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| | | Semester III | | | |
| | | L | T | P | C |
| 17BPU502A | TAXATION | 5 | - | - | 5 |

Course Objective

- To enable the students to understand assessment of Individuals, Firms, AOP, HUF,
- Identify national strategies for negotiating Double Taxation Treaties;
- Analyze and apply a Double Taxation Treaty to a complex commercial transaction;
- To provide skills on GST and Customs Law

Course outcome

- Understand the system of 'Self Assessment'
- Understand and apply the rules determining liability to Income Tax i.e. computation of tax payable
- Understand the basis of assessment for single persons and partnerships
- Understand and apply the rules relating to losses for individuals and companies.
- Have an understanding of the basic principles of GST

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

Introduction to Goods and Services Tax (GST): Meaning of GST – Basic Concepts – Features of GST- Benefits of GST- GST working Mechanism – GST rate and taxes on GST – Goods and Service Tax Network (GSTN) – Constitutional Framework of GST – Model GST Law – Chargeability for GST – Composition Scheme.

Unit V

Customs Law : Basic Concepts of Customs Law, Territorial Waters, High Seas, Types of Custom Duties –Basic, Countervailing & Anti-Dumping Duty, Safeguard Duty, Valuation, Customs Procedures, Import and Export Procedures – Baggage -Exemptions.

Suggested Readings

Text Book

1. Gaur and Narang (2016), *Income Tax Law and Practice*, Kalyani Publisher Luthiana, 4th Edition.
2. V.S.Datey, (2016) , *Indirect Taxes*, New Delhi, Taxman Publications (P) Ltd.,

References Books:

1. Singhanian, Vinod K. & Monica Singhanian, (2016), *Students' Guide to Income Tax*, University Edition.Taxmann Publications Pvt. Ltd., New Delhi., 54th Edition,
2. Ahuja, Girish & Ravi Gupta, (2016), *Systematic Approach to Income Tax*. Bharat Law House, Delhi. 35th Edition.
3. Sanjeev Kumar (2013) *Systematic Approach to Indirect Taxes* [10th Edition]. New Delhi, Bharat Law House Pvt. Ltd.
4. S. S. Gupta. Service Tax (2016)-*How to meet your obligation*. NewDelhi, Taxmann Publications Pvt. Ltd.,
5. Grish Ahuja and Ravi Gupta (2015), *Indirect Taxes*, [32nd Edition]. New Delhi, Flair Publication Pvt. Ltd.

| UNIT | TOPICS | PAGE NO: |
|----------|--|----------|
| 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 | Business income: Profits and gains of Business or profession - Meaning of Business or profession - Computation of Profits and gains of Business or Profession of an Individual- expenses expressly allowed – expenses expressly disallowed. | |
| UNIT-IV | Introduction to Goods and Services Tax (GST): Meaning of GST – Basic Concepts – Features of GST- Benefits of GST- GST working Mechanism – GST rate and taxes on GST – Goods and Service Tax Network (GSTN) – Constitutional Framework of GST – Model GST Law – Chargeability for GST – Composition Scheme. | |
| UNIT-V | Customs Law : Basic Concepts of Customs Law, Territorial Waters, High Seas, Types of Custom Duties –Basic, Countervailing & Anti-Dumping Duty, Safeguard Duty, Valuation, Customs Procedures, Import and Export Procedures – Baggage -Exemptions. | |

Note : Distribution of Marks for theory and problems shall be 40% and 60 % respectively.

SYLLABUS WITH TEXT BOOK & REFERENCES BOOK

REFERENCES

1. Income tax Law and Practice , 2014 – Gaur and Narang
2. Income tax Law and Practice – Mehrothra

List of other related books referred

1. Taxation – Jayaprakash reddy
2. Direct tax – Dinker pagarae
3. Direct taxes, Income tax, Wealth tax and Tax planning – B.B. Lal and N. Vashisht
4. Indirect taxes GST and customs law – Dr.Parameshwaran and C.A.P.Vishwanathan

List the Website where the material were obtained

1. http://incometaxindia.gov.in/download_all.asp
2. <http://easyitfiling.com/income-tax-returns-filing-online/income-tax-house-property/>
3. [http://law.incometaxindia.gov.in/DITTaxmann/IncomeTaxRules/PDF/ay2011-12/itr62Form1-9\(New2011-12\)_2.htm](http://law.incometaxindia.gov.in/DITTaxmann/IncomeTaxRules/PDF/ay2011-12/itr62Form1-9(New2011-12)_2.htm)
4. <http://finance.indiamart.com/taxation/capitalgains.html>
5. <http://taxguru.in/income-tax/all-about-deduction-under-section-80c-and-tax-planning.html>

List of Models to be used for demonstration (if any)

1. Power Point Presentation
2. OHB Presentation

Outcome of the Course

- Enabling and enlightening students to compute and filing income tax returns in future.
- To familiarize the students about the tax planning

KARPAGAM UNIVERSITY
DEPARTMENT OF COMMERCE
III B.COM BPS - TAXATION – I - 16BPU502A

LECTURE PLAN

UNIT I

| SL. No. | Lecture Duration (Hr) | Name of the Topic | Support Materials |
|---|------------------------------|---|--------------------------|
| 1 | 1 | Income Tax Act 1961 ,History of IT act, Tax, types of tax | T: 1/3 - 1/7 |
| 2 | 1 | Definitions – Agricultural Income, Assessee, Assessment and Previous year | T: 1/8 - 1/11 |
| 3 | 1 | Definitions – Person, Income, Tax treatment of income | R1: 39 - 42 |
| 4 | 1 | Residential status of an Individual , basic and additional conditions | R1: 43 - 45 |
| 5 | 1 | Determination of residential status of an individual | R1: 43-45 |
| 6 | 1 | Determination of Residential status of an individual – Sums | T: 1/36 – 1/47 |
| 7 | 1 | Residential status of an individual – Sums | T: 1/36 – 1/47 |
| 8 | 1 | Determination of residential status of HUF , Sums | T: 1/36 – 1/47 |
| 9 | 1 | Residential status of a Firm, Company, AOP and BOI | T: 1/36 – 1/47 |
| 10 | 1 | Scope of income or incidence to tax , general format | T: 1/47 - 1/54 |
| 11 | 1 | Computation of total income – General format | T: 1/55 - 1/65 |
| 12 | 1 | Computation of total income – sums | T: 1/67 - 1/89 |
| 13 | 1 | Exempted income u/s 10 | T: 1/69 -1/98 |
| 14 | 1 | Recapitulation and discussion of important questions | |
| Total no. Hours planned for Unit - I | | | 14 |

TEXT BOOK

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

REFERENCES

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

WEBSITE

W: <http://www.incometaxindia.gov> in

UNIT II

| SL. No. | Lecture Duration (Hr) | Name of the Topic | Support Materials |
|--|-----------------------|---|-------------------|
| 1 | 1 | Computation of income from salaries – General format, Salary features and general format | T: 2/3 – 2/4 |
| 2 | 1 | Allowances – Fully exempted and fully taxable allowances - Sums | T: 2/18 – 2/22 |
| 3 | 1 | Partially taxable allowances – provisions and sums | T: 2/22 – 2/25 |
| 4 | 1 | Perquisites – Taxable and exempted , perquisites and sums | T: 2/26 – 2/40 |
| 5 | 1 | Profit in lieu of salary, Gratuity, pension | T: 2/57 – 2/69 |
| 6 | 1 | Pension, Provident fund and leave encashment | T: 2/57 – 2/69 |
| 7 | 1 | Computation of total salary income – Sums | R2 : 161-166 |
| 8 | 1 | Income from House Property – Annual value, different types of annual rental value | R2: 166 - 173 |
| 9 | 1 | General format for Computation of House property income | R2: 199-220 |
| 10 | 1 | Computation of Annual Rental Value – Sums | T: 2/147 – 2-157 |
| 11 | 1 | Let out and self occupied house property –Sums Partly let out and self occupied Deductions - Sums | T: 2/163 – 2/172 |
| 12 | 1 | Treatment of unrealised rent , joint expenses – Sums | T: 2/173- 2/175 |
| 13 | 1 | Computation of income from house property | T: 2/177 – 2/203 |
| 14 | 1 | Recapitulation and discussion of important questions | |
| Total no. Hours planned for Unit - II | | | 14 |

TEXT BOOK

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

REFERENCE BOOK

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

WEBSITES

http: [\\www. Du.ac.in](http://www.Du.ac.in)

UNIT III

| SL. No. | Lecture Duration (Hr) | Name of the Topic | Support Materials |
|---|-----------------------|---|-------------------|
| 1 | 1 | Business income , Meaning and definition and general format for computation | T: 2/205- 2/207 |
| 2 | 1 | Expenses are expressly allowed and disallowed | T: 2/14- 2/227 |
| 3 | 1 | Incomes which are expressly allowed and disallowed | T: 2/214- 2/227 |
| 4 | 1 | Computation of business income – General format | T: 2/228- 2/237 |
| 5 | 1 | Computation of business income – Sums | T: 2/260 – 2/280 |
| 6 | 1 | Computation of business income – Sums | T: 2/281- 2/300 |
| 7 | 1 | Computation of business income – Sums | T: 2/281- 2/300 |
| 8 | 1 | Professional Income of a doctor , General format and sums | T: 2/255 |
| 9 | 1 | Professional Income of a doctor - sums | T: 2/256 |
| 10 | 1 | Professional Income of a chartered accountant , General format and sums | T: 2/260-2/280 |
| 11 | 1 | Professional Income of a chartered accountant , General format and sums | T: 2/260 – 2/280 |
| 12 | 1 | Professional Income of a lawyer, General format and sums | T: 2/257 |
| 13 | 1 | Professional Income of a lawyer - sums | T: 2/281 – 2/300 |
| 14 | 1 | Recapitulation and discussion of important questions | |
| Total no. Hours planned for Unit - III | | | 14 |

TEXT BOOK

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

WEBSITE

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

UNIT IV

| SL. No. | Lecture Duration (Hr) | Name of the Topic | Support Materials |
|--|-----------------------|--|-------------------|
| 1 | 1 | Meaning of GST and Basics of GST | T38-39 |
| 2 | 1 | Object and subject of GST | T 39 |
| 3 | 1 | Constitutional perspective of GST law | T 39 |
| 4 | 1 | Levy of GST | T 39 |
| 5 | 1 | Features of GST | T 40-43 |
| 6 | 1 | Taxes surrendered under goods and service tax | T 44 |
| 7 | 1 | Benefits of goods and service tax | T46-48 |
| 8 | 1 | GST rate structure | T 49 |
| 9 | 1 | Types of supplies under GST in india | T 49-52 |
| 10 | 1 | Goods and services Tax network | T53-54 |
| 11 | 1 | GST rates and taxes rates | Web site |
| 12 | 1 | Responsibility of GST | Web site |
| 13 | 1 | Major differences between pre and post GST rules | Web site |
| 14 | 1 | Reverse charge and input tax credit | website |
| 15 | 1 | Documentation and compliance | Web site |
| Total no. Hours planned for Unit - IV | | | 15 |

TEXT BOOK

T: Indirect taxes GST and customs law – Dr.Parameshwaran and C.A.P.Vishwanathan

WEBSITE

<https://www.gsthandbook.com/gst/GSTIndia/gst%20pdf.html>

UNIT V

| SL. No. | Lecture Duration (Hr) | Name of the Topic | Support Materials |
|---|-----------------------|--|-------------------|
| 1 | 1 | Introduction and constitutional basic for the levy of customs duty | T-227 |
| 2 | 1 | Objectives of customs levy | T-227 |
| 3 | 1 | Scope of customs law in india | T-228-229 |
| 4 | 1 | Legal structure of customs act | T-230-231 |
| 5 | 1 | Prohibitions on importation and exportation of goods | T-235 |
| 6 | 1 | Levy and collection of customs duty | T- 236 |
| 7 | 1 | Taxable event | T- 236 |
| 8 | 1 | Types of customs duty | T- 239-241 |
| 9 | 1 | Computation of customs duty | T- 242 |
| 10 | 1 | Classification of goods | T- 244-252 |
| 11 | 1 | Exemption from Duty | T- 269-270 |
| 12 | 1 | Drawback of customs | T 270 |
| 13 | 1 | Recapitulation and discussion of important questions | |
| 14 | 1 | Recapitulation and discussion of important questions | |
| 15 | 1 | Recapitulation and discussion of important questions | |
| Total no. Hours planned for Unit - V | | | 15 |

TEXT BOOK

T: Indirect taxes GST and customs law – Dr.Parameshwaran and C.A.P.Vishwanathan

UNIT-I-INTRODUCTION

SYLLABUS

Introduction to Operations Management – Basic concepts-income agriculture income person Assessee ,assessment year,previous year gross total income,tataol income maximum marginal rate of tax-permanent account number(PAN)-residential status-scopr of total income on the basis of residential status –exempted income under section 10

INTRODUCTION:

BRIEF HISTORY OF INCOME TAX IN INDIA

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

Income-tax law in India

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

1. Income tax Acts
2. Income tax rules
3. Finance Act

4. Circulars, notifications etc
5. Legal decision of courts.

Finance Act:

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

Income-tax Rules:

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

Circulars and Notifications:

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

Important Definitions**Assessment Year : Section 2(9)**

“Assessment year” means the period starting from April 1 and ending on March 31 of the next year. Eg: Assessment year 2018-19 which commences on April 1, 2018 and ends on March 31, 2019. Income of previous year of an assessee is taxed during the assessment year at the rates

Previous year : Section 3

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

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

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

in which he earns the income:

- a. Income of non-residents from shipping;
- b. Income of persons leaving India either permanently or for a long period of time;
- c. Income of bodies formed for short duration;
- d .Income of a person trying to alienate his assets with a view to avoiding payment of Tax;
- e. Income of a discontinued business.

Person : Section 2(31)

The term “person” includes:

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

Assessee : Section 2(7)

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

Deemed Assessee:

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

Assessee In Default:

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

Assessment [Section 2(8)]

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

Basis Of Charge Of Income Tax Sec : 4

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

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

INCOME : Section 2 (24)

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

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

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

- (1) Profits and gains.
- (2) Dividends.
- (3) Voluntary contributions received by a trust/institution created wholly or partly for charitable or religious purposes or by an association or institution
- (4) The value of any perquisite or profit in lieu of salary taxable under section 17.
- (5) Any special allowance or benefit other than the perquisite included above, specifically granted to the assessee to meet expenses wholly, necessarily and exclusively for the performance of the duties of an office or employment of profit.
- (6) Any allowance granted to the assessee to meet his personal expenses at the place where

the duties of his office or employment of profit are ordinarily performed by him or at a place where he ordinarily resides or to compensate him for the increased cost of living.

- (7) The value of any benefit or perquisite whether convertible into money or not, obtained from a company either by a director or by a person who has a substantial interest in the company or by a relative of the director or such person and any sum paid by any such company in respect of any obligation which, but for such payment would have been payable by the director or other person aforesaid.
- (8) The value of any benefit or perquisite, whether convertible into money or not, which is obtained by any representative assessee mentioned under section 160(1)(iii) and (iv), or by any beneficiary or any amount paid by the representative assessee for the benefit of the beneficiary which the beneficiary would have ordinarily been required to pay.
- (9) Deemed profits chargeable to tax under section 41 or section 59.
- (10) Profits and gains of business or profession chargeable to tax under section 28.
- (11) Any capital gains chargeable under section 45.
- (12) The profits and gains of any insurance business carried on by Mutual Insurance Company or by a cooperative society, computed in accordance with Section 44 or any surplus taken to be such profits and gains by virtue of the provisions contained in the first Schedule to the Act.
- (13) The profits and gains of any business of banking (including providing credit facilities) carried on by a co-operative society with its members.
- (14) Any winnings from lotteries, cross-word puzzles, races including horse races, card games and other games of any sort or from gambling, or betting of any form or nature whatsoever.
- (15) Any sum received by the assessee from his employees as contributions to any provident fund or superannuation fund or Employees State Insurance Fund (ESI) or any other fund.
- (16) Any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy will constitute income. "Keyman insurance policy" means a life insurance policy taken by a person on the life of another person where the latter is or was an employee or is or was connected in any manner what so ever with the former's business.
- (17) Any sum referred to clause (va) of Section 28. Thus, any sum, whether received or receivable in cash or kind, under an agreement for not carrying out any activity in relation to any business; or not sharing any know-how, patent, copy right, trade-mark, licence, franchise, or any other business or commercial right of a similar nature, or information or technique likely to assist in the manufacture or processing of goods or provision of services, shall be chargeable to income tax under the head "profits and gains of business or profession".

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

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

Gross Total Income Sec: 80b (5)

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

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

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

Total Income Sec : 2(45)

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

Casual Income

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

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

RATES OF INCOME TAX FOR THE ASSESSMENT YEAR 2017-18

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

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

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

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

| | |
|---------------------------|-------|
| Upto Rs: 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% |

Other individuals, HUF, AOP, BOI:

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

Special Rates:

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

Surcharge: Nil

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

Agriculture income

Agriculture income is exempt under the Indian Income Tax Act. This means that income earned from agricultural operations is not taxed. The reason for exemption of agriculture income from Central Taxation is that the Constitution gives exclusive power to make laws with respect to taxes on agricultural income to the State Legislature. However while computing tax on non-agricultural income agricultural income is also taken into consideration. As per Income Tax Act income earned from any of the under given three sources meant Agricultural Income;

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

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

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

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

- (i) There must be a land.
- (ii) The land is being used for agricultural operations.
- (iii) Agricultural operation means that efforts have been induced for the crop to sprout out of the land .
- (iv) If any rent is being received from the land then in order to assess that rental income as agricultural income there must be agricultural activities on the land.
- (v) In order to assess income of farm house as agricultural income the farm house building must be situated on the land itself only and is used as a store house/dwelling house.

Certain income which is treated as Agriculture Income:

- (a) Income from sale of replanted trees.
- (b) Rent received for agricultural land.
- (c) Income from growing flowers and creepers.
- (d) Share of profit of a partner from a firm engaged in agricultural operations.
- (e) Interest on capital received by a partner from a firm engaged in agricultural operations.
- (f) Income derived from sale of seeds.

Certain income which is not treated as Agricultural Income:

- (a) Income from poultry farming.
- (b) Income from bee hiving.
- (c) Income from sale of spontaneously grown trees.
- (d) Income from dairy farming.
- (e) Purchase of standing crop.
- (f) Dividend paid by a company out of its agriculture income.
- (g) Income of salt produced by flooding the land with sea water.
- (h) Royalty income from mines.
- (i) Income from butter and cheese making.

