

Scope

This course provides the knowledge about the provisions of income Tax Act. Basis of charge explains the residential status of an individual, HUF and all other persons. It gives the clear idea about the computation of total income such as income from salary, income from house property, profits and gains of business or profession, capital gain and income from other sources and also it imparts the knowledge on levy and collection of indirect taxes. It gives thorough knowledge about levy and collection of central excise duty and customs duty.

Objective

- To provide basic knowledge and equip students with application of principles and provisions of Income-tax Act, 1961 and the relevant Rules.
- To provide basic knowledge and equip students with application of principles and provisions of Service Tax, Central Excise, and Customs Laws.

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. 35thEdition.
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.

KARPAGAM ACADEMY OF HIGHER EDUCATION
DEPARTMENT OF COMMERCE
III B.COM (BPS)
TAXATION (17BPU502A)

UNIT 1

Question	Option 1	Option 2	Option 3	Option 4	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 -----	2018-19	2017-18	2016-17	2015-16	2018-19
The current assessment year is -----	2017-18	2018-19	2019-20	2020-21	2019-20
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 prerequisite	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 -----	Foreign income	Indian income	total income.	net income	foreign income

income.					
A person not only liable for his own income, but also for others income or loss is called --	ordinary resident	Representative assessee	Assessee – in – default.	NRI	representative assessee
Agricultural income is ----- income	fully exempt	partially exempt	fully taxable.	not an income	fully exempt
Part I of Schedule I of the finance Act 2019 has given rates of Income tax for the assessment year -----	2018-19	2017-18	2016-17	2019-20	2019-20
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 2019-20 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)
Individual and HUF can be classified into - ----	Two	Three	Four	Five	Three
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 2019-20 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 -----	2018-19	2015-16	2016-17	2019-20	2019-20
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

Income Tax Act 1961: Definition of Income - Assessment Year - Previous Year- Assessee- Assessee in Default- Scope of Total Income – Charge of Tax –Residential status- Exempted Income.

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 which 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 2017-18 which commences on April 1, 2017 and ends on March 31, 2018. Income of previous year of an assessee is taxed during the assessment year at the rates

Previous year : Section 3

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

(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.

KARPAGAM

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	: 5%
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	: 5%
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
1	It has short-term effect. The benefit is enjoyed within one accounting period.
2	It occurs repeatedly. It is recurring and Regular in nature.
3	It is shown in profit and loss account on the credit side.
4	It does not produce capital receipt.
5	This does not increase or decrease the value of asset or liability. Sometimes, expenses of capital nature
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.

Capital Receipt is enjoyed for many years in future.

Capital Receipt	It does not occur again and again. It is nonrecurring and irregular in nature.
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It	It is shown in the Balance Sheet on the liability side.
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Capital Receipts	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.).
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Loan	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.
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Interest	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.
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Capital Receipts

The

benefit

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

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.

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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 an employer to his Indian citizen employee, [Sec. 10(5)]
7. Remuneration received by foreign diplomats of all categories [Sec. 10(6)]
8. Salary received by a foreign citizen as an employee of a foreign enterprise provided his stay in India does not exceed 90 days [Sec. 10(6)(vi)]
9. Salary received by a non-resident foreign citizen as a member of ship's crew provided his total stay in India does not exceed 90 days [Sec. 10(6)(vii)]
10. Remuneration received by an employee, being a foreign national, of a foreign government deputed in India for training in a Government establishment or public sector undertaking [Sec. 10(6)(xi)]
11. Tax paid on behalf of foreign companies [Sec. 10(6A)]
12. Tax paid by Government or an Indian concern in case of a non-resident / foreign company [Sec.10(6B)]

13. Income arising to notified foreign companies from services provided in or outside India in project connected with the security of India [Sec. 10(6C)]
14. Foreign allowance granted by the Government of India to its employees posted abroad [Sec. 10(7)]
15. Remuneration received from a foreign Government by an individual who is in India in connection with any sponsored co-operative technical assistance programme with a foreign Government and the income of the family members of such employee [Sec. 10(8)and(9)]
16. Remuneration / fee received by non-received consultants and their foreign employees [Sec. 10(8A),(8B) and (9)]
17. Death-cum-retirement gratuity [Sec. 10(10)]
18. Commuted value of pension and any payment received by way of commutation of pension by as individual out of annuity plan of LIC or any other insurer from a fund set up by that corporation or insurer [Sec. 10(10A)]
19. Leave salary [Sec. 10(10AA)]
20. Retrenchment compensation [Sec. 10(10B)]
21. Compensation received by victims of Bhopal gas leak disaster [Sec. 10(10BB)]
22. Compensation from the Central Government or a state Government or a local authority received by an individual or his legal heir on account of any disaster [Sec. 10(10BC)]
23. Compensation received from a public sector company at the time of voluntary retirement or separation [Sec. 10(10C)]
25. Any sum (including bonus) on life insurance policy (not being a keyman insurance policy) [Sec. 10(10D)]
26. Any amount from provident fund paid to retiring employee [Sec. 10(11)]
27. Amount from an approved superannuation fund to legal heirs of the employee [Sec. 10(13)]
28. House rent allowance subject to certain limits [Sec. 10(13A)]
29. Special allowance granted to an employee [Sec. 10(14)]
30. Interest from certain exempted securities [Sec. 10(15)]
31. Payment made by an Indian company, engaged in the business of operation of an aircraft, to

