of complexities, you can take the help of a professional. If it is a more simple and straightforward filing, you can use the online mode of filing returns by yourself. This year, there are a number of changes introduced by the IT Department, including change in forms, inclusion of bank account details, inclusion of passport number if you have travelled abroad and Aadhar card details and extension in the last date of filing returns. This article discusses these points, in addition to giving you a detailed step by step explanation of how to file returns online.

It is that time of the year when everyone is rushing to file their Income Tax returns. Did you know that you can file your returns online by following a simple process? Filing income tax returns online has been possible for many years now. In 2013, it was made mandatory to efile your income tax returns online if your taxable income crosses Rs. 5 lakhs during the year. The Income Tax department has simplified the eFiling process considerably over the years. You may consider taking a professional help to file returns in case of complexities or when there are multiple components of income are involved. For a simple, straight forward filing

(e.g. Form 16 based), you can consider filing returns yourself online. It is perceived that eFiling income tax returns is complicated and time consuming. But this is really not the case. We have put together a step by step guide on the different aspects of filing income tax returns online.

Forms of return prescribed under the Income-tax Law

Under the Income-tax Law, different forms of return of income are prescribed for different classes of taxpayers. The return forms are known as ITR forms (Income-tax Return Forms).

The following table gives a brief overview of the return forms and is not an exhaustive discussion on the return forms. For more provisions of applicability/non-applicability of the ITR Forms, the readers should go through the discussion on each ITR Form covered in this topic in later part.

The following are the forms to be used in different cases:

ITR 1 (SAHAJ)	For Individuals having Income from Salary & Interest.
ITR 2	For Individuals & HUFs not having Income from Business or Profession
ITR 2A	For Individuals & HUFs not having Income from Business or Profession and Capital Gains and who do not hold foreign assets
ITR 4S (SUGAM)	For Individuals/HUF having income from presumptive business

Forms of return prescribed under the Income-tax Law for the assessment year 2016-17

<i>Return Form</i>	<i>Brief Description</i>
ITR – 1	Also known as SAHAJ is applicable to an individual having salary or pension income or income from one house property (not a case of brought forward loss) or income from other sources (not being lottery winnings and income from race horses), income taxable under section 115BBA or income referred in section 115BBE.
ITR – 2	It is applicable to an individual or an Hindu Undivided Family who is not eligible to file Sahaj ITR-1 and whose income chargeable to income-tax under the head “Profits or gains of business or profession” is in the nature of interest, salary, bonus, commission or remuneration, by whatever name called, due to, or received by him from a partnership firm.
ITR – 3	It is applicable to an individual or a Hindu Undivided Family who is carrying on a proprietary business or profession

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ITR – 4	Also known as SUGAM is applicable to individuals or Hindu Undivided Family or partnership firm who have opted for the presumptive taxation scheme of section 44AD/44ADA/44AE.
ITR – 5	This Form can be used by a person being a firm, LLP, AOP, BOI, artificial juridical person referred to in section 2(31)(vii), co-operative society and local authority. However, a person who is required to file the return of income under section 139(4A) or 139(4B) or 139(4C) or 139(4D) or section 139(4E) or section 139(4F) shall not use this form (<i>i.e.</i> , trusts, political parties, institutions, colleges, investment fund etc.)
ITR – 6	It is applicable to a company, other than a company claiming exemption under section 11 (exemption under section 11 can be claimed by charitable/religious trust).
ITR – 7	It is applicable to a persons including companies who are required to furnish return under section 139(4A) or section 139(4B) or section 139(4C) or section 139(4D) or section 139(4E) or section 139(4F)

	(i.e., trusts, political parties, institutions, colleges, investment fund etc.).
ITR – 8	It is the acknowledgement of filing the return of income.

Modes of filing the return of income

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

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

Note Where the return of income is filed in the manner given at (iv) without digital signature, then the taxpayer should take two printed copies of Form ITR-V. One copy of ITR-V, duly signed by the taxpayer, is to be sent (within the period specified in this regard, i.e., 120 days) by ordinary post or speed post to “Income-tax Department – CPC, Post Bag No. 1, Electronic City Post Office, Bengaluru–560100 (Karnataka). The other copy may be retained by the taxpayer for his record.

No documents to be attached along with the return of income

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

As discussed above, no documents are to be attached along with the return of income, however, in case of a taxpayer who is required to furnish a report of audit under section 10(23C)(iv), 10(23C)(v), 10(23C)(vi), 10(23C)(vii), 10A, 10AA, 12A(1)(b), 44AB, 44DA, 50B, 80-IA, 80-IB, 80-IC, 80-ID, 80JJAA, 80LA, 92E, 115JB or 115VW or to give a notice under section 11(2)(a) shall furnish it electronically on or before the date of filing the return of income.

Applicability of ITR – 1 (SAHAJ)

Return Form ITR – 1 (SAHAJ) can be used by an individual whose total income includes:

- (1) Income from salary/pension; or
- (2) Income from one house property (excluding cases where loss is brought forward from previous years); or
- (3) Income from other sources (excluding winnings from lottery, income from race horses and income taxable under section 115BBDA or Income of the nature referred to in section 115BBE).