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

Partly agriculture income

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

1. Profit of business other than Tea

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

2. Profit from Tea manufacturing

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

3. Income from the manufacturing of centrifuged latex

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

4. Income from the coffee manufacturing

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

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

Capital and revenue receipts and expenditure

Receipts which are non-recurring (not received again and again) by nature and whose benefit is enjoyed over a long period are called "Capital Receipts", e.g. money brought into the business by the owner (capital invested), loan from bank, sale proceeds of fixed assets etc. Capital receipt is shown on the liabilities side of the Balance Sheet.

receipts which are recurring (received again and again) by nature and which are available for

meeting all day to day expenses (revenue expenditure) of a business concern are known as "Revenue receipts", e.g. sale proceeds of goods, interest received, commission received, rent received, dividend received etc.

Distinction between Capital Receipt and Revenue Receipt:

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

Difference between Capital Expenditure and Revenue Expenditure:

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

Residential Status And Tax Incidence

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

Residential Status of an Individual

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

Basic conditions :

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

OR

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

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

- (a) An Indian citizen who leaves India during the previous year for the purpose of taking employment outside India or an Indian citizen leaving India during the previous year as a member of the crew of an Indian ship.
- (b) An Indian citizen or a person of Indian origin who comes on visit to India during the previous year (a person is said to be of Indian origin if either he or any of his parents or any of his grandparents was born in undivided India).

Additional Conditions:

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

AND

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

Resident

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

(A) Resident And Ordinarily Resident

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

(B) Resident But Not Ordinarily Resident

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

Non-Resident

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

Residential Status Of A Hindu Undivided Family

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

HUF : Resident or Non-Resident

A Hindu undivided family is said to be resident in India if control and management of its affairs is wholly or partly situated in India. A Hindu undivided family is non-resident in India if control and management of its affairs is wholly situated outside India. A resident Hindu undivided family is an ordinarily resident in India if the karta or manager of the family (including successive kartas) satisfies the following two additional conditions as laid down by section 6(6)(b).

Additional condition (i) Karta has been resident in India in at least 2 out of 10 previous years [according to the basic condition mentioned in immediately preceding the relevant previous year]

Additional condition (ii) Karta has been present in India for a period of 730 days or more during 7 years immediately preceding the previous year.

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

Residential Status of Firm and Association of Persons

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

Residential Status of a Company

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

Scope of Total Income (Section 5) :

Resident and ordinarily resident:

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

- (a) any income received or deemed to be received in India during the previous year by or on behalf of the assessee ; or
- (b) any income accrues or arises or deemed to accrue or arise to him in India during the previous year ; or
- (c) any income accrues or arises to him outside India during such year.

Resident but not ordinarily resident:

- (a) any income received or deemed to be received in India during the previous year by or on behalf of the assessee ; or
- (b) any income accrues or arises or deemed to accrue or arise to him in India during the previous year ; or

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

Non- resident:

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

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

EXEMPTED INCOME

Income Exempt from Income Tax

The following Income is exempt from Income tax:-

1. Agriculture Income [Sec. 10(1)]
2. Payments received from family income by a member of HUF [Sec. 10(2)]
3. Share of profit from a firm [Sec. 10(2A)]
4. Interest received by a non resident from prescribed securities [Sec. 10(4)]
5. Interest received by a person who is resident outside India on amounts credited in the non-resident (External) account [Sec. 10(4)]
6. Leave travel concession provided by as employer to his Indian citizen employee, Sec. 10(5)]
7. Remuneration received by foreign diplomats of all categories [Sec. 10(6)]
8. Salary received by a foreign citizen as an employee of a foreign enterprise provided his stay in India does not exceed 90 days [Sec. 10(6)(vi)]
9. Salary received by a non-resident foreign citizen as a member of ship's crew provided his total stay in India does not exceed 90 days [Sec. 10(6)(vii)]
10. Remuneration received by an employee, being a foreign national, of a foreign government deputed in India for training in a Government establishment or public sector undertaking [Sec. 10(6)(xi)]
11. Tax paid on behalf of foreign companies [Sec. 10(6A)]
12. Tax paid by Government or an Indian concern in case of a non-resident / foreign company [Sec. 10(6B)]
13. Income arising to notified foreign companies from services provided in or outside India in project connected with the security of India [Sec. 10(6C)]

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14. Foreign allowance granted by the Government of India to its employees posted abroad [Sec. 10(7)]
15. Remuneration received from a foreign Government by an individual who is in India in connection with any sponsored co-operative technical assistance programme with a foreign Government and the income of the family members of such employee [Sec. 10(8)and(9)]
16. Remuneration / fee received by non-received consultants and their foreign employees [Sec. 10(8A),(8B) and (9)]
17. Death-cum-retirement gratuity [Sec. 10(10)]
18. Commuted value of pension and any payment received by way of commutation of pension by as individual out of annuity plan of LIC or any other insurer from a fund set up by that corporation or insurer [Sec. 10(10A)]
19. Leave salary [Sec. 10(10AA)]
20. Retrenchment compensation [Sec. 10(10B)]
21. Compensation received by victims of Bhopal gas leak disaster [Sec. 10(10BB)]
22. Compensation from the Central Government or a state Government or a local authority received by an individual or his legal heir on account of any disaster [Sec. 10(10BC)]
23. Compensation received from a public sector company at the time of voluntary retirement or separation [Sec. 10(10C)]
25. Any sum (including bonus) on life insurance policy (not being a keyman insurance policy) [Sec. 10(10D)]
26. Any amount from provident fund paid to retiring employee [Sec. 10(11)]
27. Amount from an approved superannuation fund to legal heirs of the employee [Sec. 10(13)]
28. House rent allowance subject to certain limits [Sec. 10(13A)]
29. Special allowance granted to an employee [Sec. 10(14)]
30. Interest from certain exempted securities [Sec. 10(15)]
31. Payment made by an Indian company, engaged in the business of operation of an aircraft, to acquire an aircraft on lease from a foreign Government or foreign enterprise [Sec. 10(15A)]
32. Scholarship granted to meet the cost of education [Sec. 10(16)]
33. Daily allowance of a member of parliament or state Legislature (entire amount is exempt), any other allowance subject to certain conditions [Sec. 10(17)]

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34. Rewards given by the central or state Government for literary, scientific or artistic work or attainment or for service for alleviating or for service for alleviating the distress of the poor, the weak and the ailing, or for proficiency in sports and games or gallantry awards approved by the Government [Sec. 10(17A)]
35. Pension and family pension of gallery award winners [Sec. 10(18)]
36. Family pension received by family members of armed forces [Sec. 10(19)]
37. National property income of any one place occupied by a former ruler [Sec. 10(19A)]
38. Income from local authorities [Sec. 10(20)]
39. Any income of housing boards constituted in India for planning, development or improvement of cities, town or villages [Sec. 10(20A)]
40. Any income of an approved scientific research association [Sec. 10(21)]
41. Income of specified non- agencies [Sec. 10(22B)]
42. Any income (other than interest on securities income from property income received for rendering any specific services and income by way of interest or dividends) of approved professional bodies [Sec. 10(23A)]
43. Any income received by any person on behalf of any regimental fund or non public fund established by the armed forces of the union for the welfare of the past and present members of the such forces or their dependents [Sec. 10(23AA)]
44. Income of funds established for the welfare of employees [Sec. 10(23AAA)]
45. Any income of the pension fund set by LIC or any other insurer approved by the controller of insurance or insurance Regulatory and development authority [Sec. 10(23AAB)]
46. any income (other than business income) of a trust or a society approved by Khadi and village industries commission [Sec. 10(23B)]
47. Income of an authority whether known as Khadi and village industries board or by any other name for the development of Khadi and village industries [Sec. 10(23BB)]
48. Income of the European Economic Community derived in India by way of, interest, dividends or capital gains in certain cases [Section 10(23BBB)]
49. Any income arising to anybody or authority established, constituted or appointed under any enactment for the administration of public religious or charitable trusts or endowments or societies for religious or charitable purposes [Section 10(23BBA)]

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

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- 2004 [Section 10(36)]
66. Capital gain to individual/HUF on compensation received on compulsory acquisition of urban agriculture land [Section 10(37)]
67. Long term capital gain in some cases [Section 10(38)]
68. Sum received without consideration from international sporting event held in India [Section 10(39)]
69. Income of Industrial Units situated in trade-free zones, specified technology parks etc. [Section 10A]
70. Income from specified 100% export oriented undertakings [Section 10B]
71. Income from property held for approved charitable or religious purposes [Section 11]
72. Specified Income of Registered political parties [Section 13A7968]

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UNIT I

| QUESTION | OPTION A | OPTION B | OPTION C | OPTION D | ANSWER |
|---|--------------------|---|--|-------------------------------|--------------------|
| Income tax is a ----- | direct tax | indirect tax | business tax | not a tax | direct tax |
| Income tax was passed in the year ----- | 1960 | 1961 | 1962 | 1963 | 1961 |
| Income tax Act extends to --- ---- | Whole of India | Whole of India except Jammu and Kashmir | Whole on India except Sikkim. not applicable | Whole of India except Gujarat | whole of India |
| Rate of Income tax are fixed under ----- | The income tax act | The finance act | Notification of CBDT | Sub rules | The finance act |
| An example to direct tax is -- ----- | Income tax | Sales tax | Customs duty | excise duty | Income tax |
| Every year the residential status of an assessee ----- - | may change | will certainly change | will not change | citizen | may change |
| In which section of Income tax act exempted incomes have been mentioned? | Sec 2 | Sec 10 | Sec 80 | sec82 | Sec 10 |
| The current previous year is - ----- | 2016-17 | 2014-15 | 2015-16 | 2017-18 | 2016-17 |
| The current assessment year is ----- | 2017-18 | 2016-17 | 2014-15 | 2015-16 | 2017-18 |
| The sum of five heads of income is called ----- | Gross total income | net total income | total income | exempted income | gross total income |
| Any person who is liable to pay any tax or any other money under Income tax act is----- | Assessee | resident | Citizen | NRI | assessee |
| Incomes which do not form the part of total income is called as ----- income. | Deduction | Exempted | total | Rebate | Exempted |
| the total income computed will be rounded off the nearest multiples by----- | 100's | 1000's | 10's | 500's | 10's |
| Tax on tax is called as ----- - | surcharge | gross tax | net tax. | total tax | surcharge |
| The concession in the amount of tax liability subject to certain conditions are called----- | tax rebate | tax exemption | tax holiday | tax perquisite | tax rebate |

| | | | | | |
|--|-------------------|-------------------------|--------------------------|-----------------|-------------------------|
| According to Income Tax Act 1961, Person includes, | Individual | HUF | firm | all the above | all the above |
| person who does not fulfill the statutory obligations given under the Act is called – | ordinary assessee | Representative assessee | assessee- in-default. | deemed assessee | assessee in default |
| Income not earned and not accrued in India is ----- income. | Foreign income | Indian income | total income. | net income | foreign income |
| A person not only liable for his own income, but also for others income or loss is called -- | ordinary resident | Representative assessee | Assessee – in – default. | NRI | representative assessee |
| Agricultural income is ----- income | fully exempt | partially exempt | fully taxable. | not an income | fully exempt |
| Part I of Schedule I of the finance Act 2018 has given rates of Income tax for the assessment year ----- | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2017-18 |
| Education cess is leviable on ----- | Income tax | Income Tax + Surcharge | Surcharge | total tax | income tax + surcharge |
| Education cess is leviable @ ----- | 3% | 2% | 1% | 5% | 2% |
| Residential status is to be determined for ----- | Previous year | Assessment year | Accounting year | financial year | previous year |
| Maximum exemption on which income tax is not chargeable for the assessment year 2016-17 is -- ----- | Rs. 1,00,000 | Rs. 1,35,000 | Rs. 1,85,000 | Rs.2,50,000 | Rs.2,50,000 |
| Income tax rules was passed in the year ----- | 1961 | 1962 | 1963 | 1964 | 1962 |
| Education cess is leviable @ ----- | 3% | 2% | 1% | 5% | 2% |
| While determining the residential status of individual basic conditions are given u/s ---- | 6(1) | 6(2) | 6(3) | 6(4) | 6(1) |
| While determining the residential status of individual additional conditions are given u/s - | 6(1) | 6(2) | 6(3) | 6(4) | 6(3) |

| | | | | | |
|---|----------------|-----------------------|-------------------------------------|-----------------|---------------|
| If an individual satisfies any one condition of the basic conditions and both the conditions of the additional conditions , then he is called ----- | Non resident | Not ordinary resident | Resident | assessee | resident |
| If an individual does not satisfies any one condition of the basic conditions then he is said to be ----- | Non resident | Not ordinary resident | Resident | person | non-resident |
| Income earned and received outside India is taxable to ----- | All assesseees | Resident only | Resident and not ordinary resident. | person | resident only |
| Maximum amount on which income tax is not chargeable for the assessment year 2016-17 is----- | Rs.1,00,000 | Rs. 1,35,000 | Rs2,50,000 | Rs.2,00,000 | Rs. 2,50,000 |
| The period during which certain incomes have been exempted from tax subject to certain conditions is called ----- | Tax rebate | Tax exemption | tax Holiday | tax deduction | tax holiday |
| Income of the previous year is taxable in the assessment year ----- | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2017-18 |
| An individual who wants to be resident in India u/s 6(I) (a) must stay in India for atleast ----- | 182 days | 365 days | 730 days | 1,000 days | 182 days |
| The exemption limit of income not taxable for the assessment year is --- | Rs. 1,00,000 | Rs.50,000 | Rs. 1,50,000 | .Rs.2,50,000 | Rs.2,50,000 |
| Where impact and incidence falls on a same person then it is called ----- | direct tax | Indirect tax | Not at all tax | none | direct tax |
| Every assessee is a person but every person need not be a ----- | Assessee | Resident | Citizen | NRI | assessee |
| Income tax is a ----- | Indirect tax | direct tax | Not at all tax | corporation tax | direct tax |

| | | | | | |
|--|------------------|-----------------------|---------------------------------------|----------------------------|-----------------|
| A life insurance policy taken by the employer on the lives of employee is known as--- | Insurance policy | Keyman | Insurance allowance | premium | keyman |
| Surcharge is to be levied of the total income exceed ----- | Rs. 25,00,000 | Rs.75,00,000 | Rs. 1,00,00,000 | Rs. 50,00,000 | Rs.1,00,00,000 |
| Residential status of individual is given u/s ----- | 6 | 8 | 10 | 12 | 6 |
| Income earned and received out side India from any other sources is taxable ----- | Only resident | NOR | Non resident | citizen | only resident |
| Gratuity received by the employees working on government service shall be - ----- | fully exempt | fully taxable | Partially taxable. | none | fully exempt |
| The full amount of scholarship granted to meet the cost of education is ----- | Taxable | Exempted | Rebate | debate | Exempted |
| Income earned and received outside India from a business controlled or profession set up in India is taxable to ----- | Only resident | NOR | non resident | citizen | only resident |
| Income earned and received outside India in the years preceding the previous year and remitted to India during the previous year is taxable to ----- | Only resident | NOR | non resident | citizen | not taxable |
| Rs.2,000 earned in India but received in canada is taxable to ----- | Resident | NOR | non resident | taxable to all | taxable to all |
| Profit earned from the business in Mumbai is taxable ----- | All assesseees | Resident only | resident and not ordinary resident | citizen | all assesseees |
| Salary received by a member of parliament is ----- | Exempt from tax | Taxable salary income | Taxable as income from other sources. | taxable as business income | Exempt from tax |

| | | | | | |
|--|---------------------------------------|---|--|-----------------------------|---|
| A University teacher is a ----- | Government employee | Semi – government employee | Private employee | not an employee | semi government employee |
| Income from tea cultivation and manufacturing of tea business has to be divided in two parts ----- | 40% is agricultural income | 50% is agricultural income | 60% is agricultural income | 70% is agricultural income | 60% is agricultural income |
| Embezzlement of cash by cashier is ----- | A revenue loss | A capital loss | A casual loss. | not a loss | a revenue loss |
| Dividend by an Indian company paid out side India is : | Income accruing in India | Income deemed to accrue in India | income earned in India | income earned outside India | income deemed to accrue in India |
| Proceeds of benefit match received by a cricket player are ----- | Professional income | A casual income | An exempted income | not an income | a casual income |
| Embezzlement of cash in a money lending business shall be treated as ----- | business expenditure | Revenue loss incidental to business | capital expenditure | receipt | revenue loss incidental to business |
| The previous year means ----- | The accounting period of the assessee | financial year before the assessment year | Calendar year before the assessment year . | next year | financial year before the assessment year |
| In case of company assessee control and management is situated in India means ----- | Resident | Not ordinary resident | Non resident | citizen | resident |
| Share of income from firms is ----- income | fully taxable | fully exempted | partially taxable | partially exempted | fully exempted |

UNIT-II SALARIES AND HOUSE PROPERTY

SYLLABUS

Introduction to Operations Management – salaries and house property-computation of income from salaries and income from house property

INTRODUCTION:

INCOME FROM SALARIES

Salary (Section 15 – 17)

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

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

Section 17(1) of the Income tax Act gives an inclusive and not exhaustive definition of “Salaries”

, which includes:

- (i) Wages
- (ii) Annuity or
pension (iii)
Gratuity
- (iv) Fees, Commission, allowances perquisites or profits in lieu of salary
- (v) Advance of Salary
- (vi) Amount transferred from unrecognized provident fund to recognized provident fund
- (vii) Contribution of employer to a Recognized Provident Fund in excess of the prescribed

limit (viii) Leave Encashment

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

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

Arrears of Salary

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

Pension

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

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

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

Commuted pension

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

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

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

Gratuity

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

(i) Government employees and employees of local authority:

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

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

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

- 1.) Amount of gratuity actually received.
- 2.) 15 days of salary for every completed years of service or part thereof in excess of six months. $(15 / 26 \times [\text{basic salary} + \text{Dearness Allowance}] \times \text{No. of years of service} + 1 \text{ [if fraction} > 6 \text{ months]})$.
- 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. 2017 was Rs:2500 p.m. He received a gratuity of Rs;60,000. Compute his taxable gratuity.

Solution:

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

$\frac{1}{2}$ 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 |

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:

$$1,00,000 \text{ Statutory limit} = \text{Rs:}10,00,000$$

Therefore exempted amount = 48,000.