- acquire an aircraft on lease from a foreign Government or foreign enterprise [Sec. 10(15A)]
32. Scholarship granted to meet the cost of education [Sec. 10(16)]
33. Daily allowance of a member of parliament or state Legislature (entire amount is exempt), any other allowance subject to certain conditions [Sec. 10(17)]
34. Rewards given by the central or state Government for literary, scientific or artistic work or attainment or for service for alleviating or for service for alleviating the distress of the poor, the weak and the ailing, or for proficiency in sports and games or gallantry awards approved by the Government [Sec. 10(17A)]
35. Pension and family pension of gallery award winners [Sec. 10(18)]
36. Family pension received by family members of armed forces [Sec. 10(19)]
37. National property income of any one place occupied by a former ruler [Sec. 10(19A)]
38. Income from local authorities [Sec. 10(20)]
39. Any income of housing boards constituted in India for planning, development or improvement of cities, town or villages [Sec. 10(20A)]
40. Any income of an approved scientific research association [Sec. 10(21)]
41. Income of specified non- agencies [Sec. 10(22B)]
42. Any income (other than interest on securities income from property income received for rendering any specific services and income by way of interest or dividends) of approved professional bodies [Sec. 10(23A)]
43. Any income received by any person on behalf of any regimental fund or non public fund established by the armed forces of the union for the welfare of the past and present members of the such forces or their dependents [Sec. 10(23AA)]
44. Income of funds established for the welfare of employees [Sec. 10(23AAA)]
45. Any income of the pension fund set by LIC or any other insurer approved by the controller of insurance or insurance Regulatory and development authority [Sec. 10(23AAB)]
46. any income (other than business income) of a trust or a society approved by Khadi and village industries commission [Sec. 10(23B)]
47. Income of an authority whether known as Khadi and village industries board or by any other name for the development of Khadi and village industries [Sec. 10(23BB)]
48. Income of the European Economic Community derived in India by way of, interest, dividends

- or capital gains in certain cases [Section 10(23BBB)]
49. Any income arising to anybody or authority established, constituted or appointed under any enactment for the administration of public religious or charitable trusts or endowments or societies for religious or charitable purposes [Section 10(23BBA)]
 50. Income of SAARC Fund for Regional Projects, set up by Colombo Declaration [Section 10(23BBC)]
 51. Any income of Secretariat of Asian Organisation of Supreme Audit Institutions [Section 10(23BBD)]
 52. Any income received by any person on behalf of specified national funds and approved public charitable trust or institution [Section 10(23C)]
 53. Income of Mutual Fund set up by — a public sector bank or a public financial institution [Section 10(23D)]
 54. Any income by way of dividend, or long term capital gains of venture capital funds and venture capital companies [Section 10(23F)]
 55. Income of a member of Scheduled Tribe, living in Nagaland, Manipur, Tripura, Arunachal Pradesh and Mizoram from any source arising by reason of his employment therein and income by way of dividend and interest on securities [Section 10(26)]
 56. Any income accruing or arising to any resident of Ladakh from any source therein or out of India before the assessment year 1989-90, provided that such person was resident in Ladakh in the previous year relevant to the assessment year 1962-63 [Section 10(26A)]
 57. Any income of a statutory Central or State corporation or of a body/institution, financed by the Government formed for promoting the interest of Scheduled Castes/Tribes [Section 10(26B)]
 58. Income of co-operative society formed for promoting interests of members of Scheduled Castes/Scheduled Tribes [Section 10(27)]
 59. Income by way of subsidy from Tea Board for replanting or replacement of tea bushes or for the purpose of rejuvenation or consolidation of areas used for cultivation of tea in India [Section 10(30)]
 60. Subsidy received by planters of Rubber, Coffee, Cardamon [Section 10(31)]
 61. Income of a minor child up to Rs. 1,500 in respect of each minor child whose income is

- includible under section 64(1A) [Section 10(32)]
62. Any income by way of Capital gains on transfer of US-64 units [Section 10(33)]
 63. Dividend on or after April, 2003 from domestic companies [Section 10(34)]
 64. Income on units of Mutual Funds on or after April 1, 2003 [Section 10(35)]
 65. Long term Capital gains on transfer of listed Equity Shares purchased during 1-3-2003 to 29-2-2004 [Section 10(36)]
 66. Capital gain to individual/HUF on compensation received on compulsory acquisition of urban agriculture land [Section 10(37)]
 67. Long term capital gain in some cases [Section 10(38)]
 68. Sum received without consideration from international sporting event held in India [Section 10(39)]
 69. Income of Industrial Units situated in trade-free zones, specified technology parks etc. [Section 10A]
 70. Income from specified 100% export oriented undertakings [Section 10B]
 71. Income from property held for approved charitable or religious purposes [Section 11]
 72. Specified Income of Registered political parties [Section 13A7968]

POSSIBLE QUESTIONS

PART A

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	100's	1000's	10's	500's	10's

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rounded off the nearest multiples by-----					
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

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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	2014-15	2015-16	2016-17	2017-18	2017-18

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assessment year -----					
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

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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 expenditure	Revenue loss incidental to	capital expenditure	receipt	revenue loss incidental to

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business shall be treated as -----		business			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

PART B

1. Define the following

i) Agricultural income ii) Assessee iii) Person and iv) Income as per Act.

2. Define a) Assessment year and b) Previous Year

3. Mr. Kanan an Indian citizen leaves India for the first time on 31st May 2014 and comes back on 15th May 2017. He again leaves India on 10th June 2018 to come back on 14th January 2019. He is living in India since then. Determine his residential status for the previous year 2018-19

4. An Individual Left India for Iran on 15th July 2016, for taking up job in engineering firm there. He returned to India on 15th September 2018. He was never out of India in the past. State what is his residential status will be for previous year 2018-19

5. What is the residential status of an individual for the assessment year 2019-20 who came to India for the first time in 2016-17 and was in India as follows:

Previous Year	Presence in India
2018-19	185 days
2017-18	15 days
2016-17	26 Days

6. What are the different categories of assessee according to their residential status?

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

8. What is the scope of total income of a person under income tax act 1961?

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

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

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

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

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

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

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

12. Following are the income of Sir rathnam for the previous year 2018-19

- a. Profit from the business in Banglore Rs.10,000
- b. Income accrued in India but received in Japan Rs. 4,000
- c. Profit form business in Canada but received in India Rs. 5,000
- d. Income from house property in Karachi received in Bombay Rs. 4,000
- e. Profit from business established in England and deposited there , the business being controlled from India Rs. 20,000
- f. Income from house property in America and deposited there Rs. 2,000

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

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

13. From the following particulars compute the total income of Mr. C A for the assessment year 2019-20 if he is i) Resident, (ii) Not Ordinarily Resident, (iii) Non_Resident.