Further, in a case where the income of another person like spouse, minor child, etc., is to be clubbed with the income of the taxpayer, this return form can be used only when such income falls in any of the above categories.

Non-applicability of ITR – 1 (SAHAJ)

Return Form ITR – 1 (SAHAJ) cannot be used by an individual:

- Whose total income for the assessment year 2017-18 exceed Rs. 50 lakh.
- Whose total income for the year includes income from more than one house property.
- Whose total income for the year includes income from winnings from lottery or income from race horses, or income taxable under section 115BBDA.
- Whose total income for the year includes income chargeable to tax under the head “Capital Gains”.
- Whose total income for the year includes income of the nature referred to in section 115BBE.
- Whose total income for the year includes agricultural income of more than Rs. 5,000.
- Whose total income for the year includes income from business or profession.
- Whose total income for the year includes loss under the head “Income from other sources”.
- Who has claimed relief under section 90 and/or section 91.
- Who is having any assets (including financial interest in any entity) located outside India or signing authority in any account located outside India.
- Any resident having income from any source outside India.

Applicability of ITR – 2

This Return Form is to be used by an individual or an Hindu Undivided Family who is not eligible to file Sahaj ITR-1 and whose income chargeable to income-tax under the head “Profits or gains of business or profession” is in the nature of interest, salary, bonus, commission or remuneration, by whatever name called, due to, or received by him from a partnership firm.

Further, in a case where the income of another person like spouse, minor child, etc., is to be clubbed with the income of the taxpayer, this Return Form can be used if income to be clubbed falls in any of the above categories.

Non-applicability of ITR – 2

Return Form ITR – 2 cannot be used by an individual whose total income for the year includes income from Business or Profession under any proprietorship.

Applicability of ITR – 3

Form ITR – 3 can be used by an individual or a Hindu Undivided Family who is carrying on a proprietary business or profession.

Non-applicability of ITR – 3

Form ITR – 3 cannot be used by any person other than an individual or a HUF. Further, an individual or a HUF not having income from proprietary business or profession cannot use ITR – 3.

Applicability of ITR – 4 (SUGAM)

Form ITR – 4 (SUGAM) can be used by an individual/HUF/Firm whose total income for the year includes :

- a) Business income computed as per the provisions of section 44AD or 44AE; or
- b) Income from profession computed as per the provisions of section 44ADA; or
- c) Income from salary/pension; or
- d) Income from one house property (excluding cases where loss is brought forward from previous years); or
- e) Income from other sources (excluding winnings from lottery and income from race horses).

Further, in a case where the income of another person like spouse, minor child, etc., is to be clubbed with the income of the taxpayer, this return form can be used where income to be clubbed falls in any of the above categories.

Non-applicability of ITR – 4 (SUGAM)

Form ITR – 4 (SUGAM) cannot be used by an individual/HUF:

- Whose total income for the year includes income from more than one house property.
- Whose total income for the year includes income from winnings from lottery or income from race horses.
- Whose total income for the year includes income chargeable to tax under the head “Capital Gains”.
- Whose total Income for the year includes income taxable under section 115BBDA.
- Whose total income for the year includes income of the nature referred to in section 115BBE.
- Any resident having income from any source outside India.
- Whose total income for the year includes agriculture income of more than Rs. 5,000.
- Whose total income for the year includes income from speculative business and other special incomes.
- Whose total income for the year includes income from agency business or income in the nature of commission or brokerage.
- Who claims relief under section 90, 90A and/or section 91.
- Who has any assets (including financial interest in any entity) located outside India or signing authority in any account located outside India.
- Any resident having income from any source outside India.

In case of a taxpayer who is engaged in any business eligible for the presumptive taxation scheme of section 44AD or section 44AE or section 44ADA but he does not opt

for the presumptive taxation scheme, then such a taxpayer has to maintain the books of account of the business as per the provisions of section 44AA and has to get these accounts audited. In such a case he cannot use ITR 4.

Applicability of ITR – 5

Form ITR – 5 can be used by a person being a firm, LLP, AOP, BOI, artificial juridical person referred to in section 2(31)(vii), cooperative society and local authority.

Non-applicability of ITR – 5

Form ITR – 5 cannot be used by a person who is required to file the return of income under section 139(4A) or 139(4B) or 139(4C) or 139(4D) or 139(4E) or 139(4F) (i.e., trusts, political parties, institutions, colleges, investment fund etc.).

Applicability of ITR – 6

Form ITR – 6 can be used by a company, other than a company claiming exemption under section 11 (exemption under section 11 can be claimed by a charitable/religious trust).

Non-applicability of ITR – 6

Form ITR – 6 cannot be used by a company claiming exemption under section 11 (exemption under section 11 can be claimed by a charitable/religious trust).

Applicability of ITR – 7

Form ITR – 7 can be used by persons including companies who are required to furnish return under section 139(4A) or section 139(4B) or section 139(4C) or section 139(4D) or section 139(4E) or section 139(4F) (i.e., trusts, political parties, institutions, colleges, investment fund etc.).