Leave Salary

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

The tax treatment of leave encashment is as under:

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

•State or Central Government employees:

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

Other employees:

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

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

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

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

Illustration:3

Mr. Afsal was employed in a company. He took voluntary retirement on 1st December, 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, 2017 after serving 20 years. He received Rs: 96,000 as leave encashment for 12 months. His average salary at the time of retirement amounted to Rs: 7,400. He had 2 months leave at his credit. Find the taxable amount of leave encashment.

Solution:

Exempted amount of leave encashment is least of the following:

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

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

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

Statutory Limit = Rs: 3,00,000

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

=====

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 2018-19.

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= $14\frac{1}{2} \times 14400$ =Rs:1,00800. Maximum limit Rs: 5,00,000

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

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

Voluntary Retirement Compensation 10(10c)

The following Conditions are to be met for claiming exemption:

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

Exemption is allowed to the least of the followings:

- (i) Actual amount received
- (ii) Maximum Limit Rs 5,00,000
- (iii) The highest of the following:
 - 1. Last drawn salary $\times 3 \times$ 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:

- 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:

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: |
|--|--------|--------|
| 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 $[2,000 \times 12 - 10\% \text{ of } 64,800]$ | 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 such allowance or Rs.10000 per month, whichever is less.

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

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

Fully Exempt Allowances

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

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

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

Perquisites

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

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

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

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

Classification of Perquisites

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

- (1) Perquisites that are taxable in case of every employee, whether specified or not
- (2) Perquisites that is taxable in case of specified employees only.
- (3) Perquisites that is exempt from tax for all employees

Perquisites Taxable in case of all Employees

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

1. Rent free house provided by employer
2. House provided at concessional rate
3. Any obligation of employee discharged by employer e.g. payment of club or hotel bills of employee, salary to domestic servants engaged by employee, payment of school fees of employees' children etc.

4. Any sum paid by employer in respect of insurance premium on the life of employee
5. Notified fringe benefits (on which fringe benefit tax is not applicable) – it includes interest free or concessional loans to employees, use of movable assets, transfer of moveable assets.

Perquisites taxable in case of Specified Employees only

Specified Employee:

An Individual will be considered as a Specified Employee if:

- He is a director of a company, or
- He holds 20% or more of equity voting power in the company,
- Monetary salary in excess of 50,000: His income under the head salaries, (from any employer including a company) excluding non-monetary payments exceeds 50,000. For the above purpose, salary, should be arrived at after making the following deductions:

(a) Entertainment Allowance

(b) Professional Tax.

The following perquisites are taxable in case of such employees:

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

Perquisites which are tax free for all the employees

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

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

1. Provision for medical facilities subject to limit
2. Tea or snacks provided during working hours
3. Free meals provided during working hours in a remote area or an offshore installation
4. Perquisites allowed outside India by the Government to a citizen of India for rendering service outside India.
5. Sum payable by an employer through a recognized provident fund or an approved superannuation or deposit-linked insurance fund established under the Coal Mines Provident Fund or the Employees Provident Fund.
6. Employer's contribution to staff group insurance scheme.
7. Leave travel concession subject to Sec.10 (5)
8. Payment of annual premium by employer on personal accident policy effected by him on his employee
9. Free educational facility provided in an institute owned/maintained by employer to children of employee provided cost/value does not exceed ` 1,000 per month per child (no limit on no. of children)
10. Interest-free/concessional loan of an amount not exceeding 20,000
11. Computer/laptop given (not transferred) to an employee for official/personal use.
12. Transfer without consideration to an employee of a movable asset (other than computer, electronic items or car) by the employer after using it for a period of 10 years or more.
13. Traveling facility to employees of railways or airlines.
14. Rent-free furnished residence (including maintenance thereof) provided to an Official of Parliament, a Union Minister or a Leader of Opposition in Parliament.
15. Conveyance facility provided to High Court Judges u/s22B of the High Court Judges

(Conditions of Service) Act, 1954 and Supreme Court Judges u/s 23A of the Supreme Court Judges (Conditions of Service) Act, 1958.

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

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

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

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

20. Periodicals and journals required for discharge of work.

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

22. Other Exempted Payments:

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

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

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

iv. Trust for the benefit of employee's children

Valuation of Perquisites

Medical facilities

Medical facilities provided to employee are exempt from tax.

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

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

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

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

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

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

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

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

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

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

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

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

Valuation of rent free accommodation

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

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

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

1. Accommodation owned by employer

In cities having population exceeding 25 lakhs as per 2001 census

: 15% of Salary Less Rent actually paid by employee

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

In other places:

7.5% of Salary Less Rent actually paid by employee

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

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

3. Accommodation in a hotel

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

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

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

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

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

Definition of salary for rent free accommodation:

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

Sweeper, gardener or watchman provided by the employer

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

Free Supply of Gas, Electricity or Water

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

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

Free Education

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

b) Where free education facilities are allowed to any member of employees' family in any other

educational institution by reason of his being in employment of that employer, the value of perquisite shall be determined as in (a).

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

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

Free Transport

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

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

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

Leave Travel Concession (LTC)

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

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

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

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

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

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

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

These exemptions is available only for 2 journeys performed in a block of 4 calendar years.

Family of an Individual means:

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

Free meals during office hours

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

Gifts

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

Profit in lieu of salary

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

The amount of any compensation due to or received by an assessee from his employer or

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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: $108000 \times 15/100$ | =16,200 |
| Less rent paid by the employee | = 3,600 |
| Therefore, Value of unfurnished accommodation | = 12,600 |

Provident Fund

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

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

(i)Statutory Provident Fund

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

Contribution is made by Employer and Employee.

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

Employer's Contribution- Not taxable

Interest credited- Fully exempted

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

(ii)Recognized Provident Fund

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

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

Employer's Contribution-Amount exceeding 12% of salary is taxable

Interest credited-Exempted up to 9.5% p.a. Any excess is taxable.

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

(iii)Unrecognized Provident Fund

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

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 year.

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE**Class: I MBA****Course Name: Direct taxation****Course Code:17MBAP201****Unit II****Semester: III Year: 2017-20 Batch**

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.2018-19

Solution:

Computation of Income from Salary for the assessment year 2018-19

| | |
|---------------------------------|----------|
| 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

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE**Class: I MBA****Course Name: Direct taxation****Course Code:17MBAP201****Unit II****Semester: III Year: 2017-20 Batch**

Mr. Justin Kuriakose retired on 31-10-2015 after serving 20 years. He received Rs;96,000 as leave encashment for 12 months. His average salary at the time of retirement amounted to Rs:7,400. He had 2 months leave at his credit. Find 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 .2018-19

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

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE**Class: I MBA****Course Name: Direct taxation****Course Code:17MBAP201****Unit II****Semester: III****Year: 2017-20 Batch**

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

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE**Class: I MBA****Course Name: Direct taxation****Course Code:17MBAP201****Unit II****Semester: III Year: 2017-20 Batch****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 .2018-19

.Solution:

Computation of taxable salary of Mr.Akhildas for the A Y .2018-19

| | | |
|---|--------|--------|
| Basic pay (7500 x 12) | | 90,000 |
| D A (2500 x 12) | | 30,000 |
| D P (2500 x 12) | | 30,000 |
| House Rent Allowance: | | |
| HRA received (1250 x 12) | 15,000 | |
| Less: exempted | 6,000 | 9,000 |
| Running Allowance: | | |
| Running allowance received | 16,500 | |
| Less: 70% of allowance or Rs:10,000 p.m, whichever is less) | 10,000 | 6500 |
| Education allowance (200x12x2) | 4,800 | |
| Less:exemptionfor2children (100x12x2) | 2,400 | 2,400 |

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE**Class: I MBA****Course Name: Direct taxation****Course Code:17MBAP201****Unit II****Semester: III Year: 2017-20 Batch**

| | | |
|-------------------------------|-------|----------|
| Hostel allowance (500x12) | 6,000 | |
| Less: exempted (300x12) | 3,600 | 2,400 |
| Uniform Allowance (400x12) | 4,800 | |
| Less: exempted | 4,800 | |
| CCA (250 x12) | | 3,000 |
| Gross Salary | | 1,73,300 |
| Less : Deduction u/s 80C (PF) | | 12,000 |
| Income from Salaries | | 1,61,300 |

*Calculation of exempted amount of HRA:**Least of the following is exempted:**HRA received (Rs:1,250 x12) = 15,000**Excess of rent paid over 10% Of salary (18,000-12,000) = 6,000**40% of salary (1,20,000x40%) = 48,000***Illustration :14**

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

Solution:

Least of the following is exempted:

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

Statutory Limit = Rs: 5,000

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

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

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KARPAGAM ACADEMY OF HIGHER EDUCATION
(Established Under Section 3 of UGC Act 1956)
COIMBATORE- 641 021
(For the candidates admitted from 2016 onwards)
UG DEGREE EXAMINATION, NOVEMBER-2018
III B.COM BPS -THIRD SEMESTER
TAXATION - [16BPU502A]

| QUESTION | Option 1 | Option 2 | Option3 | Option4 | Answer |
|--|-----------------|---------------------------|-------------------------------|-----------------------------|-----------------|
| Among the five heads of gross total income ----- income is the first one. | Salary | House property | Business or profession | capital gain | salary |
| Sec ----- of Income tax act 1961 deals with salary income. | 13-15 | 15-17 | 17-19 | 19-21 | 15-17 |
| Salary includes----- | Wages | houseproperty | interest | gambling | wages |
| ----- means payment of gross salary with deducting amount of income tax thereon. | Tax free salary | Taxable salary | Exempted salary | business income | tax free salary |
| If the employee has completed service of 16 years 6 months and 5 days the number of completed year shall be taken as ----- | 16 years | 17 years | 18 years | 22 years | 16years |
| The maximum exemption of gratuity shall be ----- | Rs. 2,40,000 | Rs.2,50,000 | Rs.3,50,000 | Rs.10,00,000 | Rs.3,50,000 |
| The maximum exemption in case of leave encashment shall be----- | Rs. 2,40,000 | Rs.3,50,000 | Rs.3,00,000 | Rs.5,00,000 | Rs.3,00,000 |
| compensation received on voluntary retirement is exempt u/s 10 (10c) to the maximum extent of ----- | Rs. 2,40,000 | Rs.3,50,000 | Rs.5,00,000 | Rs.7,50,000 | Rs.5,00,000 |
| Employers contribution to statutory provident fund shall be ----- | fully exempt | exempt upto 12% of salary | Exempt upto 10% of the salary | exempted upto 15% of salary | fully exempt |
| Interest credited to Statutory provident fund shall be ----- | fully exempt | Exempt upto 12% p. | exempt upto 9.5% p.a | exempted upto 15% of salary | fully exempt |

| | | | | | |
|---|---------------------|------------------------------|---|-----------------------------|--|
| Employer contribution to Recognized provident fund shall be ----- | fully exempt | fully taxable | exempt upto 12% p.a | exempted upto 15% of salary | exempt upto 12% of salary |
| Interest credited to Recognized Provident fund shall be ----- | Fully exempt | fully taxable | exempt upto 9.5% p.a | .Exempted upt 14% of salary | exempt upto 9.5 % of salary |
| Employer contribution to Unrecognized provident fund shall be ----- | Fully exempt | fully taxable | exempt upto 12% p.a | Exempted upt 14% of salary | fully exempt |
| Interest credited to unrecognized provident fund shall be----- | Fully exempt | fully taxable | exempt upto 12% p.a | Exempted upt 14% of salary | fully exempt |
| Payment from statutory provident fund and public provident fund shall be----- | taxable | fully exempt | Taxable to the extent of employers contribution and interest thereon. | partly taxable | fully exempt |
| Pyment from Recognized provident fund after 5 years of service shall be----- | taxable | fully exempt | Taxable to the extent of employers contribution and interest thereon. | partially exempted | taxable to the extent of employers contribution and interest thereon |
| Pyment from Unrecognized provident fund before 5 years of shall be----- | taxable | fully exempt | Taxable to the extent of employers contribution and interest thereon. | partially exempted | fully exempt |
| The payment of Gratuity Act was passed in the year ----- -- | 1972 | 1927 | 1952 | 1955 | 1972 |
| ----- is a fixed monetary amount paid by employer to the employee for meeting some particular expenses. | Allowances | Perquisites | Basic salary | medical facility | allowance |
| ----- is determining on the basis of rising prices of commodities in general. | Dearness allowances | City compensatory allowances | Medical allowances. | uniform allowances | dearness allowance |

| | | | | | |
|---|---------------------------------------|--|-------------------------|-----------------------------|--|
| ----- is given to compensate for the high cost of living in capital city. | Medical allowance | City compensatory allowance | Dearness allowances. | lunch allowances | city compensatory allowance |
| ----- to cover the service of warden in the case of educational institutions. | Wardenship allowance | Dearness allowance | Medical allowance | non – practicing allowances | wardenship allowance |
| ----- is given to meet the medical expenses of the employees and his family members. | Medical allowance | Uniform allowance | Daily allowance | lunch allowance | medical allowance |
| ----- is given by the employer to the employee to meet the expenses in connection with rent of the accommodation. | House rent allowance | City compensatory allowance | Medical allowance. | wardenship allowances | house rent allowance |
| House rent allowance paid to the judge of supreme court is - ----- | fully exempt | fully taxable | partially taxable. | none | fully exempt |
| Children education allowance is exempted upto ----- per child upto the maximum of two children. | Rs.100p.m | Rs.200 p.m | Rs.300 p.m | RS. 400 pm | Rs.100 p.m. |
| Hostel expenditure allowance is exempted upto ----- per child upto the maximum of two children. | Rs.100p.m | Rs.200 p.m | Rs.300 p.m | Rs.400 pm | Rs.300 p.m. |
| The amount of exemption for running flight allowance is ----- | 70% of such allowance or Rs 3,000 p.m | 70% of such allowance or Rs.10,000 p.m | fully exempted | Rs. 1500pm | 70% of such allowance or Rs.6,000 p.m. |
| allowances received by an employer of UNO from his employer is ----- | Fully taxable | Fully exempt | partially taxable. | none | fully exempt |
| While computing salary income deduction are allowed u/s ----- | 16 | 18 | 19. | 20 | 16 |
| Salary due on last day of every month means ----- | Last day of the respective month | first day of the month | every 15th of the month | every 10th of the month | last day of the respective month |
| In salary income all perquisites are given u/s----- | 21(3) | 19(4) | 17 (2) | 18(3) | 17(2) |

| | | | | | |
|---|--------------------------|-------------------------------|---|---------------------------|--------------------------|
| Any benefit or amenity allowed by employer to employee is ----- | allowance | Perquisites | Deductions, | rebate | perquisites |
| Bonus received under some legal or contractual obligation is called ----- | Statutory bonus | Gratuitous bonus | recognised bonus | unrecognised bonus | statutory bonus |
| Provident fund governed by Provident fund Act 1925 is called as ----- | Statutory Provident fund | Unrecognized provident fund | Public provident fund | Recognised provident fund | Statutory provident fund |
| Tiffin allowance is a ----- | fully taxable allowance | Partially allowance | Fully exempted allowance. | not an allowances | fully taxable allowance |
| Foreign allowance given to government employee posted abroad is ----- | Fully exempted | fully taxable | partially taxable | rebate | fully exempt |
| Perquisites can be only in the form of ----- | Monetary benefit | Facilities | financial benefits | cash | facilities |
| Lunch allowance is a ----- | fully taxable allowance | Partially allowance | Fully exempted allowance. | not an allowances | fully taxable allowance |
| Statutory limit u/s 16(ii) for deduction of entertainment allowance in case of Government employee is ----- | Rs.5,000 | Rs.7,500 | 25% of employee salary | 50 % of salary | Rs.5,000 |
| Commutated value of pension is fully exempted in case of ----- | Govt. Employee | an employee of private sector | an employee of a public sector undertaking. | all employees | Govt. Employee |
| Medical allowance received by an employee is ----- allowance | fully taxable | fully exempt | exempted upto the amount of actual expenditure incurred on medical treatment. | not taxable | fully taxable |
| Any compensation received by an employee from his employer at the time of termination of employment is known as ----- | allowances | perquisites | profit in lieu of salary. | basic pay | profit in lieu of salary |

| | | | | | |
|---|--------------------|------------------------|---|-------------------|---|
| Reduction admissible from tax liability is known as ----- | exemption | deduction | Rebate. | debate | rebate |
| While computing the exemption limit for House rent allowance , the term salary means----- | basic pay only | basic pay + DA(enters) | basic pay + DA(enters) + commission (fixed %) | all allowances | Basic pay + DA(enters)+ commission (Fixed%) |
| The value of rent free accommodation in case of non-government employee, if population is more than 25 lakhs means----- | 20% of salary | 15 % of salary | 7.5 % of salary | 10% of the salary | 15% of salary |
| 15 days average salary for gratuity is equal to amount multiplied by----- | 15/24 | 15/26 | 15/30 | 15/28 | 15/26 |
| While computing house property income, deduction for interest on loan for the previous year 2015-16 u/s 24 is ----- | fully allowed | Partially allowed | fully taxable | partially taxable | fully allowed |
| Annual rental value minus municipal taxes = ----- -- | Gross rental value | Net annual value | Fair rental value | MRV | Net annual Value |
| Allowable standard deduction from net annual value u/s 24 is ----- | 30% | 40% | 50% | 60% | 30% |
| In house property income , joint expenses will be apportioned on the basis of --- ----- | FRV | ARV | MRV | ERV | MRV |
| Income received as rent from sub letting would be taxable under the head ----- | Other sources | House property | Business income | Capital gain | other sources |
| House used for the assesses own business, then the annual value is taken as ----- | Let out property | nil | Self occupied property. | full | Nil |
| If loan is taken for construction on or before 1-4-99 and construction is completed with in 3 years , the allowable deduction will be ----- | Rs.30,000 | Rs1,50,000 | Rs.1,80,000 | Rs.1,50,000 | Rs.30,000 |

| | | | | | |
|---|--------------------|-------------------------------|---|--------------------------|--------------------|
| Allowable deduction from self occupied house is ----- -- | Interest on loan | Standard deduction | Joint expenses | loan from house property | Interest on loan |
| Allowable deduction from net annual value for let out house property will be ----- - | Standard deduction | pension | gratuity | entertainment allowance | Standard deduction |
| If the property used for own business then the net annual value will be | MRV | FRV | Actual rent received | Nil | Nil |
| Commutated value of pension is fully exempted in case of ----- ----- | Govt. Employee | an employee of private sector | an employee of a public sector undertaking. | all employees | Govt. Employee |
| allowances received by an employer of UNO from his employer is ----- | Fully taxable | Fully exempt | partially taxable. | none | fully exempt |
| While computing house property income, deduction for interest on loan for the previous year 2015-16 u/s 24 is ----- | fully allowed | Partially allowed | fully taxable | partially taxable | fully allowed |

UNIT-III- PROFITS AND GAINS OF BUSINESS OR PROFESSION

SYLLABUS

Introduction to Operations Management – Business income-profits and gains of business or profession-meaning of business or profession- Computation of profits and gains of Business or profession of an individual-expenses expressly allowed-expenses

INTRODUCTION:

Business : Sec 2 (13)

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

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

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

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

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

Profession

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

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

- 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.