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

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

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

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

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

18. The following are the incomes of Shree Deepak for the assessment year 2019-20

- a. dividend from Indian company Rs. 10,000
- b. Profit from business in Japan received in India Rs. 1,20,000
- c. Profit from business in Pakistan deposited in a bank there. This business is controlled from India Rs.2,00,000
- d. Profit from business in Indore (Controlled by London Head office) Rs. 1,10,000
- e. Interest received from a non-resident Mr. Abdul on the loan provided to him for a business carried on in India Rs. 50,000
- f. Income was earned in America and received there but brought in India Rs.80,000
- g. Share of income from Indian partnership firm Rs. 1,50,000
- h. Income from house property in India received in America (Computed) Rs. 62,000
- i. Interest on debentures of a Indian company received in dubai Rs. 25,000

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

19. Determine the residential status in the following cases

a. Gating, a foreign citizen, leaves India for the first time in the last 20 years on November 25, 2016. During the calendar year 2017, he comes to India on September 1 and stays for a period of 20 days. During the calendar year 2018 he does not visit India at all but comes to India on January 15, 2019. Determine the residential Status of Mr. Gating for the assessment year 2019-20

b. Dr. K.S. Sharma, an Indian working in U.S.A. Every year he comes to India on leave and stays with his parents who are staying in Calicut. What would be the residential status of Dr. K.S. Sharma during the assessment year 2019-20. If he comes to India on 20th September 2018 and stayed up to 31st March 2019. His total stay during the preceding 7 Years was 500 days. He had left India on 31st March 2011.

20. Determine the residential status in the following cases

a. A person after about 26 years stay in India, retired to England in April 2017 and returned to India on 15th February 2019 to take up a salaried appointment. What is his residential status for the previous year 2018-19?

b. Mr. Prashant went to W. Germany for diploma course on 5th August 2018 and came back to India on 25th February 2019. His family remained in India. He had never been out of India before. What is his residential status for the year ending on 31st March 2019?

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UNIT 2

Question	Option 1	Option 2	Option 3	Option 4	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	House property	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	fully exempt	Exempt upto 12% p.	exempt upto 9.5% p.a	exempted upto 15% of	fully exempt

fund shall be -----				salary	
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 extemt of empoyers 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	satutory bonus
Provident fund governed by Provident fund Act 1925 is called as -----	Statutory Provident fund	Unrecognized provident fund	Public provident fun	Recognised provident fund	Statutory profident fund
Tiffin allowance is a --- -----	fully taxable allowance	Partially allowance	Fully exempted allowance.	not an allowances	fully taxable allowance
Foreign allowance given to government employee posted abroad is -----	Fully exempted	fully taxable	partially taxable	rebate	fully exempt
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

Commuted 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

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

I - INCOME FROM SALARIES

Salary (Section 15 – 17)

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

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

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

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

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(viii) Leave Encashment

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

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

Arrears of Salary

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

Pension

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

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

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

Commutated 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.

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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 them is exempted from tax. Nothing will be added to gross salary.

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

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

- 1.) Amount of gratuity actually received.
- 2.) 15 days of salary for every completed years of service or part thereof in excess of six months. $(15 / 26 \times [\text{basic salary} + \text{Dearness Allowance}] \times \text{No. of years of service} + 1$ [if fraction > 6 months]).
- 3.) Rs. 10, 00,000 (amount specified by government).

(iii) Other employees.

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

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

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

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Illustration:1

Mr. Ashikh retired in September, 2018 after having put in 42 years of service in a company. His average salary for 10 months preceding Sept. 2018 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

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Computation of taxable Amount of Gratuity

Illustration 2:

Mr. Athul, covered under the Payment of Gratuity Act, 1972, retires on 10th January, 2019 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

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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 preceding 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, 2018 after completing 25 years of service. On 1st January, 2019 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

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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, 2018 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

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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,2018. He is getting a salary of Rs:12,000 p.m. and Rs:2,400 p.m. as DA since 1-1-2013. His service was terminated on account of retrenchment of employees on 1-7-2018 and he was paid Rs:96,000 as compensation. Compute taxable amount of compensation for the AY 2019-20.

Solution:

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

96,000

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

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

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

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(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

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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

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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:		

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(a) Actual amount received	24,000	
(b) 50% of Salary of Rs 64,800	32,400	
(c) Rent paid less 10% of Salary [$2,000 \times 12 - 10\%$ of 64,800]	17,520	17,520
Taxable HRA		6,480

Entertainment Allowance

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

Special Allowances for meeting official expenditure

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

Special Allowances to meet personal expenses:

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

- i. **Children Education Allowance:** This allowance is exempt to the extent of Rs.100 per month per child for maximum of 2 children (grand children are not considered).
- ii. **Children Hostel Allowance:** Any allowance granted to an employee to meet the hostel expenditure on his child is exempt to the extent of Rs.300 per month per child for maximum of 2 children.
- iii. **Transport Allowance:** This allowance is generally given to government employees to compensate the cost incurred in commuting between place of residence and place of work. An amount upto Rs.800 per month paid is exempt. However, in case of blind and orthopedically handicapped persons, it is exempt up to Rs. 1600 p.m.
- iv. **Running Allowance (Out of station allowance):** An allowance granted to an employee

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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: 200p.m.