Non-applicability of ITR – 7

Form ITR – 7 cannot be used by a person who is not required to furnish return under section 139(4A) or section 139(4B) or section 139(4C) or section 139(4D) or section 139(4E) or section 139(4F) (i.e., trusts, political parties, institutions, colleges, investment fund etc.).

Procedure for e-filing the return of income

Income-tax Department has established an independent portal for e-filing the return of income. The taxpayers can log on to www.incometaxindiaefiling.gov.in for e-filing the return of income.

E-filing utility provided by the Income-tax Department

The Income-tax Department has provided free e-filing utility (i.e., software) to generate e-return and furnishing the return electronically. The e-filing utility provided by the Department is simple, easy to use and also contains instructions on how to use it. By using the e-filing utility, the taxpayers can easily file their return of income. Utility can be downloaded from www.incometaxindiaefiling.gov.in

Benefits of e-filing the return of income

E-filing can be done from any place at any time and it saves time and efforts. It is simple, easy and faster. The e-filed returns are generally processed faster as compared to returns filed manually.

E-filing help desk of Income-tax Department

In case of queries on e-filing the return, the taxpayer can contact 1800 4250 0025.

Difference between e-filing and e-payment

E-payment is the process of electronic payment of tax (i.e., by net banking) and e-filing is the process of electronically furnishing the return of income. Using the e-payment and e-filing facility, the taxpayer can discharge his obligations of payment of tax and furnishing the return of income easily and quickly.

Form 26AS

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

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

The Income-tax Department maintains the database of the total tax paid by the taxpayer (i.e., tax credit in the account of a taxpayer). Form 26AS is an annual statement maintained under Rule 31AB of the Income-tax Rules disclosing the details of tax credit in the account of the taxpayer as per the database of Income-tax Department. In other words, Form 26AS will reflect the details of tax credit appearing in the Permanent Account Number of the taxpayer as per the database of the Income-tax Department. The tax credit will cover TDS, TCS and tax paid by the taxpayer in other forms like advance tax, Self-assessment tax, etc.

Income-tax Department will generally allow a taxpayer to claim the credit of taxes as reflected in his Form 26AS.

Procedure to be followed in case of discrepancies in actual TDS and TDS credit as per Form 26AS

Every person deducting tax at source has to furnish the details of tax deducted by him to the Income-tax Department. The details will cover the name of the deductee, Permanent

Account Number of the deductee, amount of tax deducted, amount paid to the deductee, date of payment of TDS to the credit of Government, etc. On the basis of the details of TDS provided by the deductor, the Income-tax Department will update Form 26AS of the deductee.

Many times the actual amount of TDS and TDS credit as appearing in Form 26AS may differ and it may happen that the TDS credit appearing in Form 26AS may be less as compared to actual TDS, this may happen due to reasons like non-furnishing of TDS details to the Income-tax Department by the deductor, deducting the tax in incorrect Permanent Account Number, etc. In such a case the deductee should approach the deductor and request him to take the necessary steps to rectify the discrepancy due to above reasons. The Income-tax Department updates the TDS details in Form 26AS on basis of details provided by the person deducting the tax (i.e., the deductor), hence, if there is any default on the part of deductor like non -furnishing of TDS details (i.e., TDS return) to the Income-tax Department, deducting the tax in incorrect Permanent Account Number, etc. then Form 26AS will not reflect the actual TDS. In such a case, the taxpayer may not be able to claim the credit of correct TDS. Hence, the taxpayers are advised to confirm the tax credit appearing in Form 26AS and should reconcile the difference, if any.

Precautions to be taken while filing the return of income

Following is the list of few important steps/points/precautions to be kept in mind while filing the return of income: The first and foremost precaution is to file the return of income on or before the due date. Taxpayers should avoid the practice of filing belated return. Following are the consequences of delay in filing the return of income :

- Loss (other than house property loss) cannot be carried forward.
- Levy of interest under section 234A.
- Levy of fee under section 234F*

- Exemptions/deductions under sections 10A, 10B, 80-IA, 80-IAB, 80-IB, 80-IC, 80-ID and 80-IE are not available.

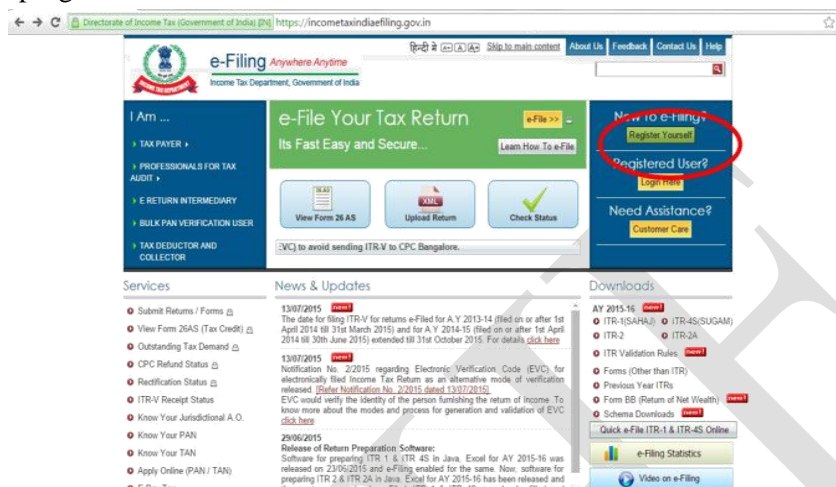
Note: W.e.f. assessment year 2018-19, fee as per section 234F is required to be paid if return is furnished after due date. Fee for default in furnishing return of income will be as follows:

- a) Rs. 5000 if return is furnished on or before the 31st day of December of the assessment year;
- b) Rs. 10,000 in any other case

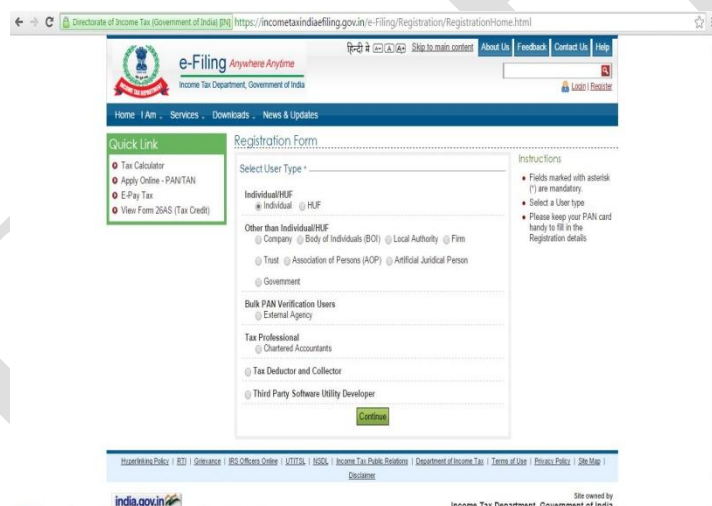
However, late filing fee shall not exceed Rs. 1000 if the total income of an assessee does not exceed Rs. 5 lakh.

REGISTRATION PROCESS

Step 1: If you are a new user, you must first register yourself on the site. Click on the 'Register Yourself' button on the top right corner in the website.



Step 2: Select the user type applicable to you:



Step 3: Enter the details applicable to you. Remember that having a valid PAN is essential for filing returns. If you do not have this, you should first apply for your PAN. The PAN serves as the login id when you file your income tax returns online. Fill in your other personal details such as name and date of birth.

The screenshot shows the 'Prepare and Submit Online ITR' form on the e-Filing portal. The form includes fields for PAN (ABCPD1234K), ITR Form Name (ITR-1), and Assessment Year (2015-16). It also has a section for 'Profile Address with' and a 'Do you want to digitally sign?' checkbox. A disclaimer at the bottom states: 'The pre-filled tax claim data is as per the details available with e-Filing application subject to assessee's independent verification.'

Step 2: This brings you to the next screen, which has the instructions to fill the form online. The tabs are the same as how they are under the Java Utility software. It is always recommended to periodically save your work by using the 'Save Draft' tab, as you will be working online and this is riskier.

The screenshot shows the 'Income And Deductions' tab of the ITR form. It includes sections for 'Income And Deductions' (B1, B2, B3, B4, B5, B6, B7, B8, B9, B10, B11, B12) and 'Income Tax Computation' (C1, C2, C3, C4, C5, C6, C7, C8, C9, C10, C11, C12). The 'Income Tax Computation' section shows the calculation of tax payable, including 'Total Tax Payable (C9 + C10 + C11)' and 'Total Tax and Interest (C9 + C10 + C11)'.

Step 3: Check the 'Personal Information' tab to verify the details which have been pre-filled. Again, the section pertaining to Filing Status may not be automatically updated, and you will need to update this.

Step 4: Fill in the 'Income Details' tab with all your income particulars and deductions under the various sections. On entering the income details, the tax computation is automatically carried out and updated.

Step 5: The tab 'Tax Details' has details of the TDS details which needs to be updated manually if it is not pre-filled.

Step 6: 'Taxes Paid and Verification' tab gives a summary on the taxes which are payable, taxes which have already been paid and the excess to be paid or refundable, as the case may be. This tab also needs to be updated with bank details and the declaration.

Step 7: On completing all the details, check if you have entered everything and if all the information is correct. Then click on 'Submit' to submit the ITR online.

ITR-1 Form

Directorate of Income Tax (Government of India) [IN] https://incometaxindiaefiling.gov.in/e-filing/OnlineItr/LoadOnlineItr.html#

ITR-1 - Assessment Year - 2015-16

Submit Save Draft Exit In Hindi

Instructions Personal Information Income Details Tax Details Taxes Paid And Verification 80G

Personal Information

A1 First Name *
Ravi

A2 Middle Name *
HARESH

A3 Last Name *
KUMAR

A4 PAN *
ABCPD0315L

A5 Gender *
M - Male

A6 Date Of Birth *
24/06/1994

Status *
I - Individual

A7 Income Tax Ward / Circle

A8 Flat/ Door/ Building *
502

A9 Name of Premises / Building / Village
ANNAI CO-OP HSG SOC

A10 Road/ Street
S V ROAD

A11 Area/ Locality *
TLAK NAGAR, GOREGOAN

A12 Town/ City/ District *
MUMBAI

A13 State *
MAHARASHTRA

A14 Country *
INDIA

A15 Pincode *
400072

A16 Email Address *
ravi.kumar@gmail.com

A17 Mobile No. 1 *
9876512340

Residential/Office Phone No. with STD Code

A18 Mobile No. 2

In all the three modes given above, the E-Filing process gets completed only when you digitally sign the form or send the form physically to the IT Department. Therefore, simply clicking the 'Submit' button is not sufficient. Again, you must ensure that your form reaches the IT Department before 120 days of filing the return. The IT Department sends you an acknowledgement for receipt. If you do not receive this, then you should send the form again.