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

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

- Rent of house property is taxable under the head "Income from house property". Even if the property constitutes stock in trade of recipient of rent or the recipient of rent is engaged in the business of letting properties on rent.
- It is not the ownership of business which is important, but it is the person carrying on a business or profession, who is chargeable to tax.
- Income from business or profession is chargeable to tax under this head only if the business or profession is carried on by the assessee at any time during the previous year. This income is taxable during the following assessment year.
- Profits and gains of different business or profession carried on by the assessee are not separately chargeable to tax i.e. tax incidence arises on aggregate income from all businesses or professions carried on by the assessee. But, profits and loss of a speculative business are kept separately.
- It is not only the legal ownership but also the beneficial ownership that has to be considered.
- Profits made by an assessee in winding up of a business or profession are not taxable, as no business is carried on in that case. However, such profits may be taxable as capital gains or as business income, if the process of winding up is such as to involve the carrying on of a trade.
- Taxable profit is the profit accrued or arising in the accounting year. Anticipated or potential profits or losses, which may occur in future, are not considered for arriving at

taxable income. Also, the profits, which are taxable, are the real profits and not notional profits. Real profits from the commercial point of view mean a gain to the person carrying on the business and not profits from narrow, technical or legalistic point of view.

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

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

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

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

Speculative Transactions and Taxability of Speculation Business

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

Deduction In Respect Of Losses Incidental to Business

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

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

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

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

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

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

1. Rent of the premises is allowed 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 43B.
4. Insurance charges against the risk of damage or destruction of building is allowed as deduction.
5. In respect of repairs and insurance of machinery, plant & furniture used for the purpose of business or profession the following deductions are allowable:
 - i. Amount of expenditure incurred on current repairs of machinery, plant or furniture used in the business is deductible.
 - ii. The amount paid for current repairs shall not include any expenditure in the nature of

capital expenditure.

Depreciation [Section 32]:

In respect of depreciation of-

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

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

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

For this purpose, the assessee is required to

- i. Deposit in a special account with the national bank for Agriculture and rural development in accordance with the scheme approved by the tea board or the coffee board or rubber board or deposit any amount in on an account opened by the assessee (known as deposit account) in accordance with the deposit scheme framed by the tea Board or the Coffee Board or the rubber board as the case may be, with the previous approval of the central government.
- ii. The deposit should be made within a period of six months from the end of the previous year or before furnishing the return of income whichever is earlier.
- iii. In computing taxable profits from the above business the following deduction will be allowed in respect of the above deposit:
 - (a) A sum equal to the amount so deposited or
 - (b) 40% of the profits from such business (before making deduction under this section and before setting off brought forward business losses) whichever is less.
- iv. This deduction shall be allowed only if the accounts of such business from the previous year concerned have been audited by a chartered accountant and the audit report is furnished along with the return of income.

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

(1) Where an assessee is carrying on business consisting of the prospecting for, or extraction or Government has entered into an agreement with such assessee for such business, has before the end of the previous year—

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

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

Expenditure on scientific research (section 35)

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

(a) Extension of business;

(b) Providing medical facilities to the employees.

Deduction under this section is allowed in two ways

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

(B) When assessee contributes amount for scientific research to an approved body.

The provisions of both are given below.

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

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

(a) Revenue expenditure or

(b) Capital expenditure.

The treatment of above is as follows.

(a) Revenue expenditure:

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

(b) Capital expenditure:

Any Capital expenditure incurred by the assessee is deductible **100%** in the year it is incurred. (4) Amount contributed to National Laboratory [Section 35(2AA)]:

Any amount contributed by the assessee to a National laboratory* or University or IIT or to a specified person (approved by prescribed authority) with a specific direction that the amount shall be used for the purpose of scientific research, shall be given a weighted deduction of **2 times**.

Any laboratory functioning at national level under the aegis of

- (1) Indian Council of Agricultural Research
- (2) Indian Council of Medical Research
- (3) Council of Scientific and Industrial Research
- (4) Defence Research and Development Organisation
- (5) Department of Electronics
- (6) Department of Bio-technology
- (7) Department of Atomic Energy

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

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

- (1) Depreciation is available on 'assets' and 'block of assets': The assets may be tangible

(Buildings, Machinery, Plant and Furniture) or intangible (know-how, patents, copyrights, trademarks, licences, franchises, etc.) in nature.

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

CHART SHOWING COMPUTATION OF PROFITS AND GAINS OF BUSINESS OR PROFESSION

Computation of business profits

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

| | |
|---|--------------|
| Balance as per profit and loss account | XXXXX |
| Add : Expenses claimed but not allowed under the Act | XXXX |
| Less: Any expenditure which is allowable under the Act , but has not been debited to P and L A/c | XXXX |
| Less: Any income which is either exempt or not taxable under this head | XXXX |
| Taxable business income | XXXX |

| | |
|---|--------------|
| Balance as per profit and loss account | XXXXX |
| Add : Expenses claimed but not allowed under the Act | XXXXX |
| <ul style="list-style-type: none"> • All provisions and reserves • All taxes • Rent paid to self | |

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE

Class: IIIB.COM BPS

Course Name: TAXATION

Course Code: 16BPU502A

Unit III

Semester: III Year: 2016-19 Batch

- All capital expenses except on scientific research
- All capital loss
- All charities and donation
- All expenses relating to other head of income
- Cultivation expenses
- Any interest on capital unless the amount is borrowed
- All personal expenses
- Any depreciation if wrongly debited
- Gifts and presents (Non-advertisement)
- Any type of fine or penalty
- Any payment to a partner (In case of firms only by way of salary, interest , bonus , commission or remuneration excess over prescribed limits)
- Any salary or interest payable outside India unless tax is deducted at source it is paid according to the law
- Past losses
- Any other expenditure which is not incurred according to the provisions of law
- Salary paid to self or any other member of family for casual help
- Personal life insurance premiums
- Any amount invested in savings such as NSS , NSC, PPF,
- Rent for residential portion
- Speculation loss
- Bad debt still recoverable
- Legal expenses on criminal case or a personal case of employee
- Legal expenses on curing title of asset
- Loss by theft from residence
- Expense on illegal business
- Employer contribution URPR
- Differences in trial balance
- Difference due to under crediting of stock

- Cost of patents rights being capital expenditure
- Cost of technical know- how being capital expenditure
- Preliminary expense being capital expenditure

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

xxxx

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

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

xxxx

a. Income exempted from tax

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

b. Incomes taxable under other heads

- Part time salary
- Interest on securities
- Rent form house property let
- Capital gain
- Dividend
- Bank interest

- Winning from lotteries
- Race course

Taxable business income

xxxx

COMPUTAION OF PROFESSIONAL INCOME

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

In case of doctor or medical practitioners

Professional receipts

- Consultation fees
- Operation fees
- Visiting fees
- Sale of medicines
- Gofit 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 professional work
- Nursing home expenses
- Any other expense incurred during the year

Professional income

In case of chartered accountant

Professional receipt

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

Total professional receipt

Less: Professional expenses

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

Total professional expenses

Professional income

Income of lawyer or an advocate

Professional receipts

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

Total professional receipts

Less: Professional expenses

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

Professional gain

Rates of Depreciation In Case Of Block of Assets

Tangible Assets Rate

(I) Building:

(1)Residential Buildings except hotel and boarding houses .5% (2)Non-residential Buildings [office, factory, godown, hotels, ..10%

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

(3) (i) Buildings for installing Plant and Machinery forming part of water supply or water treatment system for infrastructure business u/s 80-India IA (4)(i). (ii) Purely temporary erections such as wooden structures100%

(II) Furniture And Fittings:

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

(III) Plant And Machinery

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

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

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

WDV in case of Block of Assets:

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

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

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

WDV of block of assets eligible for depreciation

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

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

In an Organization, strategic growth and competitiveness are depending upon the effective utilization of the critical productive resources of the organization. Production/operations management is the process, which combines and transforms various resources used in the production/operations subsystem of the organization into value added product/services in a controlled manner as per the policies of the organization. Therefore, it is that part of an organization, which is concerned with the transformation of a range of inputs into the required outputs (products/services) having the requisite quality level.

| | | | | | |
|---|---------------------|-----------------------|------------------------------|--------------------|---------------------|
| Unit III | | | | | |
| Any trade, commerce, manufacture or any adventure in the nature of trade commerce manufactured is defined as ----- | Business | Profession | Commerce | non-business | business |
| Profits and gains of business or profession is chargeable u/s ----- of Income tax act. | 24-28 | 28-44 | 30-48 | 42-50 | 28-44 |
| ----- refers to those activities where the livelihood is earned by the person through their intellectual or manual skill. | Business | Trade. | Profession | commerce | profession |
| Profession includes,----- | doctor | business | trading | distribution | doctor |
| The accounting system under which any income which relates to the current year is taken into consideration for computing business profit is called as ----- | Mercantile system | cash system | Credit system | debit system | cash system |
| The accounting system under which transactions are recorded on the basis of receipts and payments whether it is relating to current year or not is called ----- | Mercantile system | cash system | Credit system | debit system | Mercantile system |
| Expenditure incurred for acquiring fixed assets is ----- | Capital expenditure | Revenue expenditure | Deferred revenue expenditure | not an expenditure | capital expenditure |
| Expenditure incurred to carry out the regular activities is ----- | Capital expenditure | Revenue expenditure | Deferred revenue expenditure | not an expenditure | Revenue expenditure |
| Expenses allowed as deduction for the purpose of computation of income from business or profession are ----- | Admissible expenses | Inadmissible expenses | Not an expenses | admissible income | admissible expenses |

| | | | | | |
|---|---|------------------------|---------------------|-------------------|------------------------|
| Expenses not allowed as deduction for the purpose of computation of income from business or profession ----- | Admissible expenses | Inadmissible expenses | Not an expenses | admissible income | inadmissible expenses |
| Income tax wealth tax and advance income tax are ----- | disallowed expenses | Allowed expenses | Deductions | rebate | disallowed expenses |
| Cultivation expenses are ----- -- | disallowed expenses | Allowed expenses | Deductions | rebate | disallowed expensed |
| Expenditure incurred for acquiring know-how and patents shall qualify for depreciation @ ----- | 20% | 25% | 30% | 40% | 25% |
| 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% | 50% | 75% | 100% | 100% |
| While computing business income speculation loss is ----- | Allowed expenditure | Disallowed expenditure | Not an expenditure. | None | disallowed expenditure |
| In a business if any payment more than Rs.20,000 is made in cash the disallowed deduction will be ----- | 25% | 30% | 75% | 100% | 100% |
| Patent right is ----- | Tangible asset | Intangible asset | An allowance | fixed asset | Intangible asset |
| Profit on sale of license is taxable under the head----- | Profits and gains of business or profession | House property | Capital gain | other sources | house property |
| Any expenditure incurred to acquire technical know-how developed in India by an approved institution can be depreciated @----- | 20% | 25% | 30% | 40% | 25% |

| | | | | | |
|---|-----------------------|-------------------------|--------------------|-----------------|-----------------------|
| Amount of expenditure incurred on or after 01.04.1998 on preliminary expenses cannot exceed----- of the cost of project | 2% | 4% | 5% | 7% | 2% |
| copy right is ----- | Tangible asset | Intangible asset | An allowance | fixed asset | Intangible asset |
| Depreciation is allowed on professional books ----- | 100% | 50% | 60% | 40% | 60% |
| Consultancy fee received by a lawyer is ----- income | Taxable | Non-taxable | Not a fee | exempted | taxable |
| All those assets to which one rate of depreciation is applicable are known as ----- | Block of assets | Exempted assets | Deductable assets | total assets | block of assets |
| The actual cost of acquisition of asset minus depreciation equal to ----- | WDV | Annuity value | Block of assets | exempted assets | WDV |
| Balance amount of depreciation not deductible due to insufficiency of income during any particular year is called ----- | Absorbed depreciation | unabsorbed depreciation | Total depreciation | depreciation | absorbed depreciation |
| In case of doctor gift from patients are ----- | Professional receipt | Business receipt | Trade receipts | not a receipt | Professional receipt |
| While computing business income , all personal expenses are ----- | allowed expenses | disallowed expenses | deduction | rebate | Disallowed expenses |
| Amount given to university for research allowed @ ----- | 100% | 125% | 150% | 175% | 175% |
| Rate of depreciation on neon sign board is @ ----- | 10% | 15% | 20% | 40% | 10% |
| Which is an activity of purchase and sell of goods with the intention of making profit | Business | Profession | distribution | supplier | Business |
| Which is an occupation requiring intellectual skill? | Business | Profession | distribution | supplier | profession |

| | | | | | |
|---|-----------------|----------------|--------------|---------------|---------------|
| Which includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture. | Business | Profession | distribution | supplier | business |
| Expenses, which are debited, to profit & loss a/c, but disallowed by the Income Tax Act and either fully or partially are ----- with net profit | Added | deduct | multiply | divide | add |
| Expenses, which are not debited, to profit & loss a/c but which are allowed by the Income Tax Act are ----- | Added | deduct | multiply | divide | deduct |
| Income that is credited to profit & loss a/c but not taxable at all or taxable under some different head is to be----- | Added | deduct | multiply | divide | deduct |
| Income that is not credited to profit & loss a/c, but which is chargeable to tax as business income is to be ----- | Added | deduct | multiply | divide | added |
| Under Section ----- following are the income chargeable to tax under the head Profits or Gains from Business or profession | 25 | 26 | 27 | 28 | 28 |
| Profits and Gains of any business or profession that is carried on by the assessee at any time during the ----- - | assessment year | financial year | fiscal year | previous year | previous year |
| While determining the depreciation on fixed assets --- value is taken into consideration | Straight line | written down | annuity | sinking fund | written down |
| Rate of additional depreciation is charged at ----- | 10% | 20% | 30% | 40% | 20% |
| disallowed expenses under business income Is ----- | income tax | sales tax | excise duty | customs duty | income tax |

| | | | | | |
|---|---------------------|------------------------|------------------|--------------------|------------------------|
| . Fines and penalties for breach of any laws are ----- | Allowed expenditure | Disallowed expenditure | allowed income | disallowed income | Disallowed expenditure |
| Personal Drawings under business income is ----- | Allowed expenditure | Disallowed expenditure | allowed income | disallowed income | Disallowed expenditure |
| Household expenses under business income is ---- | Allowed expenditure | Disallowed expenditure | allowed income | disallowed income | disallowed expenditure |
| ----- refers to those activities where the livelihood is earned by the person through their intellectual or manual skill. | Business | Trade. | Profession | commerce | Profession |
| Profits and gains of business or profession is chargeable u/s ----- of Income tax act. | 24-28 | 28-44 | 30-48 | 42-50 | 28-44 |
| Rate of depreciation on neon sign board is @ ----- | 10% | 15% | 20% | 40% | 10% |
| Rate of depreciation on residential building is @ ----- | 5% | 10% | 15% | 20% | 5% |
| An example for admissible expense is | sales tax | income tax | wealth tax | advance income tax | sales tax |
| An example for inadmissible expense is | personal expenses | sales tax | excise duty | customs duty | personal expenses |
| The income relates to business is called ----- | Allowed expenditure | Disallowed expenditure | allowed income | disallowed income | allowed income |
| The incomes not related to business are | bad debts recovered | commission received | sales tax refund | house property | house property |
| Rate of depreciation on furniture and fittings is @ ----- | 5% | 10% | 15% | 20% | 10% |
| Rate of depreciation on computers is @ ----- | 20% | 40% | 60% | 80% | 60% |

| | | | | | |
|---|---------------------|-----------------------|-----------------|----------|---------------------|
| Rate of depreciation on books used for business or profession is @ ----- | 20% | 40% | 60% | 80% | 60% |
| Rate of depreciation on commercial building is @ ----- | 5% | 10% | 20% | 30% | 10% |
| Which includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture. | Business | Profession | distribution | supplier | business |
| Expenses, which are debited, to profit & loss a/c, but disallowed by the Income Tax Act and either fully or partially are ----- with net profit | Added | deduct | multiply | divide | add |
| Expenses not allowed as deduction for the purpose of computation of income from business or profession ----- | Admissible expenses | Inadmissible expenses | Not an expenses | none | admissible expenses |

INTRODUCTION TO GST

GST

Goods and Services Tax (GST) is a value-added indirect tax at each stage of the supply of goods and services precisely on the amount of value addition achieved. It seeks to eliminate inefficiencies in the tax system that result in 'tax on tax', known as cascading of taxes. GST is a destination-based tax on consumption, as per which the state's share of taxes on inter-state commerce goes to the one that is home to the final consumer, rather than to the exporting state. GST has two equal components of central and state GST.

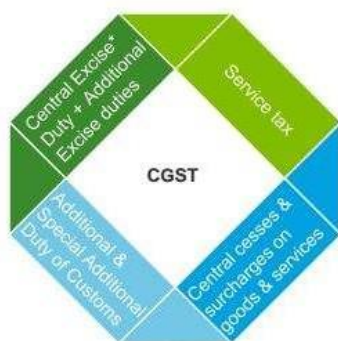
Liable to pay GST

Businesses and traders with annual sales above Rs20 lakh are liable to pay GST. The threshold for paying GST is Rs. 10 lakh in the case of northeastern and special category states. GST is applicable on inter-state trade irrespective of this threshold.

Taxes will be included in GST

GST will be substitute all indirect taxes levied by the state and central government. GST would apply to all goods other than crude petroleum, motor spirit, diesel, aviation turbine fuel and natural gas and alcoholic liquor for human consumption. Indirect Taxes that are going to subsume under GST are given below:

Taxes to be subsumed in GST



TYPES OF GST



UTGST : If transaction is related to any Union Territory (At present : Andaman & Nikobar Island, Lakshadweep, Dadra & Nagar Haveli, Daman & Diu and Chandigarh), then in place of SGST, UTGST will be charge.

| Transaction | Old Regime | New Regime |
|-------------------------------------|--|-------------|
| Intra state (Sale within the state) | VAT + Central Excise/Service tax | CGST + SGST |
| Inter State (Sale to another State) | Central Sales Tax + Excise/Service Tax | IGST |

Example 1: Company A in UP sold goods to a Company B in UP worth Rs. 10,000. The GST rate is 18% comprising (9% CGST + 9% SGST). In this case Company A charges Rs. 1800 GST. From this amount, Rs. 900 will go to the central government and Rs. 900 will go to the UP government.