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

Fully Exempt Allowances

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

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

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

Perquisites

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

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

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

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

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

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

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

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

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

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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,

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- 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.

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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)]

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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

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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

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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.

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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

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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

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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.

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

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Illustration: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.

Assessee'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)

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(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)

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Deductions :

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

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

(i)Rs.5000

(ii)20% of basic salary

(iii)Amount of Entertainment Allowance actually received during the year. 2. Professional Tax [Section 16(iii)] of the Act.

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

Illustration:8

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.2019-20

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Solution:

Computation of Income from Salary for the assessment year 2019-20

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

Notes: Least of the following is exempt:

Actual HRA Rs:14,400

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

Illustration :11

Mr. Justin Kuriakose retired on 31-10-2018 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
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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 .2019-20

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

DA Rs: 5,000 p.m.

Entertainment Allowance Rs:1,200

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

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

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

Solution:

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

Basic pay	66000
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

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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 2018-19, 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 .2019-20

.Solution:

Computation of taxable salary of Mr.Akhildas for the A Y .2019-20

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

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Education allowance (200x12x2)	4,800	
Less: exemption for 2 children (100x12x2)	2,400	2,400
Hostel allowance (500x12)	6,000	
Less: exempted (300x12)	3,600	2,400
Uniform Allowance (400x12)	4,800	
Less: exempted	4,800
CCA (250 x12)		3,000
Gross Salary		1,73,300
Less : Deduction u/s 80C (PF)		12,000
Income from Salaries		1,61,300

Calculation of exempted amount of HRA:

Least of the following is exempted:

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

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

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

Illustration :14

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

Solution:

Least of the following is exempted:

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

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

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

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

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II- INCOME FROM HOUSE PROPERTY

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

Thus, three conditions are to be satisfied for property income to be taxable under this head:

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

Ownership of house property

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

Deemed Owner [Section 27]

- 1. Owner:** An Individual shall be considered as owner of a property when the document of title to the property is registered in his name.
- 2. Deemed Owner:** Under the following circumstances, Income from House Property is taxable

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in the hands of the Individual, even if the property is not registered in his name —

- (a) Where the Property has been transferred to spouse for inadequate consideration other than in pursuance of an agreement to live apart.
- (b) Where the Property is transferred to a minor child for inadequate consideration (except a transfer to minor married daughter)
- (c) Where the Individual holds an impartible estate.
- (d) Where the Individual is a member of Co-operative Society, Company, or other Association and has been allotted a house property by virtue of his being a member, even though the property is registered in the name of the Society / Company / Association.
- (e) Where the property has been transferred to the individual's name as part-performance of a contract u/s 53A of the Transfer of Property Act, 1882. (i.e. Possession of the Property has been transferred to Individual, but the Title Deeds have not yet been transferred).
- (f) Where the Individual is a holder of a Power of Attorney enabling the right of possession or enjoyment of the property.
- (g) Where the property has been constructed on a leasehold land.
- (h) Where the ownership of the Property is under dispute.

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

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

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

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

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

Unrealized Rent

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

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

Deduction from Net Annual Value

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

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

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

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

6. **Interest on fresh loan to repay existing loan:** Interest on any fresh loan taken to repay the existing loan shall be allowed as a deduction.
7. **Inadmissible interest:** Interest payable outside India without deduction of tax at source and in respect of which no person in India is treated as an agent u/s 163 shall not be an allowable expenditure. [Section 25]
8. **Certificate:** The assessee should furnish a certificate from the person from whom the amount is borrowed.

Income From Self – Occupied House Property

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

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24. The amount of deduction will be:

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

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

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

Illustration:1

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

Solution:

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

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

Actual Rent =

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24,000 So, GAV

= 24,000.

Illustration:2

Calculate annual rental value from the following particulars for the assessment year 2019-20

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

Solution:

Expected Rental Value = 1,32,000

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

Therefore, GAV = 1,68,000.

Annual Value = 1,68,000 – unrealised rent
= 1,68,000 -- 28,000 = 1,40,000.

=====

Illustration:3

Compute gross annual value for the AY 2019-20

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

Solution:

Expected Rental Value = Rs: 1,30,000

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

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

=====

Illustration:4

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

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

Solution:

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

Illustration:5

Mr. Abhinand constructed one house in 2016. Half of the portion is let out and the remaining half is used for his residence. The following particulars are available:

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

Compute income from house property of Mr. Abhinand for the AY 2019-20.

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Solution:

Computation of Income from house property

Let out portion:

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

Less : municipal rent (½) : 1,250

Net Annual Value : 8,750

Deductions:

30% of annual value : 2,625

Interest on loan taken for construction : 1,250

----- : 3,875

Income from let out portion 4,875

Self-occupied portion:

Net Annual Value : Nil

The following information is available in respect of two houses of owned by Neeraj. He let out the first house for a yearly rent of Rs: 11,000. He paid Rs:1,000 as interest on borrowings. He paid Rs: 100 as insurance premium. He let out his second house at a monthly rent of Rs:1,200. It is not rented out for 3 months. The unreaqlised rent for the past 5 years was Rs: 13,000. Compute the income from house property of Mr. Neeraj for the AY 2019-20.

Deductions:

Interest on loan taken for construction : 1,250

Income from self occupied portion --1,250

Income from House Property **3,625**

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Illustration:6

First House:

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

Second House:

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

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POSSIBLE QUESTIONS

PART –A

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	houseprop erty	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

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-					
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

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----- 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	Rs.100p.m	Rs.200 p.m	Rs.300 p.m	Rs.400 pm	Rs.300 p.m.