POSSIBLE QUESTIONS

PART A (ONE MARKS – ONLINE EXAMINATION)

PART B (2 MARKS)

1. Explain TDS
2. Write a short note on filing of returns
3. What are the methods of filing of returns,
4. What are the forms used for individuals having income from salary and interest?
5. Define Salary
6. Write a short note on Income
7. Explain HUF
8. Explain ITR-5
9. Write a short note on Person

PART C (6 MARKS)

1. Explain
 - a) Income
 - b) Person
 - c) HUF
2. Explain Filing of returns and methods of filing returns
3. What are the forms used for filing the returns?
4. Explain TDS
5. Explain Provision and procedure of online filing of returns
6. What are the procedure for filing the returns manually
7. Explain steps in E-Filing of returns.

QUESTION	OPTION A
Adjustment of any loss against any income with the previous year is called as ----- of losses	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
Setting off of losses between the various years within the previous year itself is known as -----	Interhead adjustment
Loss on account of owing and maintaining the race horse can be carried forward for -----	8 years
Loss under the head house property -----	Can be carry forward for 8 years
Speculation loss can be carried forward for the maximum of -----	8 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
Short term capital loss of particular assessment year cab be setoff in the same assessment year from-----	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
Section ----- of Income tax act deal with the provisions regarding set off and carry forward and setoff of losses.	70-79
Casual income includes ,-----	house property
Speculation loss can be set off from -----	Speculation gain
Speculation gain can be used to set off -----	speculation loss only
Expenses on horses for race purpose can be set off only from-----	Capital gain
Loss from house property can be set off from -----	Any other head
Unrealized rent from house property can be set off only income of -----	Income of another house property
Loss under the head profits and gains can not be set off from income under the head -----	Salaries
Short term capital loss can be set off from -----	short term and long term capital gain

Long term capital loss can be set off only from -----	Long term capital gain
There can be no loss under the head -----	house property
Loss under the head house property can be carried forward for ---- -----	8years
Business loss can be carried forward for -----	4 years
Unabsorbed depreciation can be carried forward for-----	8 years
Short term capital loss can be carried forward for -----	4 years
long term capital loss can be carried forward for -----	4 years
Securities includes -----	Stock
Deductions relating to donation to approved institution are given u/s -----	80 E
Deduction for medically handicapped or mentally retarded assessee is to be allowed to the maximum of -----	Rs. 75,000
The previous year means -----	The accounting period of
In case of company assessee control and management is situated in	Resident
Assessment year means -----	year after previous year
. When main tenant lets out full or part of the hired building to another	Letting
. Any income from house property held for charitable or religious purposes	. fully taxable
Local or municipal taxes include services taxes like,-----	fire tax
Rent actually received by the owner of the house property from the tenant	Actual rent received
Value of house property has determined by the municipal authorities	Annual rental value
The two or more persons own jointly one house is referred as-----	. owners
An amount of rent which a similar property can fetch in a similar locality	MRV
The rent fixed under rent control act wherever applicable is called	Standard rental value
A higher amount of MRV and FRV subject to standard rent is -----	ERV
Default in collection of rent from the tenants is termed as -----	Real rent
Gross annual value minus municipal taxes paid by the assessee is -----	Net annual value
Any payment exceeding Rs. 20,000 is made otherwise than through bank	10%
All those assets to which one rate of depreciation is applicable are	Block of assets
Income tax, wealth tax and advance income tax are -----	disallowed expenses
Expenses not allowed as deduction for the purpose of computation	Admissible expenses
Expenditure incurred for acquiring know-how and patents shall qualify	20%
Any income from house property held for charitable or religious purpose is -----	fully taxable
Rent actually received by the owner of the house property from the tenant is called ---	Actual rent received
Value of house property has determined by the municipal authorities for levying municipal taxes is known as -----	Annual rental value
An amount of rent which a similar property can fetch in a similar locality if it is let out is called -----	MRV
The rent fixed under rent control act wherever applicable is called -----	Standard rental value

A higher amount of MRV and FRV subject to standard rent is ---- -----	ERV
Default in collection of rent from the tenants is termed as ----- --	Real rent
The sum for which the house property might reasonably be expected to be let from year to year is known as -----	Annual value
Gross annual value minus municipal taxes paid by the assessee is -----	Net annual value
Every year the residential status of an assessee -----	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
Speculation loss can be carried forward for the maximum of ----- ----	8 years
Short term capital loss can be carried forward for -----	4 years

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 versity Established Under Section 3 of UGC Act 1956)
 Coimbatore – 641 021.