Example 2: Company A in UP sold goods to a Company C in Gujarat worth Rs. 10,000. The GST rate is 18% comprising (18% IGST). In this case Company A charges Rs. 1800 IGST and this entire amount will go to the central government.

What is the anti-profiteering mechanism?

To prevent the possibility of prices going up and to make sure that the reduced tax burden on products and services are passed on to consumers, the government has introduced

an anti-profiteering clause in the GST law. The anti-profiteering authority to be set up will act on complain a profiteering supplier to cut price, return the benefit of reduced tax burden to the buyer with 18% interest, or recover such amount if the buyer cannot be identified or doesn't make a claim. A profiteering business could lose its GST registration, too.

Decisions taken at the GST Council

No decision can be taken in the Council without the concurrence of both the Union and the state governments. Decisions will be taken by a 75% majority of the weighted votes of members present and voting. The Union government's vote has a weightage of one-third of the votes cast, while all states together will have a weightage of two-thirds of the votes cast

MAJOR DIFFERENCES IN PRE & POST GST RULES

REGISTRATION

| | |
|------------|--|
| Old Regime | Single registration PAN India |
| GST Regime | Each state from where business is done would be required to get registration under GST |

RETURN FILING

| | |
|------------|---|
| Old Regime | VAT Laws: Depends upon state to state Service Tax: Return is filed every six months i.e. for the period of April to September and October to March |
| GST Regime | Returns have to be filed every month |

TAX RATE

| | |
|------------|-------------------------|
| Old Regime | Rates have been changed |
| GST Regime | |

INPUT TAX CREDIT

Input credit means at the time of paying tax on output, you can reduce the tax you have already paid on inputs.

Say, you are a manufacturer –

tax payable on output (FINAL PRODUCT) is

Rs 450 tax paid on input (PURCHASES) is

Rs 300

You can claim INPUT CREDIT of Rs 300 and you only need to deposit Rs 150 in taxes.

| | |
|------------|---|
| Old Regime | Credit of all taxes were not available seamlessly (excise, VAT, service tax, etc) |
| GST Regime | Available (subject to certain condition) |

MATCHING OF GST RETURNS OF SELLER & BUYER

In GST if the invoice of the supplier does not match with the details of invoice of the recipient, the credit shall not be allowed to that person.

Example: Company A purchases computers from Company B for Rs.2 Lakhs and Rs. 36000 GST been charged. However if Company B in its GST return, states that goods provided are of Rs.1 Lac

only and GST on it is Rs.18000, then Company A will get credit worth only Rs.18000 and not Rs 36000. Hence both supplier & recipient should file returns properly.

REVERSE CHARGE

Reverse charge means the liability to pay tax is by the recipient (customer) of goods/services instead of the supplier (service provider or seller).

Normally, the supplier (service provider) pays the tax on supply. In certain cases, the receiver (customer) becomes liable to pay the tax, i.e., the chargeability gets reversed which is why it is called reverse charge.

In India, this is a partly new concept introduced under GST. The purpose of this charge is to increase tax compliance and tax revenues. Earlier, the government was unable to collect service tax from various unorganized sectors like goods transport. Compliances and tax collections will therefore be increased through reverse charge mechanism.

Working with Unregistered Supplier/Vendors

Reverse charge will be applicable in case CCIC is purchasing goods or taking services (greater than Rs 5000 in a single day) from unregistered person. In such a case, the registered dealer has to pay GST on the supply under reverse charge.

| | |
|------------|---|
| Old Regime | No reverse charge was there on purchasing goods or taking services from |
|------------|---|

| | |
|-------------------|--|
| | unregister supplier (person not registered under service/ VAT tax) |
| GST Regime | <p>In case CCIC is taking services or purchasing goods from unregistered supplier (for value greater than Rs 5000, in a single day), than following would be the impact on CCIC :</p> <ol style="list-style-type: none"> 1. Raise tax invoice on yourself and pay GST on it. Also issue payment voucher to the unregistered supplier. For e.g. – for even tea/ pen/ pencil purchased from local vendor (not registered under GST), tax invoice would be required to be raised and GST would be required to be paid 2. This transaction would be required to be shown in the GST return |

Compliance rating

| | |
|-------------------|--|
| Old Regime | No such concept |
| GST Regime | In GST compliance rating will be given to every taxpayer. Compliance rating will be based on timely filling of return and payment of taxes and will be shown on GSTN network. So, doing business might become difficult if the compliance rating goes down |
| IMPACT | If returns are not filed properly or in time, rating will be poor and will be difficult to do business. |

Invoice / documents

| | |
|-------------------|--|
| Old Regime | In GST regime, invoice format are different from the one we are making in current regime. New invoice format has been made. So from 1 st july old formats should not be used |
| GST Regime | |
| IMPACT | Change in formats to be issued to the client |

Documents to be maintain GST regime

Tax Invoice – a tax invoice is required to be issued for making taxable supplies of goods or services to B2B as well as B2C supplies and in case of reverse charge where you as the recipient is liable to discharge the tax liability. Tax invoice is also required to be issued at the time of making inter state stock transfers.

Bill of Supply- a bill of supply is required to be issued at the time of making exempt supplies of goods or services i.e. or to be issued by a composition dealer

Receipt Voucher: a receipt voucher is required to be issued on receipt of advance payment with respect to any supply of goods or services or both.

Refund Voucher: Where a receipt voucher has been issued for advance received in relation to supply of goods or services but subsequently no supply is made and no tax invoice is issued in pursuance thereof, then the registered person may issue to the person who had made the advance payment, a refund voucher against such payment;

Payment Voucher: A recipient liable to pay tax under reverse charge shall issue a payment voucher at the time of making payment to the supplier.

Debit and credit notes:

- **Debit Note**: A debit note is required to be issued in the following situations:

Where a tax invoice has been issued for supply of any goods or services or both and the taxable value or tax charged in that tax invoice is found to be less than the taxable value or tax payable in respect of such supply,

- **Credit Note**: A credit note is required to be issued in the following situations:

- ✓ Where a tax invoice has been issued for supply of any goods or services or both and the taxable value or tax charged in that tax invoice is found to exceed the taxable value or tax payable in respect of such supply, or
- ✓ Where the goods supplied are returned by the recipient, or
- ✓ Where goods or services or both supplied are found to be deficient.

ISD invoice: An ISD invoice is required to be issued to distribute the credit amongst the branches of the entity having same PAN.

Delivery Challan: A delivery challan Is required to be issued at the time of transporting goods without the issue of tax invoice. A delivery challan may be issued for the purpose of:

- ✓ supply of liquid gas where the quantity at the time of removal from the place of business of the supplier is not known,
- ✓ transportation of goods for job work,
- ✓ transportation of goods for reasons other than by way of supply like goods sent on

approval, stock transfer within the state etc.

Other relevant provisions

- Time-limit for issuance of Invoice in case of supply of service have been kept similar to the existing provisions under Service Tax Law i.e. within 30 days from the date of supply of services and for banking and financial institution, it would be 45 days.
- The rules also provide for issue of tax invoice with minimum details in special cases for ISD, Banking company or a financial institution including a non-banking financial company, goods transport agency and passenger transportation service.

Responsibilities of a GST registered person

Decide if the product/ service you are buying or selling is subject to levy of GST. Check the list of goods and services exempted from GST. On the rest, the GST is leviable. The overarching principle is GST is applicable on all made in India supplies of Goods or Services by a taxable person for business purpose and imports.

Know who will pay the GST in a transaction? Generally, the supplier is liable to pay the tax. But many exceptions to this rule exist. So, if you are buying from a firm not registered (condition apply) with GST, you have to raise a self-invoice and pay tax under the reverse charge mechanism.

Charge GST on supplies: As a GST registered firm, you must charge GST on all taxable supplies at the prevailing rate. Use Harmonised System (HS) of nomenclature along with the description for classifying the goods.

File returns on time: The submission of correct and timely return is the most crucial responsibility of a GST registered firm. A GST registered firm will have to provide information to GSTN in electronic format at regular intervals. As a GST-registered business, you must submit your GST returns one month after the month in which supplies took place. You need to file monthly, quarterly and annual returns. Any wrong filing of return would result in blocking of money and possible loss of business. Annual return is to be filed by December 31 of the following financial year. Incomplete returns are considered invalid returns.

Pay tax and claim input tax credits: The GST charged and collected at the time of supplies is known as the output tax which must be paid to the government through the GSTN. The GST paid by you on business purchases is known as input tax. You can claim input tax credit on such purchases if your firm satisfies the conditions for doing so.

Keep proper business and accounting records: You need to keep all business and accounting records for at least five years. This requirement remains even if your business ceased or is de- registered from GST. The accounts and records must be maintained in electronic form.

Inform GST authority of changes: You need to inform the GST authority within 30 days after any change in your business circumstances. These changes include: Change in business registered address or mailing address, Change in business name, Change in business constitution or ownership etc.

Reconcile account at time of de-registration: When your GST registration is cancelled, you need to account for GST on business assets held on the last day of registration. These assets include inventories, fixed assets, non-residential properties and goods imported under the various GST schemes.

You must ensure that not only you but firms involved in the business transactions with you file returns and pay tax on time.

Checklist - GST to be paid in reverse charge

Taxable services provided or agreed to be provided by any person who is located in a non-taxable territory and received by any person located in the taxable territory other than non-assessee online recipient

Service provided by GTA in respect of transportation of goods.

Legal services provided by an individual advocate or a firm of advocates or an arbitral tribunal

Sponsorship service

Service provided by a govt or local authority

Service provided by a director of the co or body corporate to said co. or body corporate

Services by an insurance agent to any person carrying on insurance business

Services provided or agreed to be provided by a recovery agent to a banking company or a financial institution or a non-banking financial company

Services by way of transportation of goods by a vessel from a place outside India up to the customs station of clearance in India

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Radio taxi or Passenger Transport Services provided through electronic commerce operator

Checklist - Items on which Input tax credit is not allowed

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Motor vehicles and conveyances except the below cases

Such motor vehicles and conveyances are further supplied i.e. sold

Transport of passengers

used for imparting training on driving, flying, navigating such vehicle or conveyances

Transportation of goods

food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery

But if the goods and/or services are taken to deliver the same category of services or as a part of a composite supply, credit will be available

Example: Mr. Dev purchases cosmetic creams to supply it to a customer, then credit of ITC paid on purchases will be allowed.

Sale of membership in a club, health, fitness centre.

rent-a-cab, health insurance and life insurance except the following:

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Works contract service for construction of an immovable property (except plant & machinery or for providing further supply of works contract service)

Goods and/or services for construction of an immovable property whether to be used for personal or business use

Goods and/or services where tax have been paid under composition scheme

Goods and/or services used for personal use

Goods or services or both received by a non-resident taxable person except for any of the goods imported by him.

Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples

ITC will not be available in the case of any tax paid due to non -payment or short tax payment, excessive refund or ITC utilized or availed by the reason of fraud or willful misstatements or suppression of facts or confiscation and seizure of goods.

GST Checklist

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- ✓ Have you done the Migration to GST in all States and submitted requisite documents
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Transition

- ✓ Have you identified the services on which service tax is payable under reverse charge, to ensure its payment by June 30
- ✓ Have you initiated the process to collate all vendor invoices to capture correct credit in the last return

DOCUMENTATION & COMPLIANCES

- ✓ Have you obtained vendors and customer's GSTN numbers
- ✓ Have you sent communications to your vendors and customers and discussed the related changes to their business
- ✓ Have you discussed the clause relating to GST withholding till the time you get the credit and incorporated the relevant clause in agreements/purchase orders
- ✓ Have you incorporated tax change clauses in your customer contracts and vendor contracts
- ✓ Have you finalized formats for invoices and other documents such as delivery challan, debit credit notes etc
- ✓ Have you communicated the situation types for issue of various documents to users [such Tax invoice for supply with GST including transfer to other state warehouse etc.
- ✓ Have you done IT changes to capture credits in appropriate codes
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Transactions

- ✓ Have you identified the HSN and SAC for your outward supplies [both goods and services]
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- ✓ Have you communicated the process and requirements to users for regular transactions [such as supply of goods services with GST, stock transfers, FOC supplies etc]
- ✓ Have you communicated the valuation methodology to related and unrelated parties
- ✓ Have you communicated the process and methodology to issue debit/credit notes to users

Have you communicated the mechanics of set off of cre

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| IMPACT | If returns are not filed properly or in time, rating will be poor and will be difficult to do business. |
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Invoice / documents

| | |
|---------------|--|
| Old Regime | In GST regime, invoice format are different from the one we are making in current regime. New invoice format has been made. So from 1 st july old formats should not be used |
| GST Regime | |
| IMPACT | Change in formats to be issued to the client |

Documents to be maintain GST regime

Tax Invoice – a tax invoice is required to be issued for making taxable supplies of goods or services to B2B as well as B2C supplies and in case of reverse charge where you as the recipient is liable to discharge the tax liability. Tax invoice is also required to be issued at the time of making inter state stock transfers.

Bill of Supply- a bill of supply is required to be issued at the time of making exempt supplies of goods or services i.e. or to be issued by a composition dealer

Receipt Voucher: a receipt voucher is required to be issued on receipt of advance payment with respect to any supply of goods or services or both.

Refund Voucher: Where a receipt voucher has been issued for advance received in relation to supply of goods or services but subsequently no supply is made and no tax invoice is issued in pursuance thereof, then the registered person may issue to the person who had made the advance payment, a refund voucher against such payment;

Payment Voucher: A recipient liable to pay tax under reverse charge shall issue a payment voucher at the time of making payment to the supplier.

Debit and credit notes:

- **Debit Note**: A debit note is required to be issued in the following situations:

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- ✓ Where the goods supplied are returned by the recipient, or
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ISD invoice: An ISD invoice is required to be issued to distribute the credit amongst the branches of the entity having same PAN.

Delivery Challan: A delivery challan Is required to be issued at the time of transporting goods without the issue of tax invoice. A delivery challan may be issued for the purpose of:

- ✓ supply of liquid gas where the quantity at the time of removal from the place of business of the supplier is not known,
- ✓ transportation of goods for job work,
- ✓ transportation of goods for reasons other than by way of supply like goods sent on

approval, stock transfer within the state etc.

Other relevant provisions

- Time-limit for issuance of Invoice in case of supply of service have been kept similar to the existing provisions under Service Tax Law i.e. within 30 days from the date of supply of services and for banking and financial institution, it would be 45 days.
- The rules also provide for issue of tax invoice with minimum details in special cases for ISD, Banking company or a financial institution including a non-banking financial company, goods transport agency and passenger transportation service.

Responsibilities of a GST registered person

Decide if the product/ service you are buying or selling is subject to levy of GST. Check the list of goods and services exempted from GST. On the rest, the GST is leviable. The overarching principle is GST is applicable on all made in India supplies of Goods or Services by a taxable person for business purpose and imports.

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| | | Unit III | | |
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| Compensation to states under GST (Compensation to States) Act , 2017 is paid by | Government from consolidated | Government from GST compensation | Government directly from the | Council under Constitution |
| Compensation to states under GST (Compensation to States) Act , 2017 is paid by | crude, diesel, petrol, ATF and natural gas | Alcohol for human consumption | tax collected by local | All of the above |
| Input tax credit on compensation cess paid under GST (Compensation to States) Act, 2017 | is not available | is available but not fully | is available | is available after one year |
| Maximum rate of CGST prescribed by law for intrastate supply made is---- | a) 18% | b) 40% | c) 20% | d) 28%+cess |
| Input tax credit on compensation cess paid under GST (Compensation to States) Act, 2017 is available for payment of | IGST only | IGST and CGST only | under GST (Compensation to States) | None of the above |
| IGST is payable when the supply is --- | Interstate | Intra- UT | Intra-state | All of the above |
| Zero rated supply includes supplies made | By SEZ unit in India | Both (a) & (b) above | to SEZ unit in India | None of the above |
| With the introduction of GST, imports will be— | more expensive | neutral with no change | cheaper | None of the above |
| The first committee to design GST model was headed by | Vijay Kelkar | Dr. Chidambaram | Asim Das Gupta | None of the above |

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| First discussion paper (FDP) which formed the basis for GST in 2009 was released by | Union Finance Ministry | GST Council | Dr. Manmohan Singh | Empowered Committee |
| Roll out of GST requires constitutional amendment because— | existing laws were cascading | levy were exclusive i.e. the state had | separate laws for goods and | All of the above |
| Works contract under GST is goods used in work relating to | Immovable property | Both movable and immovable property | property treated as supply of | property treated as supply of |
| IGST deals with | Composition scheme | Time of supply | on imported services | All of the above |
| The turnover limit of Rs. 50 Lakh for composition scheme is not applicable to the state of | Himachal Pradesh | Uttarakhand | Assam | None of the above |
| A supplier is liable to get registered under GST if his aggregate turnover in a financial year crosses Rs. 20 lakh in a state or UT other than special category states if he is | an interstate supplier | an intra-state supplier | Electronic commerce operator | Person liable to pay GST under reverse charge |
| One of the following states does not fall under special category given under Art. 279A of the Constitution | Himachal Pradesh | Chhattisgarh | Uttarakhand | Jammu & Kashmir |
| Exemption from registration is available to | Central & State Govt. Departments | a) & b) above | Agriculturists | None of the above |
| Agriculturist | Individual or HUF | Partnership | Individual and HUF | All the above |
| A person is having multiple business requires registration | Single | Either A or B | Each business separately | None of the above |
| Article _____ of constitution of India empowers parliament to impose IGST in India. | 69A | 279A | 265A | none of the above |
| Full-fledged GST was recommended by | Raja Chellaiah committee | GST Council | Vijay Kelkar Task Force | Man Mohan Singh |
| One of the following taxes is already subsumed under GST | Tax on motor spirit | Tax on production of alcohol | Luxury Tax | Tax on electricity |
| One of the following taxes is not subsumed under GST | Octroi by local authorities | Entry tax by State Governments | Entertainment tax by local | Tax on lottery by State |
| GST is _____ | a value added tax | tax on consumer goods and | tax on goods and services | none of the above |