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upto ----- per child upto the maximum of two children.					
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	Unrecognised 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	Fully exempted	fully taxable	partially taxable	rebate	fully exempt

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employee posted abroad is -----					
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
Commuted 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(ents))	basic pay + DA(ents) + commission (fixed %)	all allowances	Basic pay + DA(ents) +commission (Fixed%)
The value of rent free accommodation in case	20% of salary	15 % of salary	7.5 % of salary	10% of the salary	15% of salary

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of non-government employee, if population is more than 25 lakhs means-----					
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 assessee's 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 within 3 years , the allowable deduction will be -----	Rs.30,000	Rs1,50,000	Rs.1,80,000	Rs.1,50,000	Rs.30,000

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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

PART – B

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

- Employers contribution to employees RPF 14% of basic salary
- Rent free accommodation (Unfurnished) – fair rental value is Rs. 80,000 pa

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- Expenses on maintenance of garden met by employer Rs3,000
- Interest on Provident fund balance @ 13% pa Rs.3,900
- A car (1.8lt capacity) is provided with a driver. All expenses are met by employer. It is used partly for personal purposes.
- He paid professional tax of Rs.200
- He received Rs.500 pm as fixed medical allowance.

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

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

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

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

- a. Basic salary Rs. 15,000 pm ;
- b. DA (given as the terms of employment) Rs 5,000 pm ;
- c. Entertainment allowance Rs. 1,000 pm ;
- d. Medical allowance Rs. 500 pm ;

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

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

4. Mr. G.R. returned to India after serving a British Company for 25 years. He joined service with an Indian company at Mumbai [Population more than 25 lakhs] during 2014-15. He furnishes the following particulars of his income for the year ending 31-3-2019 and asks you to compute his salary income.

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

5. Explain the fully taxable and partially taxable allowances.

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

7. Compute gross salary from information given below

- a. Salary @ Rs. 3,500 p.m.
- b. D.A @ Rs. 1,000 p.m.
- c. C.C.A Q Rs 200 P.m.

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- d. House Rent Allowance @ Rs 1,000 p.m.
- e. Commission on turnover achieved by him is Rs. 6,000.

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

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

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

Calculate gross salary.

9. Mr. Lalu retired on 30.11.18 from a coal mine after putting a service of 28 years and 10 months. At the time of his retirement he was getting a salary of Rs. 16,000 p.m. and he used to get an increment of Rs. 500 p.m. on 1st April every year. His DA was Rs. 2,000 p.m.. Gratuity received Rs. 3,40,000. Find out his taxable gratuity, if he is covered under Gratuity Act, 1972.

10. Mr. Rajender Singh retired on 31.12.2018 and his pension was fixed at Rs. 3,600 p.m. He gets 3/4th of the pension commuted for which he received Rs. 1,80,000 from his employer, a Ltd Co. find out the taxable amount of commuted value of pension if, a. He gets gratuity and b. He does not get gratuity

11. Mr X. retires on 1st July 2018 after 18 years of service and receives Rs. 75,000 as amount of leave encashment for 15 months. His employer allows 45 days leave for every one year of service. During service he has already encashed leave for 12 months. Calculate the taxable amount of leave encashment if his salary during 1.7.2016 to 1.7.2017 was Rs. 5,000 p.m.

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

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

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

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

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

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- Cash gift Rs. 10,000
- City compensatory allowance Rs.1,000 p.m.
- Medical expenses paid by employer Rs.6,000
- He contributes 15% of his salary to a recognized provident fund and his employer contributes the same
- He is given lunch allowance @ Rs.100 per day for 250 days during the previous year 2016-17
- He is provided with a mobile bill of which is paid by company Rs.6,000

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

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

Municipal Valuation Rs.96,000.

Fair Rent Rs.88,000.

Standard Rent Rs.90,000.

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

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

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

Municipal Taxes Due Rs. 6,000.

Municipal Taxes Paid Rs. 3,000.

Interest on borrowed Money Rs. 10,000.

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

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

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

1/3rd of the house is used by a tenant to whom it is let out @ Rs. 3,000 p.m. and it was self occupied for one month during the previous year. The municipal rental value of the house is Rs.96,000 p.a. on which municipality levies 10% tax. These taxes are paid by the occupants. Compute net annual value of the house property of the previous year 2018-19 if each portion is an independent unit.

17. Mr.G has given his premises on hire from 1.4.2013 to a company for its office . He submits the following particulars :

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

As per agreement rent increases to Rs.14,000 p.m from 1.10.2016. But amount of increased rent is paid in May 2016. Compute his income for the previous year 2018-19

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

Unit 1 : own residence

Unit 2 : let out

Unit 3 : own business

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MRV Rs. 1,20,000 p.a. FRV Rs. 1,32,000 p.a. Standard rent Rs 1,08,000 p.a. Rent Rs. 3,500 p.m. Unrealized rent for 3 months, repairs Rs. 10,000 ; insurance Rs. 2,000 ;Interest on money borrowed for the construction of the house Rs. 96,000, Municipal taxes Rs14,400
Date of completion 1.11.2018

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

His expenses in respect of these houses are as follows :

Interest on loan taken to repair the residential house Rs 400

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

Collection charges Rs. 350

Ground rent in respect of 2nd house Rs.200

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

Calculate A's income from house property.