UNIT - V

OPTION B	OPTION C	OPTION D	
Carry forward	set off and carry forward	can not be carried forward	
Carry forward	set off and carry forward	can not be carried forward	
Intra head adjustment	salary	capital gain	
4 years	Indefinite period	5 years	
can not be carried forward	Can be carried forward for 4 years	can be carried forward to 10 years	
10 years	4 years	5 years	
Long term capital gain only	Short term capital gain.	salary income	
Long term capital gain only	Short term capital gain.	total capital gain	
be carried forward	Neither be setoff not be carried forward	not adjustable	
60-69	80-89	90-95	
interest	gambling	salary	
capital gain	Business income.	salary income	
any other losses also	salary loss	business loss	
House property income	Race course winning	salary income	
only house property income	Agriculture income	salary income	
Business income	Income from other sources	other sources income	
House property	Capital gain	professional income	
Short term capital gain only	Long term capital gain	total capital gain	

short term capital gain	Business income	salary	
Salary	Capital gain	business income	
4years	2 years	1 year	
8 years	12 years	10 years	
	till it is fully adjusted		
10 years		15 years	
8 years	12 years	4 years	
8 years	12 years	15 years	
gold	silver	deposits	
80 G	80I	80K	
Rs.1,00,000	Rs.1,25,000	Rs,1,50,000	
financial year before the ass	Calendar year before	any year	
Not ordinary resident	Non resident	not a resident	
year before previous year	previous year	any year	
Not a letting	Sub-letting	self occupied	
exempted	. Partially taxable	partially exempted	
. insurance tax	. collection charges	water tax	
Real rental value	Fair rental value	Municipal rental value	
Fair rental value	Municipal rental value	real rental value	
co-owners	not owners	partners	
FRV	ERV	ARV	
Real rental value	Actual rent	fair rental value	
MRV	Standard rent	frv	
Actual rent	Fair rent	Unrealized rent.	
Gross annual value	Expected annual value	Annual rental value	
20%	40%	100%	
Exempted assets	Deductable assets	total assets	
Allowed expenses	Deductions	rebate	
Inadmissible expenses	Not an expenses	allowable expenses	
. 25%	30%	35%	
exempted	Partially taxable.	Not at all taxable	
Real rental value	Fair rental value	Annual rental value	
Fair rental value	Municipal rental value	Anual rental value	
FRV	ERV	KRV	
Real rental value	Actual rent	Annual rental value	

FRV	MRV	NRV	
Actual rent	Unrealised rent.	Annual rent	
Realised rent	Expected rent	Monthly rent	
Gross annual value	Expected annual value	Annual rental value	
will certainly change	will not change	not necessary	
Carry forward	transfer	adjustment	
10 years	4 years	5 years	
8 years	12 years	4 years	

ANSWER
set off
carry forward
Interhead adjustment
4 years
Can be carry forward for 8 years
4 years
Long term capital gain only
Short term or long term capital gain
be carried forward
60-69
gambling
Speculation gain
any other losses also
race course winning
any other income
income of another house property
salaries
short term and long term capital gain

Long term capital gain
Salary
8years
8 years
till it is fully adjusted
8 years
8 years
stock
80 G
Rs.1,00,000
financial year before the assessment year
Resident
year after previous year
subletting
exempted
water tax
acctual rent received
Municipal rental value
co-owners
FRV
standard rental value
ERV
unrealised rent
net annual value
100%
block of assets
disallowed expenses
inadmissible expenses
25%
exempted
acctual rent received
Municipal rental value
FRV
standard rental value

ERV

unrealised rent

annual value

Net annual value

May change

set off

4 years

8 years

Reg. No. [16CCU403A]

KARPAGAM ACADEMY OF HIGHER EDUCATION
(Deemed University Established Under section 3 of UGC Act 1956)
Coimbatore - 641021

(For the candidates admitted from 2016 onwards)

First Internal Examination-January 2018

II B.Com (CA)- Fourth Semester
INCOME TAX

Date: 20.01.2018

Time duration : 2 Hrs

Maximum Marks: 50

PART - A (20 X 1 = 20 MARKS)
Multiple Choice Questions

- Income tax is a -----
a) direct tax b) indirect tax c) business tax d) not a tax
- Income tax rules was passed in the year -----
a) 1960 b) 1961 c) 1962 d) 1963
- 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
- Incomes which do not form the part of total income is called as ----- income.
a) Deduction b) Exempted c) total d) Rebate
- According to Income Tax Act 1961, Person includes,
a) Individual b) HUF c) firm d) all the above
- Income not earned and not accrued in India is ----- income.
a) Foreign income b) Indian income c) total income. d) net income
- Agricultural income is ----- income
a) fully exempt b) partially exempt c) fully taxable. d) not an income
- Education cess is leviable @ -----
a) 3% b) 2% c) 1% d) 5%
- Residential status is to be determined for -----
a) Previous year b) Assessment year c) Accounting year d) financial year
- Maximum exemption on which income tax is not chargeable for the assessment year 2017-18 is -----
a) Rs. 1,00,000 b) Rs. 1,35,000 c) Rs. 1,85,000 d) Rs. 2,50,000
- If an individual satisfies any one condition of the basic conditions and both the conditions of the additional conditions, then he is called -----
a) Non resident b) Not ordinary resident c) Resident d) assessee
- Income earned and received out side India from any other sources is taxable -----
a) Only resident b) NOR c) Non resident d) citizen
- Income earned and received outside India from a business controlled or profession set up in India is taxable to -----
a) Only resident b) NOR c) non resident d) citizen
- Salary received by a member of parliament is -----
a) Exempt from tax b) Taxable salary income c) Taxable as income from other sources. d) taxable as business income