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|--|--|---|--|-------------------------------------|
| Dual model of GST as adopted in India has been drawn majorly from | Australia | USA | France | canada |
| GST is _____ | applicable to the state of J&K | not applicable to the state of | going to be applicable to the state | both (b) and (c) above |
| The rate of GST as applicable on goods and services are: | 0% 5% 12% 16% 28% | 0% 5% 12% 18% 28% | 0% 6% 12% 18% 28% | 0% 5% 12% 18% 26% |
| . Under which Constitutional Amendment Act, 2016, constitution was amended to introduce GST in India | 122 | 101 | 121 | none of the above |
| Under the provisions of GST law, tax is levied | simultaneously by Union and State laws | only by the State laws | only by the Union laws | exclusively by Union and State laws |
| GST Laws are implemented on the recommendation of | Central Government | GST Council | GST Network (GSTN) | President of India |
| When did the President of India gave assent to the Central GST Law? | 18th April 2017 | 5 th April 2017 | 22nd April 2017 | 12th April 2017 |
| .Money means | Indian legal tender | Foreign currency | Cheque/ Promissory | all of the above |
| Where is GST applicable? | All over India except the state of Jammu and Kashmir | All over India except the state of Sikkim | All over India except the state of Meghalaya | All over India |
| What is the meaning of non-taxable territory? | Outside taxable territory | Interstate taxable territory | Inside taxable territory | None of the above |
| . What does the term “person” includes? | HUF | LLP | Individual | All of the above |
| . GST Council is referred under which Article of the Constitution? | 279 | 277 | 279A | 276 |
| What is the weight of vote that the Centre has in the GST Council? | 1/4th of total votes cast | 1/2th of total votes cast | 1/3rd of total votes cast | none of the above |
| What is the weight of vote that the all the States together have in the GST Council? | 1/4th of total votes cast | 2/3rd of total votes cast | 1/2th of total votes cast | 3/4th of total votes cast |

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| Who is the Chairperson of the GST Council | Finance Secretary | State's Finance Minister by | Union Finance Minister | Prime Minister |
| Taxable turnover below ` 1.5 crore is under the control of | State | Both Centre and State | Centre | exempt from the purview of |
| . Under which Schedule, power to declare certain activity/ transaction as neither supply of goods nor of services | Schedule I | Schedule II | Schedule III | Schedule IV |
| When was GST Council constituted? a | 12th September 2016 | 20th September 2016 | 15th September 2016 | 10th September 2016 |
| What is address for delivery? | Recipient address mentioned in the invoice | Recipient address mentioned in delivery | Not necessarily recipient address | Recipient address mentioned in the invoice |
| . Who is an agriculturist? | Individual or HUF | Partnership | Individual and HUF | All of the above |
| . An Associated Enterprise is mentioned in? | Income Tax Act, 1961 | State GST Law, 2017 | Central GST Law, 2017 | Companies Act, 2013 |
| Appointed day is | date on which the provisions of the act shall come into force | date on which President gave assent | date on which both houses passed the act | date on which it is sent to Finance |
| . What is conveyance? | vessel | aircraft | vehicle | all of the above |
| . Which section mentions about inter-state supply of service? | section 8 | section 14 | section 18 | section 12 |
| Place of supply referred in Integrated Goods and Service Tax Act is mentioned in which Chapter? | Chapter II | Chapter III | Chapter V | Chapter VIII |
| . Deemed Export is mentioned in which section? | section 137 | section 142 | section 147 | section 145 |

| | | | | |
|--|--------------------------|---|---|---------------------|
| When does Quarter end? | March | December | September | All of the above |
| What is the rate of levy under composite scheme on the Manufacturer? | 2 percent | ½ percent | 3 percent | 1 percent |
| . An assessee who has opted for the Composite Scheme, is he eligible to take input tax credit? | Yes | May be | No | In certain cases |
| An assessee who has opted for the Composite Scheme, can he collect tax under GST? | Yes | a) May be | No | In certain cases |
| . What is the threshold limit for composite tax levy? | ` 60 lakh | 70 lakh | ` 50 lakh | ` 1 crore |
| When does the liability to pay tax on goods arise? | at the time of supply | at the time when goods reach supplier | at the time of preparing invoice | None of the above |
| The time of supply of goods shall be the earlier of _____ | date of issue of invoice | date of receipt of payment | last date | either of the above |
| What does Taxable event mean? | Tax on supply | Tax on services | either a) or b) | both a) or b) |
| Tax is paid on which value? | Transaction value | manufacturing value plus profit | manufacturing value | notional value |
| . Which of the following condition/s must be satisfied to be eligible to avail Input tax credit? | on receipt of goods | on payment of taxes paid by supplier to Govt. | supplier has to be file return under section 39 | all of the above |

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| |
| |
| |
| |
| Government from GST compensation |
| All of the above |
| is available |
| c) 20% |
| under GST (Compensation to States) Act |
| Interstate |
| to SEZ unit in India |
| more expensive |
| Asim Das Gupta |

| |
|--|
| Empowered Committee |
| levy were exclusive i.e. the state had power |
| property treated as supply of service |
| Service tax on imported services |
| Uttarakhand |
| an intra-state supplier |
| Chhattisgarh |
| Agriculturists |
| Individual or HUF |
| Each business separately |
| none of the above |
| Vijay Kelkar Task Force |
| Luxury Tax |
| Entertainment tax by local authorities |
| a value added tax |

| |
|--|
| canada |
| applicable to the state of J&K |
| 0% 5% 12% 18% 28% |
| 101 |
| simultaneously by Union and State laws |
| GST Council |
| 12th April 2017 |
| all of the above |
| All over India |
| Outside taxable territory |
| All of the above |
| 279A |
| 1/3rd of total votes cast |
| 1/2th of total votes cast |

| |
|---|
| Union Finance Minister |
| Both Centre and State |
| Schedule III |
| 13th September 2016 |
| Not necessarily recipient address |
| Individual and HUF |
| Income Tax Act, 1961 |
| date on which the provisions of the act shall come into force |
| vessel |
| section 12 |
| Chapter V |
| section 147 |

| |
|--------------------------|
| September |
| 1 percent |
| Yes |
| No |
| ` 50 lakh |
| None of the above |
| date of issue of invoice |
| both a) or b) |
| Transaction value |
| all of the above |

Custom Duty is an indirect tax, imposed under the Customs Act formulated in 1962. The power to enact the law is provided under the Constitution of India under the Article 265, which states that -no tax shall be levied or collected except by authority of law. Entry No. 83 of List I to Schedule VII of the Constitution empowers the Union Government to legislate and collect duties on import and exports. The Customs Act, 1962 is the basic statute which governs entry or exit of different categories of vessels, aircrafts, goods, passengers etc., into or outside the country. The Act extends to the whole of the India.

Customs Act, 1962 just like any other tax law is primarily for the levy and collection of duties but at the same time it has the other and equally important purposes such as:

- (i) regulation of imports and exports;
- (ii) protection of domestic industry;
- (iii) prevention of smuggling;
- (iv) conservation and augmentation of foreign exchange and so on.

STATUTORY PROVISIONS CUSTOMS ACT

Customs Act, 1962 came into force from 1-2-1963. It extends to whole of India. The whole Act is divided into XVII chapters comprising of 161 sections.

**Table showing the contents of Customs Act,
1962**

| Chapter No. and Title | Sections | Contents |
|--|-----------------|--|
| I. Preliminary | Section 1 to 2 | Short title, extent and commencement and Definitions |
| II. Officers of Customs | Section 3 to 6 | Appointment and powers of officers of customs |
| III. Appointment of Customs Ports, Airports, Ware- | Section 7 to 10 | Appointments of Customs Ports, Airports, Warehousing Stations etc. |

| | | | |
|------|--|---------------------|---|
| | housing Stations etc. | | |
| IV. | Prohibitions on importation and exportation of goods | Section 11 | Powers to prohibit import and export of goods |
| IVA | Detection of illegally imported goods and prevention of the disposal thereof | Sections 11A to 11G | Provisions for illegal importation of notified goods and prevention of the disposal thereof |
| IVB | Prevention or Detection of Illegal Export of Goods | Sections 11H to 11M | Provisions for illegal export of specified goods |
| IVC | Power to exempt from the provisions of Chapters IVA and IVB | Section 11N | Power to exempt |
| V. | Levy of, and Exemption from, Customs Duties | Sections 12 to 28BA | Chargeable section, valuation of goods, Recovery and refund of duty |
| VA. | Indicating amount of duty in the price of goods, etc., for purpose of refund | Section 28C to 28D | Price of goods and incidence of duty passed on to the buyer |
| VB. | Advance Rulings | Section 28E to 28M | Provisions for advance ruling such as authority, application, procedure and powers of authority |
| VI. | Provisions relating to conveyances carrying imported or exported goods | Sections 29 to 43 | Arrival or departure of goods, delivery of export manifest or export report |
| VII. | Clearance of imported goods and export goods | Sections 44 to 51 | Clearance of import and export goods other than by way of baggage and postal articles. |
| VIII | Goods in Transit | Sections 52 to 56 | Transit and transshipment of goods |
| IX. | Warehousing | Section 57 to 73 | Provision relating to public and private warehouse |
| X. | Drawback | Sections 74 to 76 | Duty drawback on re-export of duty paid goods or material used in the manufacture of goods |
| XA. | Special Provisions relating | Sections 76A to 76N | Omitted in view of the introduction of a special Act, namely, Special Economic |

| | | |
|---|------------------|--|
| to Special Economic Zone | | Zones Act, 2005 |
| XI. Special provisions regarding baggage , goods imported or exported by post, and stores | Section 77 to 90 | Special provisions regarding baggage, goods imported or exported by post, and stores |
| XII. Provisions relating to | Section 91 to 99 | Provision relating to coastal roads and shipping |

| | | | |
|--------|---|------------------------|--|
| | coastal goods and vessels carrying coastal goods | | vessels carrying coastal goods other than baggage and stores |
| XIII. | Searches, seizure and arrest | Section 100 to 110A | Power to search, inspect, examine persons and seizure of goods, documents and things |
| XIV | Confiscation of goods and conveyances and imposition of penalties | Section 111 to 127 | Adjudication proceedings and confiscation of goods. |
| XIVA. | Settlement of cases | Sections 127 to 127N A | Provisions relating to Settlement Commission |
| XV. | Appeals and Revision | Sections 128 to 131C | Procedure and time limits for appeals and revisions |
| XVI | Offences and Prosecutions | Section 132 to 140A | Offences and cognizance of offences |
| XVI I. | Miscellaneous | Section 141 to 161 | Conveyances, duty deferment, licencing of Customs house agent, appearance by authorised representative, delegation of power etc. |

LIMBS OF CUSTOMS LAW

Customs Act, 1962 and Customs Tariff Act, 1975 are the two limbs of Customs Law in India which must be read with rules and regulations. The rule making power is delegated to the Central Government while the regulation making power delegated to the Central Board of Excise and Customs (CBEC).

There are a number of rules and regulation prescribed from time to time to carry the objective of the Act. Some of the rules and regulations are enumerated here as follows:

- Baggage Rules , 2016
- Customs , Central Excise Duties and Service Tax Drawback Rules,1995
- Re-Export of Imported Goods (Drawback of Customs Duties) Rules, 1995
- Customs Valuation (Determination of Price of Imported Goods) Rules, 2007
- Customs Valuation (Determination of Value of Export Goods) Rules, 2007
- Customs (Advance Rulings) Rules, 2002
- Customs (Appeals) Rules, 1982
- Customs(Import of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules, 1996
- Specified Goods (Prevention of Illegal Export) Rules, 1969
- Customs (Compounding of Offences) Rules, 2005
- Customs (Settlement of Cases) Rules, 2007
- Notified Goods (Prevention of Illegal Import) Rules, 1969
- Bill of Entry (Electronic Declaration) Regulations, 2011

- Customs (Provisional Duty Assessment) Regulations, 2011
- Customs House Agents Licensing Regulations, 2004

- (b) the routes by which alone goods or any class of goods specified in the notification may pass by land or inland water into or out of India, or to or from any land customs station from or to any land frontier;
- (c) the ports which alone shall be coastal ports for the carrying on of trade in coastal goods or any class of such goods with all or any specified ports in India.
- (d) the post offices which alone shall be foreign post offices for the clearance of imported goods or export goods or any class of such goods;
- (e) the places which alone shall be international courier terminals for the clearance of imported goods or export goods or any class of such goods.

Every notification issued under this section and in force immediately before the commencement of the Finance Act, 2003 shall, on such commencement, be deemed to have been issued under the provisions of this section as amended by section 105 of the Finance Act, 2003 and shall continue to have the same force and effect after such commencement until it is amended, rescinded or superseded

LEVY OF CUSTOM DUTY

There are four stages in any tax structure, viz., levy, assessment, collection and postponement. The basis of levy of tax is specified in Section 12, charging section of the Customs Act. It identifies the person or properties in respect of which tax or duty is to be levied or charged. Under assessment, the liability for payment of duty is quantified and the last stage is the collection of duty which is may be postponed for administrative convenience.

As per Section 12, customs duty is imposed on goods imported into or exported out of India as per the rates specified under the Customs Tariff Act, 1975 or any other law. On analysis of Section 12, we derive the following points:

- (i) Customs duty is imposed on goods when such goods are imported into or exported out of India;
- (ii) The levy is subject to other provisions of this Act or any other law;
- (iii) The rates of Basic Custom Duty are as specified under the Tariff Act, 1975 or any other law;
- (iv) Even goods belonging to Government are subject to levy, though they may be exempted by notification(s) under Section 25.

Custom Tariff Act, 1975 has two schedules. Schedule I prescribes tariff rates for imported goods, known as

-Import Tariff and Schedule II contains tariff for export goods known as -Export Tariff.

TAXABLE EVENT

The basic condition for levy of customs duty is import/export of goods i.e. goods become liable to duty when there is import into or export from India.

- Import means bringing into India from a place outside India [Section 2(23)].
- Export means taking out of India to a place outside India [Section 2(18)].
- "India" includes the territorial waters of India [Section 2(27)]. The limit of the territorial waters is the line every point of which is at a distance of twelve nautical miles from the

nearest point of the appropriate baseline.

Though the taxable event is import/export yet it is difficult to determine the exact time of levy. The provision of assessment and collection of duty will be discussed in other parts.

Here in this part, we will discuss the types of duties leviable under Customs Tariff Act.

As per section 12, Customs duties are levied on the goods imported into, or exported from, India at the rates specified in the schedules to the Customs Tariff Act, 1975. The first schedule prescribed the rates of duty on imports and Second schedule prescribe the rates of duty on exports.

TYPES OF DUTIES UNDER CUSTOMS

IMPORT DUTY

There are various types of Customs import duties:

(1) BASIC CUSTOM DUTY

It is levied under Section 12 of Customs Act, 1962, and specified under Section 2 of the Customs Tariff Act, 1975. Normally, it is levied as a percentage of Value as determined under section 14(1). There are different rates for different goods. But the general basic rate is 10%. This basic duty may be exempted by a notification under Section 25. The basic duty may have two rates under the First Schedule to Customs Tariff Act, 1975; viz. standard rates and preferential rates.

Standard and Preferential Rates

Duty at the -Standard rate is charged where there is no provision for preferential treatment. To be eligible, for the preferential treatment the goods should be the one which are imported from any preferential area covered under the Government of India Agreements for charging preferential rate of duty. The Central Government has the power to increase or reduce or discontinue the preferential rate in respect of any article specified in the First Schedule provided it considers it to be necessary in the public interest. Preferential rate is applied only where the owner of the article (importer) claims at the time of importation, with supporting evidence, that the goods are chargeable with the preferential rate of duty.

(2) ADDITIONAL CUSTOM DUTY/COUNTERVAILING DUTY [Section 3(1)]

This is levied under Section 3(1) of the Customs Tariff Act, 1975. The amount of this duty is equivalent to the amount of excise duty payable on like goods manufactured or produced in India. In *S.K. Patnaik v. State of Orissa*, 2000 S.C. it was held that countervailing duty is imposed when excisable articles are imported in order to counter balance the excise duty, which is leviable on similar goods if manufactured in India:

- Countervailing Duty is payable at effective rates.
- When excise duty is exempt/nil rate is applicable on goods imported, no Countervailing Duty is levied (*Collector v. J. K. Synthetics* 2000 (120) E.L.T. 54(SC))
- Countervailing Duty is leviable even if similar goods are not produced in India.

- Exemption of basic customs duty doesn't automatically mean exemption of Countervailing Duty.
- Countervailing Duty is payable in case of goods leviable under State Excise also.
- When the imported goods are valued under Section 4A [valuation based on retail price], or Tariff Values under section 3(2) the amount of Countervailing Duty is calculated accordingly if the goods are sold in retail in India.

Value for calculation of duty: Additional duty/ IGST is calculated on a value of the imported article

This additional duty is eligible for Cenvat Credit for a manufacturer but not for a provider of taxable service. In respect of capital goods, 100% credit of SAD is available to manufacturers in the first year itself. determined under section 14 of the Customs Act and basic custom duty under section 12 of the Customs Act and any other law for the time being in force but does not include;

- additional duty referred to in section 3(5) of The Customs Tariff Act, 1975
- The safeguard duty referred to in section 8B of The Customs Tariff Act, 1975.
- The countervailing duty referred to in section 9 of The Customs Tariff Act, 1975
- The anti dumping duty referred to in section 9A of The Customs Tariff Act, 1975

In other words, the additional customs duty is payable on assessable value plus basic customs duty plus NCCD of customs. While calculating additional customs duty, Anti Dumping Duty, education cess of customs and safeguard duty is not required to be considered.

In case of alcoholic liquor for human consumption imported into India, the Central Government may specify rate of additional duty having regard to the excise duty for the time being leviable on a like alcoholic liquor produced or manufactured in different States or, if a like alcoholic liquor is not produced or manufactured in any State, then, having regard to the excise duty which would be leviable for the time being in different States on the class or description of alcoholic liquor to which such imported alcoholic liquor belongs.

Note: Under GST regime, alcoholic liquor is still under state excise which has not been subsumed under GST. So, IGST is not leviable on its import.

Rate of duty: Such portion of the excise duty leviable on such raw materials, components and ingredients as, in either case, may be determined by rules made by the Central Government in this behalf.

Input Tax Credit of CVD/ IGST: If imported goods are used in manufacture of final products or for provision of output service, **Input Tax credit** of CVD/ IGST paid on imported capital goods is also available.

Important Note: GST has already been brought into effect in India. By virtue of it, IGST (Integrated goods and service tax) is chargeable on goods imported into India. CVD is still payable, wherever applicable on the imported goods for which GST Laws are not applicable.