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DEPARTMENT OF COMMERCE

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UNIT 3

Question	Option 1	Option 2	Option 3	Option 4	Answer
Any trade, commerce, manufacture or any adventure in the nature of trade commerce manufactured is defined as -----	Business	Profession	Commerce	non-business	business
----- 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
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
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 -----	20%	50%	75%	100%	100%

----- of such amount is to be disallowed as deduction.					
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%
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
While computing business income , all personal expenses are -----	allowed expenses	disallowed expenses	deduction	rebate	Disallowed expenses
Rate of depreciation on neon sign board is @ -----	10%	15%	20%	40%	10%

Which is an activity of purchase and sell of goods with the intention of making profit	Business	Profession	distribution	supplier	Business
Which is an occupation requiring intellectual 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
While determining the depreciation on fixed assets ----- value is taken into consideration	Straight line	written down	annuity	sinking fund	written down
----- refers to those activities where the livelihood is earned by the person through their intellectual or manual skill.	Business	Trade.	Profession	commerce	Profession
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
Capital gain is classified into ----- - types	Two	Three	Four	five	two
The cost inflation index number of the previous year 2015-16 is -----	1081	1072	1079	1024	1081
A capital asset held by an assessee for not more than 36 months immediately preceding the date of transfer is called as -----	Short term capital asset	Long term capital asset	medium capital asset	total capital gain	Short term capital asset
Share held by an assessee for more than 12 months is termed as -----	Short term capital asset	Long term capital asset	medium capital asset	total capital gain	Long term capital asset

Amount of gain arising from the transfer of capital asset is called as --- -----	Capital gain	Profit	Income	receipt	capital gain
Transfer includes,-----	Sale	purchases	distribution	supply	sale
Capital expenditure incurred in making any additions or alterations to the capital asset is -----	Cost of improvement	Cost of inflation	Cost of acquisition	selling price	cost of improvement
Capital gain = _____ - cost of acquisition (indexed) + cost of improvement	Sale price	Purchase price	Transfer price	total price	sale price
In case of short term capital asset ----- -----	No indexing	to be indexed	Conversion required	improvement	No indexing
In the case of individual and HUF , capital gain arising from the compulsory acquisition of self-cultivated urban land shall be ----- ----	Fully taxable	Partially taxable	Fully exempted	taxable	Fully exempted
A short term capital asset is the one held for not more than -----	48 months	36 months	60 months	72 months	36 months
A long term capital gain is the one held the assets for more than ----- ----	48 months	36 months	60 months	75 months	36 months
Rate of tax for long term capital gain is -----	10%	20%	30%	40%	20%
Rate of tax for short term capital gain (subject to STT) is -----	10%	15%	30%	40%	15%
Capital gains arising from the transfer of agriculture land owned for 5 years in a rural area are -----	Taxable as short term capital gain	Taxable as long term capital gain	Exempted from tax	assets	exempted from tax
Gain arising on the transfer of long term capital asset is known as ----- -	Short term capital gain	Long term capital gain	Medium term capital gain	total capital gain	long term capital gain
Amount of gain arising from the transfer of capital asset is called as --- -----	Capital gain	Profit	Income	receipt	capital gain
As asset which does not cost anything to the assessee in terms of money in its creation or acquisition is called as - -----	Depreciable assets	Self generated assets	Capital assets	all of the above	depreciable assets

An example to self generated asset is - -----	Goodwill	Land	plant	machinery	goodwill
Transfer of an undertaking for a lump sum consideration without assigning values to individual assets and liabilities is termed as -----	Slump sale	Transfer	Extinguishments	relinquishments	slump sale
The term ----- means, aggregate value of total assets minus value of liabilities appearing in balance sheet.	Net asset	Net liability	Net worth	total worth	net asset
Capital gain is taxable to -----	all assessee	only residents	only citizens	NRI	all assessee
Long term capital loss can be set off from -----	short term capital gain	long term capital gain	both long and short term capital gain.	any income	long term capital gain
Securities of a company which is registered in any one of stock exchanges in India is termed as -----	Listed debentures	Unlisted debentures	Tax free debentures	Taxable debentures	Listed debentures
Conversion of net interest into gross interest by applying specified rate of TDS is known as -----	Grossing up	Net value	Total value	Value	Grossing up
Interest on securities after deducting the tax at source is -----	Net interest	Gross interest	Total interest	Net worth	Net interest
Interest on securities before deducting the tax at source is -----	Net interest	Gross interest	Total interest	Nil value	gross interest
Standard deduction out of family pension is allowed upto 33 1/3 % of such pension or Rs.----- which ever is less	Rs.15,000	Rs.20,000	Rs.30,000	Rs.40,000	Rs.15,000
Rate of TDS for casual income is -----	10%	20%	30.00%	40%	30%
Rate of TDS for unlisted debentures with surcharge is -----	10%	20%	30.00%	40%	10%

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PROFITS AND GAINS OF BUSINESS OR PROFESSION

Business : Sec 2 (13)

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

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

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

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

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

Profession

A profession is a vocation founded upon specialized educational training, the purpose of which is to supply objective counsel and service to others, for a direct and definite compensation, wholly apart from expectation of other business gain. For example

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the work of lawyer, doctor auditor engineer and so on. Vocation means activities which are performed in order to earn livelihood. For example brokerage, music, dancing etc.

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

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

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

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

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

- Profits on sale of a license granted under the Imports (Control) Order, 1955, made under the

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

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

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

- (a) Not carrying out any activity in relation to nay business or
- (b) Not sharing any know how, patent, copyright, trade mark, licence franchise or any likely to assist in the manufacture or processing of goods or provision of services.

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

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

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

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- 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.