- Share of income from firms is ----- income
a) fully taxable b) fully exempted c) partially taxable d) partially exempted
- 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
- Salary includes -----
a) Wages b) house property c) interest d) gratifying
- means payment of gross salary with deducting amount of income tax (Gross)
a) Tax free salary b) Taxable salary c) Exempted salary d) business income
- If the employee has completed service of 16 years 6 months and 5 days the number of completed year shall be taken as -----
a) 16 years b) 17 years c) 18 years d) 22 years
- The maximum exemption of gratuity shall be -----
a) Rs. 2,40,000 b) Rs. 2,50,000 c) Rs. 3,50,000 d) Rs. 10,00,000

PART - B (3 X 2 = 6 Marks)
Answer All the Questions

- Write a note on Agricultural Income
- Write a note on Residential status of an Individual
- Mr. A receives Rs. 63,500 p.a as net salary. Employer had deducted Rs. 7,500 as Employer's contribution to R.P.F Rs. 1,300 p.a as tax deducted at source and Rs. 1,200 p.a as professional tax. During the year employer had deducted Rs. 2,500 towards the recovery of house building advance taken by Mr. A.

PART - C (3 X 8 = 24 Marks)
Answer All the Questions

- Discuss any fifteen exempted income u/s 10 of Income Tax Act.

(OR)

- Mr. John, a foreign national came to India for the first time on June 15, 2011. During the financial year 2011-12, 2012-13, 2013-14, 2014-15, 2015-16 and 2016-17, he stays in India for 120 days, 115 days, 15 days, 191 days, 124 days and 80 days respectively. Determine his residential status for the assessment Year 2017-2018.

- Mr. Vivek passed in M.B.A on 15th June 2016 and joined his first job on 15th July 2016. Rs. 40,000 (including allowances). Find out his salary for the assessment year 2017-2018.

(OR)

- Give the summarized chart of different kinds of income with different types of Residential status.

6. a) The following are the incomes of Shree Deepak for the assessment year 2017-18.

- a. dividend from Indian company Rs. 10,000 - Nil
 - b. Profit from business in Japan received in India Rs. 1,20,000 All
 - c. Profit from business in Pakistan deposited in a bank there. This business is controlled from India Rs. 2,00,000 R
 - d. Profit from business in Indore (Controlled by London Head office) Rs. 1,10,000 All
 - 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 All
 - f. Income was earned in America and received there but brought in India Rs. 80,000 OR
 - g. Share of income from Indian partnership firm Rs. 1,50,000 Nil
 - h. Income from house property in India received in America (Computed) Rs. 62,000 All
 - i. Interest on debentures of a Indian company received in Dubai Rs. 25,000 All
- Compute his taxable income if he is,
(i) Resident, (ii) Not Ordinarily Resident, (iii) Non-Resident.

b) Explain the characteristics of Salary?

(OR)

we of employe
an.

Register No.:.....
(16CCU401A)

KARAGAM ACADEMY OF HIGHER EDUCATION
(Deemed to be University)
(Established Under Sec 3 of UGC Act, 1956)
Estabhar Post, Coimbatore - 641021
(For candidates admitted from 2017 onwards)
THIRD INTERNAL EXAMINATION, MARCH - 2018
II B.COM. CA - FOURTH SEMESTER
INCOME TAX

Date: 22/3/18
Time duration : 2 Hrs
Maximum Marks: 50

PART - A (20 X 1 = 20 MARKS)
ANSWER ALL THE QUESTIONS

1. Unabsorbed depreciation can be carried forward for-----
a. 8 years b. 10 years c. till it is fully adjusted d. 15 years
2. Short term capital loss can be carried forward for -----
a. 4 years b. 12 years c. 4 years d. 8 years
3. Speculation loss can be carried forward for the maximum of -----
a. 8 years b. 10 years c. 4 years d. 5 years
4. Gain arising on the transfer of short term capital asset is known as -----
a. Short term capital gain b. Long term capital gain c. Medium term capital gain d. liabilities
5. Gain arising on the transfer of long term capital asset is known as -----
a. Short term capital gain b. Long term capital gain c. Medium term capital gain d. total capital gain
6. Standard deduction out of family pension is allowed upto 33 1/3 % of such pension or Rs. ----- which ever is less
a. Rs. 15,000 b. Rs. 20,000 c. Rs. 30,000 d. Rs. 40,000
7. Long term capital loss can be set off only from -----
a. Long term capital gain b. short term capital gain c. Business income d. salary
8. Loss under the head house property can be carried forward for -----
a. 8 years b. 4 years c. 2 years d. 1 year
9. Transfer of unadjusted loss of any previous year to succeeding years to set off against any income is called as ----- of losses
a. Set off b. Carry forward c. adjustable d. unadjustable
10. Capital gain is taxable to -----
a. all persons b. only residents c. only citizens d. NRI
11. Interest on securities before deducting the tax at source is -----
a. Net interest b. Gross interest c. Total interest d. nil value
12. Adjustment of any loss against any income with the previous year is called as ----- of losses