National Calamity Contingent Duty will be levied only on tobacco products and crude oil. Additional duty of Customs is to be levied on pan masala and tobacco products imported.

Petroleum products such as motor spirit, high speed diesel, aviation turbine fuel, and tobacco products will be outside the scope of GST and additional duties of Customs will be levied on the import of the same.

(3) ADDITIONAL DUTY/SPECIAL ADDITIONAL DUTY (SAD) UNDER SECTION 3(5)

It is levied to offset the effect of sales tax, VAT, local tax or other charges leviable on articles on its sale, purchase or transaction in India. It is leviable on imported goods even if article was not sold in India.

The Central Government may levy additional duty to counter balance the sales tax, value added tax, local tax or any other charges leviable in the like article on its sale, purchase or transportation in India. The rate shall be notified by the Central Government which cannot exceed 4%.

The value of the imported article shall, be the aggregate of the value determined under section 14(1) of the Customs Act, 1962 and any duty of customs chargeable on that article under section 12 of the Customs Act, 1962, and any sum chargeable on that article under any law for the time being in force as an addition to such additional duty of custom under section 3(1) and section 3(3), but does not include—

- (a) the duty referred to in sub-section (5);
- (b) the safeguard duty referred to in sections 8B
- (c) the countervailing duty referred to in section 9; and
- (d) the anti-dumping duty referred to in section 9A.

PROTECTIVE DUTY - SECTION 6 & 7 OF THE CUSTOMS TARIFF ACT, 1975

- The protective duties should not be very stiff so as to discourage imports.
- It should be sufficiently attractive to encourage imports to bridge the gap between demand and supply of those articles in the market.
- Section 6 provides that the protective duties are levied by the Central Government upon the recommendation made to it by the Tariff Commission established under the Tariff Commission Act,

1951, and upon it being satisfied that circumstances exist which render it necessary to take immediate action to provide protection to any industry established in India.

- As per section 7(1), the protective duty shall be effective only upto and inclusive of the date if any, specified in the First Schedule.
- Section 7(2) provides that the Central Government may reduce or increase the duty by notification in the Official Gazette. However, such duty shall be altered only if it is satisfied, after such inquiry as it thinks necessary, that such duty has become ineffective or excessive for the purpose of securing the protection intended to be afforded by it to a similar article manufactured in India.
- If there is any increase in the duty as specified above, then the Central Government is required to place such notification in the Parliament for its approval.
- As per section 7(3), every notification in so far as it relates to increase of such duty, shall be laid before each House of Parliament if it is sitting as soon as may be after the issue of the notification, and if it is not sitting within seven days of its re-assembly, and the Central Government shall seek the approval of Parliament to the notification by a resolution moved within a period of fifteen days beginning with the day on which the notification is so laid before the House of the People. If the Parliament recommends any change in the notification, then the notification shall have effect subject to such changes. However, anything done pursuant to the notification before the recommendation by the Parliament shall be valid.

SAFEGUARD DUTY - SECTION 8B OF CUSTOMS TARIFF ACT, 1975

- The Central Government may impose safeguard duty on specified imported goods, if it is satisfied that the goods are being imported in large quantities and they are causing serious injury to domestic industry.

However, the safeguard duty shall not be imposed in the following cases:

- Articles originating from developing country, so long as the share of imports of that article from that country does not exceed 3% of the total imports of that article into India.
- Articles originating from more than one developing country, so long as the aggregate of imports from developing countries each with less than 3% import share taken together does not exceed 9% of the total imports of that article into India.
- Unless specifically made applicable in the notification, the articles imported by a 100% EOU or units in a Free Trade Zone or Special Economic Zone.
- The safeguard duty is imposed for the purpose of protecting the interests of any domestic industry in India aiming to make it more competitive.

However, the total period of levy of safeguard duty is restricted to 10 years.

- Under section 8B(2), the Central Government is also empowered to impose provisional safeguard duty pending determination of the final duty. This provisional duty may be imposed on the basis of preliminary determination that increased imports have caused or

threatened to cause serious injury to a domestic industry.

Further on final determination, if the Central Government is of the opinion that increased imports have not caused or threatened to cause serious injury to a domestic industry, it shall refund the duty so collected. Provided further that the provisional safeguard duty shall not remain in force for more than two hundred days from the date on which it was imposed.

Safeguard duty is leviable on goods imported by EOU to the extent of their clearance in Domestic Tariff Area.

- **Section 8B(2A)** : The provisions shall not apply to articles imported by a hundred percent Export- Oriented Undertaking or a unit in a special economic zone unless,-
 - (i) Specifically made applicable in such notifications or such impositions, as the case may be; or
 - (ii) The articles imported is either cleared as such into the domestic tariff area or used in the manufacture of any goods that are cleared into the domestic tariff area and in such cases safeguard duty shall be levied on that portion of the article so cleared or so used as was leviable when it was imported into India.

Comment: if an EOU imports a product which attracts safeguard duty in India EOU is also required to pay safeguard duty to the extent of its sale in DTA India.

Example: Caustic soda attracts safeguard duty in India. The same has been imported by an EOU and used in manufacture of detergent cake. 30% of the detergent cake has been sold in DTA. Then it has to pay safeguard duty on 30% of caustic soda imported.

The provisional duty shall be in force for a maximum period of 200 days from the date of its imposition.

If upon final determination, the Central Government is of the opinion that the increased imports have not caused or threatened to cause serious injury to a domestic industry, the duty collected shall be refunded.

- As per section 8B (4), the duty imposed under this section shall be in force for a period of 4 years from the date of its imposition.

Central Government may extend the period of such imposition from the date of first imposition provided it is of the opinion that Domestic industry has taken measures to adjust to such injury or as the case may be to such threat and it is necessary that the safeguard duty should continue to be imposed.

- Section 8B(4A) provides that the provisions of the Customs Act, 1962 and the rules and regulations made thereunder, including those relating to the date for determination of rate of duty, assessment, non-levy, short levy, refunds, interest, appeals, offences and penalties shall, as far as may be, apply to the duty chargeable under this section as they apply in relation to duties leviable under that Act.

)COUNTERVAILING DUTY ON SUBSIDIZED ARTICLES - SECTION 9 OF THE CUSTOMS TARIFF ACT

- Section 9(1) provides that the countervailing duty on subsidized articles is imposed if any country or territory, directly or indirectly, pays or bestows subsidy upon the manufacture or production or exportation of any article. Such subsidy includes subsidy on transportation of such article. Such articles are imported into India. The importation may or may not directly be from the country of manufacture or production. The article, may be in the same condition as when exported from the country of manufacture or production or may be changed in condition by manufacture, production or otherwise.

Subsidy shall be deemed to exist if

- (a) there is financial contribution by a government, or any public body in the exporting or producing country or territory, that is, where -
 - a government practice involves a direct transfer of funds (including grants, loans and equity infusion), or potential direct transfer of funds or liabilities, or both;
 - government revenue that is otherwise due is foregone or not collected (including fiscal incentives)
 - a government provides goods or services other than general infrastructure or purchases goods;
- (b) a government makes payments to a funding mechanism, or entrusts or directs a private body to carry out one or more of the type of functions specified in clauses (i) to (iii) above which would normally be vested in the government and the practice in, no real sense, differs from practices normally followed by governments; or
- The amount of countervailing duty shall not exceed the amount of subsidy paid or bestowed as aforesaid.
- Countervailing duty shall not be levied unless it is determined that -
 - (i) The subsidy relates to export performance;
 - (ii) The subsidy relates to the use of domestic goods over imported goods in the export article; or
 - (iii) The subsidy has been conferred on a limited number of persons engaged in manufacturing producing or exporting the article unless such a subsidy is for-
 - Research activities conducted by or on behalf of such persons engaging in manufacture, production, export;
 - Assistance to disadvantaged regions within the territory of the exporting country; or
 - Assistance to promote adaptation of existing facilities to new environmental requirements.
- Unless revoked earlier, the duty imposed under this section shall be in force for a period of 5 years from the date of its imposition.

Central Government may extend the period of such imposition from the date of such extension provided it, in a review, is of the opinion that such cessation is likely to lead to continuation or recurrence of such subsidization and injury.

However, the extension can be for a maximum period of 5 years. If the review is not

completed before the expiry of the period of imposition (5 years) then the duty may continue to remain in force pending the outcome of such review for a further period not exceeding 1 year.

- When the determination of the amount of subsidy is pending, the Central Government may impose a provisional countervailing duty not exceeding the amount of such subsidy as provisionally estimated by it.

If the final subsidy determined is less than the subsidy provisionally determined, then the Central Government shall reduce such duty and also refund the excess duty collected.

- As per section 9(4), if the Central Government is of the opinion that
 - (a) The injury to domestic industry, which is difficult to repair, is caused by massive imports in a relatively short period, of the articles benefiting from subsidies and
 - (b) to preclude recurrence of such injury, may by notification levy countervailing duty with retrospective effect;

The retrospective date from which the duty is payable shall not be beyond 90 days from the date of notification.

- The provisions of the Customs Act, 1962 and the rules and regulations made thereunder, including those relating to the date for determination of rate of duty, assessment, non-levy, short levy, refunds, interest, appeals, offences and penalties shall, as far as may be, apply to the duty chargeable under this section as they apply in relation to duties leviable under that Act.
- No education cess or SAH cess is payable on CVD on subsidised goods.

ANTI-DUMPING DUTY (ADD) ON DUMPED ARTICLES - SECTION 9A OF THE CUSTOMS TARIFF ACT, 1975

Where any article is exported by an exporter or producer from any country or territory to India at less than its normal value, then, upon the importation of such article into India, the Central Government may, by notification in the Official Gazette, impose an anti-dumping duty not exceeding the margin of dumping in relation to such article. The anti dumping duty is dumping margin or injury margin whichever is lower.

Dumping means exporting goods to India, at prices lower than the ones in the domestic market of the exporting country, subject to certain adjustments.

To prevent dumping, the Central Government may levy ADD up to margin of dumping (MOD). MOD is the difference between the normal value and the price charged for exports to India.

Normal value means comparable price in the ordinary course of trade, in the exporting country, after making adjustments to the extent of conditions of sale, taxation, etc.

Injury margin means difference between fair selling price of domestic industry and landed cost of imported product.

ANTI DUMPING DUTY CAN BE IMPOSED RETROSPECTIVELY AND PROVISIONALLY

(i) Determination of duty provisionally

The Central Government may, pending the determination in accordance with the provisions of this section and the rules made thereunder of the normal value and the margin of dumping in relation to any article, impose on the importation of such article into India an anti-dumping duty on the basis of a provisional estimate of such value and margin and if such anti-dumping duty exceeds the margin

as so determined,-

- (a) the Central Government shall, having regard to such determination and as soon as may be after such determination, reduce such anti-dumping duty; and
- (b) refund shall be made of so much of the antidumping duty which has been collected as is in excess of the anti-dumping duty as so reduced.

(ii) Determination of duty retrospectively:

If the Central Government, in respect of the dumped article under inquiry, is of the opinion that -

- (i) there is a history of dumping which caused injury or that the importer was, or should have been, aware that the exporter practices dumping and that such dumping would cause injury; and
- (ii) the injury is caused by massive dumping of an article imported in a relatively short time which in the light of the timing and the volume of imported article dumped and other circumstances is likely to seriously undermine the remedial effect of the antidumping duty liable to be levied, the Central Government may, by notification in the Official Gazette, levy anti-dumping duty retrospectively from a date prior to the date of imposition of anti-dumping duty but not beyond ninety days from the date of notification, and notwithstanding anything contained in any other law for the time being in force, such duty shall be payable at such rate and from such date as may be specified in the notification.

Period of Duty: The anti-dumping duty imposed under this section shall, unless revoked earlier, cease to have effect on the expiry of five years from the date of such imposition.

However, if the Central Government is of the opinion that the cessation of such duty is likely to lead to continuation or recurrence of dumping and injury, it may, from time to time, extend the period of such imposition for a further period of five years and such further period shall commence from the date of order of such extension.

Where a review initiated before the expiry of the aforesaid period of five years has not come to a conclusion before such expiry, the anti-dumping duty may continue to remain in force pending the outcome of such a review for a further period not exceeding one year.

Emergency power of Central Government

Under section 8, if the Central Government is satisfied that the export duty leviable thereon should be levied, and that circumstances exist which render it necessary to take immediate action the Central Government may, by notification in the Official Gazette, direct an amendment of the Second Schedule to be made so as to provide for an increase in the export duty leviable or, as the case may be, for the levy of an export duty, on that article.

Similarly, Central Government may, by notification in the Official Gazette, direct an amendment in the First Schedule to be made so as to provide for an increase in the import duty leviable on such article to such extent as it thinks necessary:

Government actively encourages export, so there is export duty on every few products. Articles on which export is leviable are given in second schedule to Customs Tariff. Out of these, many have been exempted by way of notification. Export duty will be calculated on FOB price. If duty rate is 15% and FOB price is Rs. 100, the export duty will be Rs. 15.

Section 26 of Customs Act makes the provision for refund of export duty. Export duty is refundable if (a) Goods are imported within one year (b) the goods returned are not 're-sale' and (c) refund claim is lodged

within six months from the date of clearance by customs officer for re- importation.

Emergency powers of Central Government to increase or levy export duty.- section 8 of Customs Tariff Act empowers Central Government to amend second schedule to Customs Tariff (which contains articles on which export duty is leviable) and increase or impose export duty on any product , by issue of a notification. Such notifications should be placed before the Parliament within 15 days after it assembles.

Charging of Customs Duty

The Customs Act, 1962, provides vide its section 12, for levy of duties on goods imported or exported from India.

- Customs duty is imposed on goods imported into or exported out of India as per the rates specified under the Customs Tariff Act, 1975.
- Levy of custom duty on ad valorem (i.e. as a percentage to the value) basis is the predominant mode of levy.
- For this purpose, the value of the imported goods is required to be determined as per provisions of section 14 of the Customs Act, 1962 read with the Customs Valuation (Determination of prices of Imported Goods) Rules, 2007.
- Likewise, in respect of export goods the value is determined as per provisions of section 14 of the Customs Act, 1962 read with the Customs Valuation (Determination of value of Export Goods) Rules, 2007.

VALUATION OF GOODS FOR LEVY OF CUSTOMS DUTY

The method of valuation of goods for both import and export for the purposes of levy of customs duty on the basis of transaction value has been set out under Section 14 of the Customs Act, 1962 (effective from 10.10.2007). The transaction value is the price actually paid or payable for the goods when sold for export to India for delivery at the time and place of importation, or for export from India for delivery at the time and place of exportation, where the buyer and seller of the goods are not related and the price is the sole consideration for sale, subject to such other conditions as may be specified in the rules made in this behalf.

Accordingly, the old Customs Valuation (Determination of Imported Goods) Rules, 1988 (relevant for old section 14) have also been replaced by new Customs Valuation (Determination of Value of Imported Goods) Rules, 2007 and Customs Valuation (Determination of Value of Export Goods) Rules, 2007.

VALUATION OF IMPORTED GOODS

Section 14(1) provides that the value of imported goods shall also include various items of costs and services to the extent provided by the rules. Proviso to section 14(1) states that the price shall be calculated as per the rate of exchange as in force on the date of presentation of bill of entry or

shipping bill or bill of export under section 46 or section 50, as the case may be. Further, if transaction value is not determinable (in case of no sale or buyer or seller being related or price not being sole consideration), value is determined in accordance with valuation rules. Hence, the value of imported goods shall be computed in accordance with section 14(1) read with the Customs Valuation (Determination of Value of imported Goods) Rules, 2007.

Let's discuss the valuation rules of import in detail:

CUSTOMS VALUATION (DETERMINATION OF PRICE OF IMPORTED GOODS) RULES, 2007

As per Notification No. 94/2007-Customs (N.T.), dated 13.9.2007, in exercise of the powers conferred by Section 156 read with Section 14 of the Customs Act, 1962 (62 of 1962), the Central Government hereby makes the following rules, namely:

Customs Valuation (Determination of Value of Imported Goods) Rules, 2007

| | |
|--------|---|
| Rule 3 | Determination of the method of valuation |
| Rule 4 | Transaction value of identical goods |
| Rule 5 | Transaction value of similar goods |
| Rule 6 | Situation where the above methods cannot be applied |
| Rule 7 | Deductive value method |
| Rule 8 | Computed value |

DETERMINATION OF THE METHOD OF VALUATION - RULE 3

Rule 3 of Import valuation rules provides that the value of the imported goods shall be transaction value adjusted on accordance with rule 10. However, where for any reason the transaction value cannot be determined, or the same is not acceptable for any reason, then, the value shall be determined as per the methods laid down in Rules 4 to 9, which are to be preceded sequentially.

As per rule 2(g): "**transaction value**" means the value referred to in sub-section (1) of section 14 of the Customs Act, 1962.

As already discussed, transaction value as per section 14 of the Customs Act, 1962 is the price actually paid or payable;

- when sold for export to India for delivery at the time and place of importation in case of imports and
- when sold for export from India the price for delivery at the time and place of exportation,

where the buyer and seller are not related and price is the sole consideration for the sale subject to such other conditions as -may be specified in the rules made in this behalf.

The first proviso to Section 14(1) states that the transaction value shall include in addition to the price paid or payable on imported goods any amount paid or payable for costs and services including:

- commissions and brokerage,
- engineering,
- design work,
- Royalties and license fees,
- costs of transportation to the place of importation,
- Insurance,
- loading, unloading and handling charges.

- The costs and services required to be included in the price actually paid or payable are

exhaustive.

- -Loading and -unloading charges have also been included along with the —handling charges.
- The rate of exchange shall be as in force on the date of submission of bill of entry under section 46 or shipping bill or bill of export is presented under section 50 as the case may be. - [Third

Proviso to section 14(1)]

As per clause (ii) of second proviso to section 14(1) value of goods shall be determined as per Valuation Rules if the transaction value cannot be determined. It may be in situations where there is no sale at the time and place of importation or exportation, or buyer or seller are related or price is not the sole consideration for sale.

Rule 3(1) of the Valuation Rules provide that the value of imported goods shall be the transaction value adjusted in accordance with provisions of rule 10 (detailed later).