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

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

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

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

Speculative Transactions and Taxability of Speculation Business

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

Deduction In Respect Of Losses Incidental to Business

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

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

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- (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:

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- 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

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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

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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

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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

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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• All capital expenses except on scientific research• All capital loss• All charities and donation• All expenses relating to other head of income• Cultivation expenses• Any interest on capital unless the amount is borrowed• All personal expenses• Any depreciation if wrongly debited• Gifts and presents (Non-advertisement)	

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- Any type of fine or penalty
- Any payment to a partner (In case of firms only by way of salary, interest , bonus , commission or remuneration excess over prescribed limits)
- Any salary or interest payable outside India unless tax is deducted at source it is paid according to the law
- Past losses
- Any other expenditure which is not incurred according to the provisions of law
- Salary paid to self or any other member of family for casual help
- Personal life insurance premiums
- Any amount invested in savings such as NSS , NSC, PPF,
- Rent for residential portion
- Speculation loss
- Bad debt still recoverable
- Legal expenses on criminal case or a personal case of employee
- Legal expenses on curing title of asset
- Loss by theft from residence
- Expense on illegal business
- Employer contribution URPR
- Differences in trial balance
- Difference due to under crediting of stock
- Cost of patents rights being capital expenditure
- Cost of technical know- how being capital expenditure
- Preliminary expense being capital expenditure

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

XXXX

- Actual bad debt

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- 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.

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In case of doctor or medical practitioners

Professional receipts

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

Less: Professional expenses:

- Dispensary expenses
- Cost of medicines
 - If accounts are maintained on cash basis :
 - Cost of actual medicines purchased during the previous year
 - If account are maintained on mercantile basis:
 - Opening stock + New purchases - closing stock
- Depreciation on surgical equipment and X- ray machines at prescribed rates
- Cost of books for professional purposes
- Motor car expenses : Depreciation relating to professional work
- Nursing home expenses
- Any other expense incurred during the year

Professional income

In case of chartered accountant

Professional receipt

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- 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

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- 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:

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(4) Furniture and Fittings including electrical fittings (“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%

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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.

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

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

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

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

Municipal taxes on house property let out

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

Provision for bad and doubtful debts Rs: 16,000

Provision for taxation Rs: 15,000

Depreciation Rs: 25,000

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

Compute taxable business profit.

Solution:

Computation of income from busines

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

Illustration:2

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

PROFIT AND LOSS ACCOUNT

To Salaries	14,600	By G/p	1,35,000
To household expense	2000		
To income tax	900		
To Gifts	900		
To business expense	2,200		

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To LIC premium	2,100		
To bad debt reserve	800		
	1,11,500		
To N/P			
	1,35,000		1,35,000

Solution:

Computation of income from business for the A Y 2019-20

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

Add : Expenses Disallowed:

Household expenses	2,000	
Income tax	900	
Gift	900	
LIC Premium	2,100	
Bad debt reserve	800	6,700
		<hr/>

Income from business 1,18,200

Illustration:3

Dr. Biju is a medical practitioner in Mahe. From the following, calculate his income from profession for the AY 2019-20

Gross receipt from dispensary	2,35,000
Gross receipt from consultation	1,65,000
Operation fee	2,50,000
Visiting fee	50,000
Gifts from patients	30,000
Medicines purchased	1,25,000

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

Solution:

Computation of income from profession for the AY 2019-20

Gross receipts from dispensary	2,35,000	
Gross receipts from consultation	1,65,000	
Operation fee	2,50,000	
Visiting fee	50,000	
Gifts from patients	30,000	7,30,000
Less : Expenses :		
Medicines (1,25,000—35,000)	90,000	
Salaries to employees	1,50,000	
Surgical equipments (Depreciation :15%)	7,200	
Visit to Australia to attend a medical seminar	25,000	

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Medical Books (Depreciation : 60%)	12,000	
Expenses on house used for profession:		
Municipal tax (50,000 x 10% x ½)	2,500	
Repairs (10,000 x ½)	5,000	
Total		2,91,700
Income from profession		4,38,300

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Illustration:4

The following is the Receipts and Payments account of Mr. Akhilesh, a practicing Chartered Accountant for the year ended 31-03-2019:

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

Loan from bank was taken for the construction of the house in which he lives. MRV of the house is Rs: 8,000 and the local taxes Rs: 800 p.a. One-fourth of travelling expenses are not allowable. Compute income from profession for the A Y 2019-20

Solution:

Computation of income from business for the AY 2019-20

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

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Miscellaneous	20,000	.
Presents from clients	10,000	74,210
Less: Allowable Expenses:	.	.
Office expenses	10,000	.
Office rent	5,000	.
Salaries and wages	12,050	.
Printing and stationery	1,000	.
Subscription	3,000	.
Purchase of books (100% depreciation)	1,300	.
Travelling expenses (5,800 x $\frac{3}{4}$)	4,350	36,700
Income from Profession	.	37,510

Illustration:5

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

W.D.V. on 01-04-2018 Rs: 14,00,000 Additions made on 01-06-2018 Rs:

6,00,000

Rate of depreciation 10%

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

Solution:

Computation of Depreciation

Factory building : W.D.V on 1-4-2018

Rs: 14,00,000

Additions made on 1-6-2018

Rs: 6,00,000

Rs: 20,00,000

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

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

Written Down Value of factory building for the AY 2019-20 Rs: 19,30,000

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

=====

Illustration:6

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

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

Solution:

Computation of Depreciation

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

Illustration:7

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From the following Profit and Loss Account of a Merchant for the year ending 31st March, 2019. Compute his income from business and his total income for assessment year 2019-20

Profit and Loss Account

^^

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

Computation of Total Income for the Assessment Year 2019-20

Income from house property:

– Income from property	850
<i>Less:</i> 30% under Section 24	(255)

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Income from house property 595

Income under the head Business

Net Profit	15,970	
<i>Add: Inadmissible items:</i>		
– Income tax	1,400	
– Household Expenses	2,000	
– Life Insurance Premium	1,000	
– Interest on Capital	500	
– Provision for gratuity	4,000	
– Provision for bad debts	2,000	
– Provision for Income-tax	1,800	
<i>Less: Income to be shown separately:</i>		
– Dividends from a cooperative society	3,000	
– Income from property	850	
– Interest from Government Securities	2,000	
Taxable Profits from Business		22,820
<i>Income from other sources:</i>		
Dividends from cooperative society		3,000
Interest from Government Securities		2,000
Income from other sources		5,000
<i>Gross Total Income:</i>		28,415

Notes:

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

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CAPITAL GAINS

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

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

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

Exclusions —

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

Kinds of capital assets

There are two kinds of capital assets

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

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

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

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

Transfer of capital asset

Transfer includes:

- Sale of asset
- Exchange of asset
- Relinquishment of asset (means surrender of asset)
- Extinguishments of any right on asset (means reducing any right on asset)
- Compulsory acquisition of asset.