- a. Set off b. Carry forward
c. set off and carry forward d. can not be carried forward
13. Setting off of losses between the various years within the previous year itself is known as -----
a. Intra head adjustment b. salary
c. capital gain d. Interhead adjustment
14. Loss on account of owing and maintaining the race horse can be carried forward for
a. 8 years b. 4 years c. indefinite period d. 5 years
15. As asset which does not cost anything to the assessee in terms of money in its creation or acquisition is called as -----
a. Self generated assets b. Depreciable assets
c. Capital assets d. all of the above
16. The securities on which interest is receivable after deduction of tax at source is -----
a. Tax free securities b. Less tax securities
c. Taxable securities d. TDS
17. Conversion of net interest into gross interest by applying specified rate of TDS is known as -----
a. Value b. Net value c. Total value d. Grossing up
18. Interest on securities is -----
a. General income b. Specified income c. Gross income d. net income
19. Interest on securities after deducting the tax at source is -----
a. Net interest b. Gross interest c. Total interest d. net worth
20. Expenses on horses for race purpose can be set off only from -----
a. Capital gain b. House property income
c. Race course winning d. salary income

PART - B (3X2=6 Marks)
ANSWER ALL THE QUESTIONS

21. What is Set - off of Losses?
22. Write a short Note on TDS.
23. Write a short note on On-line filing of returns.

- PART - C (3x8=24Marks)**
Answer All the Questions
24. (a) b) Total income of Mrs X for the assessment year 2016-17 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 2016-17.

OR

- (b) Explain the exempted capital gain u/s 54 and u/s 10 of Income tax Act 1961.
25. (a) Explain the provision and Procedure for online filing of returns

OR

(b) Determine the total income from the following particulars

	Previous Year 2014-2015 Rs.	Previous Year 2015-2016 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

26. (a) Explain Compulsory Filing of Returns.

OR

(b) What is E-Filing and Explain its Types.

To Donation to Rama Krishna Mission	4,000		
To Motor Car expenses	9,600		
To Depreciation on Car	4,800		
To Net Income	93,100		
	2,47,000		2,47,000

25. a) Calculate Gross Annual Value from following information:

	House A	House B
MRV	80,000	80,000
FRV	1,00,000	1,00,000
Standard Rent	70,000	1,20,000
Actual Rent	1,20,000	90,000

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

(OR)

b) The following is the Profit and Loss of a merchant for the year ending 31-3-2017

Profit and Loss Account	
To office salary	6,500
To bad debts written off	1,700
To provision for bad debts	3,000
To advertisement (in cash)	3,800
To Fire Insurance Premium (on house property)	550
To General Expenses	2,750
To Depreciation	1,200
To interest on Capital	2,000
To interest on Bank Loan (due)	1,300
Net profit	22,500
	45,300

Compute the taxable profits from business. The amount of depreciation is Rs. 1,000. Interest on Bank loan was paid on 1-4-2017. Due date of filing of returns is 31-7-2017.

26. a) Mr. X is employed at Hyderabad at a Basic Salary of Rs. 25,000 p.m and he is also getting following allowances:

- Dearness Allowance 2,000 p.m
- Leave Allowance 1,000 p.m
- Servant Allowance (He is paying Rs. 1,200 p.m to a servant) 1,000 p.m
- Transport Allowance 1,000 p.m
- Education Allowance (Rs. 200 p.m per child for three children) 600 p.m
- House Allowance to the club 800 p.m
- Compensatory Allowance 2,000 p.m
- Entertainment Allowance

- Official Allowance
- Cash Allowance 2,000 p.m
- Entertainment Allowance 1,200 p.m
- Medical Allowance 2,000 p.m
- City Compensatory Allowance 800 p.m
- House Rent Allowance 600 p.m

He is having a family house at the place of his posting but he is living in a rented house and is paying a rent of Rs. 7,000 p.m. Find out his Gross Salary.

(OR)

b) Profit and Loss Account of M/s Raju & Company

General Expense	7,000	Gross Profit	1,40,000
Fire Insurance Premium	2,000	Bad debts, recovered	
Bad debts		But disallowed earlier	4,000
Salaries	1,000	Interest from Govt. securities	4,000
Advertisement (in cash)	65,000	Rent received from employees	12,000
	22,250	Interest from debtors for delayed payment	6,000
proprietor's salary	12,500		
Interest on capital	2,000		
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. Depreciation calculate according to the rates comes to Rs. 2,900. Sales tax was paid on 1-05-17. Date of filing of return is 31-7-17.

50% of Motor-car expenses are for proprietor's personal Use.

Compute Business Income

No. of copies :- 110