Further, as per rule 3(2), transaction value of the imported goods, as determined under rule 3(1) shall be acceptable as the value of such goods only if the following conditions are fulfilled [Rule 3(2)]-

(a) **No restriction on buyer for disposal of goods:** there are no restrictions as to the disposition or use of the goods by the buyer other than restrictions which –

- (i) are imposed or required by law or by the public authorities in India; or
- (ii) limit the geographical area in which the goods may be resold; or
- (iii) do not substantially affect the value of the goods;

Among restrictions which would not render a price actually paid or payable unacceptable are restrictions which do not substantially affect the value of the goods.

An example of such restrictions would be the case where a seller requires a buyer of automobiles not to sell or exhibit them prior to a fixed date which represents the beginning of a model year.

(b) **Sale not subject to conditions of which value cannot be determined:** the sale or price is not subject to some condition or consideration for which a value cannot be determined in respect of the goods being valued;

Examples of such conditions: If the sale or price is subject to some condition or consideration for which a value cannot be determined with respect to the goods being valued, the transaction value shall not be acceptable for customs purposes. Some examples of this include-

- (i) The seller establishes the price of the imported goods on condition that the buyer will also buy other goods in specified quantities;
- (ii) the price of the imported goods is dependent upon the price or prices at which the buyer of the imported goods sells other goods to the seller of the imported goods;
- (iii) the price is established on the basis of a form of payment extraneous to the imported goods, such as where the imported goods are semi-finished goods which have been provided by the seller on condition that he will receive a specified quantity of the finished goods.

However, conditions or considerations relating to the production or marketing of the imported goods shall not result in rejection of the transaction value.

For example, the fact that the buyer furnishes the seller with engineering and plans undertaken in India shall not result in rejection of the transaction value for the purposes of rule 3. Likewise, if the buyer undertakes on his own account, even though by agreement with the seller, activities relating to the marketing of the imported goods, the value of these activities is not part of the value of imported goods nor shall such activities result in rejection of the transaction value.

(c) **No further consideration to seller of which adjustment cannot be made:** no part of the proceeds of

any subsequent resale, disposal or use of the goods by the buyer will accrue directly or indirectly to the seller, unless an appropriate adjustment can be made in accordance with the provisions of rule 10 of these rules; and

(d) **Unrelated buyer and seller except where value is acceptable under rule 3(3):** the buyer and seller are not related (definition of related persons as per rule 2(2) given below) , or where the buyer and seller are related, that transaction value is acceptable for customs purposes under the provisions of rule 3(3).

As per rule 3(3), in the following two cases the transaction value shall be acceptable even if goods are sold to related persons:

- i. Where the buyer and seller are related, the transaction value shall be accepted provided that the examination of the circumstances of the sale of the imported goods indicates that the relationship did not influence the price.

Where the proper officer of customs has no doubts about the acceptability of the price, it should be accepted without requesting further information from the importer.

For example, the proper officer of customs may have previously examined the relationship, or he may already have detailed information concerning the buyer and the seller, and may already be satisfied from such examination or information that the relationship did not influence the price.

- ii. In a sale between related persons, the transaction value shall be accepted, whenever the importer demonstrates that the declared value of the goods being valued **closely approximates** to one of the following values ascertained at or about the same time.
 - the transaction value of identical goods, or of similar goods, in sales to unrelated buyers in India;
 - the deductive value for identical goods or similar goods;
 - the computed value for identical goods or similar goods:

"Unrelated buyers" means buyers who are not related to the seller in any particular case.

However, in applying the values used for comparison, due account shall be taken of demonstrated difference in commercial levels, quantity levels, adjustments in accordance with the provisions of rule 10 and cost incurred by the seller in sales in which he and the buyer are not related;

A number of factors must be taken into consideration in determining whether one value "closely approximates" to another value. These factors include

- the nature of the imported goods,
- the nature of the industry itself,
- the season in which the goods are imported, and
- whether the difference in values is commercially significant.

Since these factors may vary from case to case, it would be impossible to apply a uniform standard such as a fixed percentage, in each case.

For example, a small difference in value in a case involving one type of goods could be unacceptable while a large difference in a case involving another type of goods might be acceptable in determining whether the transaction value closely approximates to the "test" values.

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| unit V | | | | |
| Question | option a | option b | option c | option d |
| The term “WIPO” stands for:- | (a). World Investment policy organization | (b). World Intellectual Property Organization | (c). Wildlife Investigation and Policing organization | Institute for Prevention of Organized crime |
| Article 11 of the Customs Act, 1962, under which government has | (a). Clauses (n) & (u) of Sub-Section (2) of Section 11 | (b). Clauses (a) & (u) of Sub-Section (2) of | (c). Clauses (c) & (u) of Sub-Section (2) of | (d). Clauses (n) & (v) of Sub-Section |
| International Organization has | (a) World Trade Organization (WTO) | (b) World Customs | (c) United Nations (UN) | (d) Organization |
| What are the cases, which can be transferred to Call Book? | (a) Cases admitted & pending before Settlement Commission. | (b) Provisional Assessment cases | (c) Cases returned by CESTAT for de novo | (d) Cases pending for want of Test Report. |
| If, on receipt of Audit objection from C & AG office, no action is taken by the Departmental officers resulting in the loss of revenue, then in such a situation, what could be the consequence for the | (a) No action could be taken by the Department against the officer. | (b) Responsibility may be fixed on the officers responsible for loss of revenue. | only be taken against the officials of the Ministry, not against the field officers. | can only be taken against the junior officers only, not against the senior |
| Under what situation, SCN transferred to the call book can be taken out of call book? | (a) When the grounds on basis of which a SCN has been transferred to call book, ceases to exist. | (b) It depends upon the overall pendency position of SCNs in the | (c) SCN can be kept in the call book for five years. | (d) SCN, when transferred to call book, cannot be taken out of |
| Name the authority before whom the appeal shall lie against the order passed by an officer, who is lower in rank than Principal Commissioner | (a). CESTAT | (b). Commissioner (Appeals) | (c). High Court/ Supreme Court | (d). Joint Secretary (Revision Application) [i.e. JS (RA)] |
| Name the authority before whom the appeal shall lie against the order passed by the Principal Commissioner of Central Excise or Commissioner of Central Excise:- | (a). CESTAT | (b). Commissioner (Appeals) | (c). High Court | (d). Supreme Court |
| In India, which one of the following is the notified agency for implementation of Scheme of Authorized Economic Operator? | (a) The Directorate General of Human Resource Development (DGHRD) | (b) The Directorate General of Central Excise Intelligence (DGCEI) | (c) The Directorate General of Inspection of Customs and Central Excise (DGICCE), now | (d) The Directorate General of Export Promotion (DGEP) |

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| Export Income earned by which of the following type of manufacturing Unit is normally eligible from payment of Income Tax under the Income Tax Act, 1961? | (a) Export Oriented Unit | (b) Jewellery manufacturing Unit in DTA | (c) SEZ unit | (d) Garment Manufacturing Unit |
| In drawback cases involving collusion, suppression of fact, what is the monetary limit prescribed for the Joint Commissioner/ Additional Commissioner? | (a) Without limit | (b) Where drawback wrongly availed is upto Rs. 50 lakhs | (c) Where drawback wrongly availed is upto Rs. 5 lakhs | (d) Where value of goods on which drawback is |
| Which of the following statement is true about the Indian Customs Single Window Project? | (a) The importers and exporters electronically lodge their Customs clearance documents | (b) If any, from other regulatory agencies (such as Drug | (c) To reduce interface with Governmental agencies, dwell time and cost of | (d) All of the above |
| What is the WCO theme for the year 2016? | (a) Co-ordinated Border Management | (b) Communication | (c) Digital Customs | (d) Innovation |
| Identify as to which of the following statement is NOT TRUE about WCO? | (a) WCO is located in Brussels, Belgium | (b) WCO was earlier known as Customs Cooperation Council. | (c) WCO members deal with 98% of the International Trade. | (d) All countries of the UN are members of WCO. |
| Which of the following has not been issued under Customs Act, 1962? | (a) IPR (Imported goods) Enforcement Rules, 2007 | (b) The Foreign Trade Policy, 2015-2020 | (c) The Baggage Rules, 2016 | (d) The Customs valuation (determination of price of imported goods) Rules, 2007 |
| Under which provision of the Customs Act, 1962, the duty of Customs is leviable on imported goods? | (a) Section 17 | (b) Section 14 | (c) Section 12 | (d) Section 15 |
| Which of the following statement is not true with reference to duty drawback schemes? | (a) Drawback under Section 74 can be granted only on re-export of duty paid | (b) Drawback under Section 75 can be granted on goods | (c) Essential condition to be fulfilled for | (d) under Section 74 is also available on |
| Under which of the following Export Promotion Schemes, Capital Goods are allowed to be imported duty free? | (a) Export Promotion Capital goods scheme | (b) Export Oriented Unit Scheme | (c) Software Technology Park Scheme | (d) All of the above |
| What is the quantum of pre-deposit for the Department at the time of filing application (appeal) (w. e. f. 06.08.2014) before the Commissioner | (a). 5% of the duty, in case where duty or duty and penalty are in dispute; or penalty, where such penalty is | (b). 7.5% of the duty, in case where duty or duty and penalty are in dispute; or | (c). 10% of the duty, in case where duty or duty and penalty are in dispute; | (d). Nil |

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| Which of the following commodities is not subjected to payment of Export Duty at the time of export? | (a) Iron Ore Pallets | (b) Bauxite (natural) calcined | (c) Snake skin | (d) Ferrous Waste and Scrap |
| What is the time limit prescribed under the Customs Act, 2016 as on date for issuance of demand notice U/s 28 of the Customs Act, 1962 in cases where fraud suppression | (a) Six months | (b) One year | (c) Two Years | (d) Three Years |
| Which of the following Rules have been substituted with new Rules w.e.f. 01.04.2016? | (a) Customs | (b) Customs Valuation Rules, 2007. | (c) Customs, Central Excise Duties and Service Tax Drawback Rules, 1995. | (d) Foreign Privileged Persons, |
| What is the quantum of pre deposit for a person filing second appeal before CESTAT when 7.5% of the duty has | (a) 10% of duty. | (b) 5% of duty | (c) 2.5 % of duty | (d) NIL |
| A person can make an application to the settlement commission under Custom Act? | (a) Before issue of show cause notice. | (b) Before adjudication. | (c) Within thirty days from the date of issue of O-I-O. | (d) Before filing appeal. |
| Which of these is/are not an adjudicating authority under Customs Act, 1962? | (a) Commissioner of Customs | (b) Principal Commissioner of Customs | (c) Commissioner (Appeals) and Tribunal | (d) Assistant Commissioner of Customs |
| As per section 11 of the Customs Act, 1962, which of these is a purpose for which Central Government may prohibit (absolutely or conditionally) the importation / exportation of any specified goods? | (a) the prevention of smuggling | (b) the conservation of foreign exchange and the safeguarding of balance of payments | (c) the conservation of exhaustible natural resources | (d) the protection of patents, trademarks, copyrights, designs and geographical indications |

| | | | | |
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| Which section of the Customs Act, 1962 provides for levy of Customs duty on import and export of goods? | (a) Section 3 | (b) Section 12 | (c) Section 14 | (d) Section 28 |
| Where shall an appeal against the Order passed by the CESTAT relating to the valuation of goods shall lie ? | (a) High Court | (b) Supreme Court | (c) Central Government | (d) CESTAT cannot pass an order on valuation |
| Under Section 14 of the Customs Act 1962, the transaction value shall be calculated with reference to the rate of exchange as in force on the date on which: | (a) Date of Invoice | (b) the date of issuance of the Bill of lading | (c) Date of filing IGM | (d) Date of filing the Bill of Entry |
| As on date, the On-Site Post Clearance Audit (OSPCA) has been made operational by the Board for: | (a) ACP clients | (b) AEO clients | (c) All the manufacturer-importers with Customs duty payments in | (d) All importers and exporters |
| A person can make an application to the settlement commission under Custom Act? | (a) Before issue of show cause notice. | (b) Before adjudication. | (c) Within thirty days from the date of issue of O-I-O. | (d) Before filing appeal. |
| Which of these is/are not an adjudicating authority under Customs Act, 1962? | (a) Commissioner of Customs | (b) Principal Commissioner of Customs | (c) Commissioner (Appeals) and Tribunal | (d) Assistant Commissioner of Customs |
| As per section 11 of the Customs Act, 1962, which of these is a purpose for which Central Government may prohibit (absolutely or | (a) the prevention of smuggling | (b) the conservation of foreign exchange and the safeguarding | (c) the conservation of exhaustible natural resources | (d) the protection of patents, trademarks, copyrights, |
| Which section of the Customs Act, 1962 provides for levy of Customs duty on import and export of goods? | (a) Section 3 | (b) Section 12 | (c) Section 14 | (d) Section 28 |
| Where shall an appeal against the Order passed by the CESTAT relating to the valuation of goods shall lie ? | (a) High Court | (b) Supreme Court | (c) Central Government | (d) CESTAT cannot pass an order on valuation matters |

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| Under Section 14 of the Customs Act 1962, the transaction value shall be calculated with reference to the rate of exchange as in force on the date on which: | (a) Date of Invoice | (b) the date of issuance of the Bill of lading | (c) Date of filing IGM | (d) Date of filing the Bill of Entry |
| As on date, the On-Site Post Clearance Audit (OSPCA) has been made operational by the Board for: | (a) ACP clients | (b) AEO clients | (c) All the manufacturer-importers with Customs duty payments in excess of Rs.1 | (d) All importers and exporters |
| Under what situation, SCN transferred to the call book can be taken out of call book? | (a) When the grounds on basis of which a SCN has been transferred to call book, ceases to exist. | (b) It depends upon the overall pendency position of SCNs in the | (c) SCN can be kept in the call book for five years. | (d) SCN, when transferred to call book, cannot be |
| Export Income earned by which of the following type of manufacturing Unit is normally eligible for exemption from payment of Income Tax under the Income Tax Act, 1961? | (a) Export Oriented Unit | (b) Jewellery manufacturing Unit in DTA | (c) SEZ unit | (d) Garment Manufacturing Unit |
| Under which of the following Export Promotion Schemes, Capital Goods are allowed to be imported duty free? | (a) Export Promotion Capital goods scheme | (b) Export Oriented Unit Scheme | (c) Software Technology Park Scheme | (d) All of the above |
| Customs Act was passed in the year ____ | 1970 | 1965 | 1962 | 1975 |
| Safeguard domestic duty is imposed on _____ goods | export | interstate | import | local sales |
| _____ Goods could not suffer excise duty | Exported | local stated | Imported | local valuable |
| _____ additional duties levied on imported goods | special additional duty | protective | anti dumping duty | additional duty |
| Foreign _____ or aircraft means any vessel or aircraft at the time of carriage | coming vessel | lodging vessel | going vessel | updating |

| | | | | |
|---|-----------------|-------------------|------------------|--------------------|
| brought into India from outside India | export | import | inter state | local |
| Assessable value is determined by ____ of identical goods | computed | transaction value | deducted value | residual value |
| Section 25 of the Customs Act empower _____ government to issue special orders | state | central | tax authorities | public authorities |
| Customs act provides remission duty on goods lost on ____ consumption | home | industry | business | natural |
| _____ is not liable to pay abandoned goods _____ | sellers | buyers | owners | wholesalers |
| safeguarding payments to exporters | Excise duty | foreign exchange | customs goods | export goods |
| issued notification to import of _____ | sensitive goods | notified goods | regulative goods | restricting goods |
| Rebate of duty is chargeable on _____ on goods | Producing | manufacturing | packing | purchasing |
| covered _____ of the drawback | 85% | 88% | 80% | 90% |
| _____ have been defined in subsection _____ | relative goods | prohibited goods | customs goods | notified goods |
| _____, personal effects brought in commercial quantities | warehouse | Bonafide baggage | baggage | Pilfered |
| _____ of the customs Act empowers the central Govt. for import and export of goods | sec 9 | sec 10 | sec11 | sec8 |
| The authority competent to pass any order or decision under the Act is called ----- authority | Customs | Excise | Empowering | Adjudicating |
| ----- goods means goods other than imported goods transported in a vessel from one port in India to another | Draw back goods | Imported goods | Exported goods | Coastal goods |

| | | | | |
|--|--------------------|--------------------|--------------|---------------|
| The declaration of tax liability is called --- | Collection of duty | Assessment of duty | Levy of duty | Taxable event |
| Large manufacturer from abroad, export goods at _____ prices | very high | high | less | very less |
| | | | | |
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| | | | | |

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| | |
| answer | |
| (b). World Intellectual Property Organization | |
| (a). Clauses (n) & (u) of Sub-Section (2) of | |
| (b) World Customs | |
| (a) Cases admitted & pending before Settlement | |
| (a) Cases admitted & pending before Settlement Commission. | |
| (a) When the grounds on basis of which a SCN has been transferred to | |
| (a). Joint Secretary (Revision Application) [| |
| in IS (PA) | |
| (c). High Court | |
| (c) The Directorate General of Inspection of Customs and Central Excise (DGICCE) | |

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| (c) SEZ unit | |
| (a) Without limit | |
| (e) All of the above | |
| (c) Digital Customs | |
| (d) All countries of the UN are members of WCO. | |
| (b) The Foreign Trade Policy, 2015-2020 | |
| (c) Section 12 | |
| under Section 74 is also available on | |
| (d) All of the above | |
| (d). Nil | |

| | |
|---|--|
| (a) Iron Ore Pallets | |
| (c) Two Years | |
| (a) Customs (Import of Goods at Concessional Rate of Duty for Manufacture of Excisable | |
| (c) 2.5 % of duty | |
| (b) Before adjudication. | |
| (c) Commissioner (Appeals) and Tribunal | |
| | |

| | |
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| (b) Section 12 | |
| (b) Supreme Court | |
| (d) Date of filing the Bill of Entry | |
| (a) ACP clients | |
| (b) Before adjudication. | |
| (c) Commissioner (Appeals) and Tribunal | |
| | |
| (b) Section 12 | |
| (b) Supreme Court | |

| | |
|--|--|
| (d) Date of filing the Bill of Entry | |
| (a) ACP clients | |
| (a) When the grounds on basis of which a SCN has been transferred to | |
| (c) SEZ unit | |
| (d) All of the above | |
| 1962 | |
| import | |
| imported | |
| protective | |
| going vessel | |

| | |
|-------------------|--|
| import | |
| transaction value | |
| central | |
| home | |
| owners | |
| foreign exchange | |
| sensitive goods | |
| manufacturing | |
| 80% | |
| prohibited goods | |
| baggage | |
| sec 11 | |
| Adjudicating | |
| Coastal goods | |

| | |
|--------------|--|
| Levy of duty | |
| | |
| very high | |
| | |
| | |
| | |