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

Year of chargeability to tax

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

Long term capital gains

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

- Expenditure connected exclusively with the transfer;
- The indexed cost of acquisition of the asset, and

The indexed cost of improvement, if any, of that asset.

Differences between Long term capital gains and Short term capital gains

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

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Full value of consideration

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

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

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

Cost of Acquisition

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

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

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

1. On any distribution of asset on the total or partial partition of a HUF or
2. Under gift or will

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3. By succession , inheritance or devolution or

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4. On any distribution of assets on the dissolution of a firm, body of individuals or other association of persons at any time before 1-04-1987. Or
5. On Any distribution of asset on the liquidation of a company or
6. Under a transfer to a revocable or an irrevocable trust or
7. On transfer by a parent company to its Indian subsidiary company which is wholly owned by a parent company or
8. On the transfer by a subsidiary company to its Indian holding company which owns whole of the share capital of the subsidiary company or
9. On the transfer of capital asset by the amalgamating company to the amalgamated company if the amalgamated company is an Indian company. Or
10. On transfer of shares of an Indian company by amalgamated foreign company to the amalgamated foreign company. Or
11. On the transfer of capital asset in a scheme of amalgamation of a banking company with a banking institution sanctioned and brought into force by the central government or
12. When any members of HUF converts his self acquired property into HUF property
or
13. On transfer of capital asset by the predecessor cooperative bank to the successor cooperative bank in a business organization or
14. On transfer of shares in the predecessor cooperative bank in lieu of shares allotted in the successor cooperative bank in a business reorganization or
15. On transfer of capital asset or intangible asset by a firm to a company as a result of succession of the firm by a company or
16. On succession of a sole proprietary concern by a company.

Cost of share or security

If the share or security was acquired before 1st April 1981, the cost of acquisition will be the actual cost or fair market value on 1st April 1981 whichever is

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beneficial to the assessee. If it is acquired after 31st march 1981, the actual cost is the cost of acquisition.

Cost of bonus shares

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

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

(b) In any other case- nil

Cost of acquisition of goodwill

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

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

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

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

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

Cost of Improvement

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

cost of improvement x CII

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for the year in
which the asset is
sold

Indexed Cost of improvement = -----

-

CII for the year in which the
improvement To
asset took place.

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

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

Expenditure on transfer

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

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

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the cost of acquisition before indexation.

Exemption from Capital Gains

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

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

Conditions: Exemption is available if: -

1. House Property transferred was used for residential purpose.
2. House Property was a long term capital asset.
3. Assesses has purchased another house property within a period of one year before or two years after the date of transfer or has constructed another house property within three years of date of transfer i.e. the construction of the new house property should be completed within three years. The date of starting of construction is irrelevant. Where the amount of capital gain is not utilized or before the due date of furnishing the return of income in an account opened under the capital gain account scheme 1988.

Amount of Exemption will be the least of: -

1. Capital Gain
2. Cost of new house.

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

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rate of LTCG of 20%) in the case of individuals.

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

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

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

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

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

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

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

1. The asset transferred is land or building or any right in land or building which formed part of new industrial undertaking belonging to the tax payer.
2. Asset in question is transferred by way of compulsory acquisition under any law.
3. The asset in question was used for the purpose of industrial undertaking at least for

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two years immediately before the date of compulsory acquisition.

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

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

Investment in Financial Assets (Section -54 EC)

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

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

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

Issued by

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

The investment made on or after 1.4.2007 in the long term specified asset by an assessee during any financial year shall not exceed fifty lakh rupees. The investment is to be made within six months from the date of transfer of the original capital asset. The bonds should not be transferred or converted into money for a period of three years from the date of acquisition. In case the bonds are transferred within 3

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years from the date of their acquisition, the exemption allowed for investment earlier would be taxed in the year of such transfer as capital gains. For this purpose it would be considered as transfer even if the assessee takes any loan or advance on the security of the specified securities. For the investment in the bonds deduction under section 80C will not be available.

Investment into a residential house (Section 54F)

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

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

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

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

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

In case he purchases/constructs a house within 1/3 years from the date of transfer after getting this deduction, the amount allowed as deduction would be taxed

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as capital gains in the year of such purchase/construction.

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

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

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

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

3. The capital gain is utilized within one year before or 3 years after the date of transfer
a) for purchasing new machinery or plant or building or land for tax payer's business in that new area; or

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

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

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

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

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

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- 1.The transfer should be a long term or short-term capital asset such as plant, machinery, building or land or right in building or land.
2. Such asset has been used for the purpose of business of industrial undertaking situated in urban area.
3. The transfer should be done in connection with shifting of industrial undertaking in SEZ.
4. The amount of capital gain must be used with in a period of one year before or three years after the date of transfer to purchase machinery or plant, to acquire land, to construct building for the purpose of business in SEZ.

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

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

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

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

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

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

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which the new plant and machinery is sold or transferred.

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

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

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

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

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

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

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

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Illustration:1

Mr. Vishal sold his residential house for Rs:4,50,000 in November, 2018. Indexed cost of this house was Rs: 1,80,000. He paid 3 % of sale as commission to broker. He purchased another house on 26th January, 2019 for Rs:2,00,000. Compute his capital gains for the AY 2019-20

Solution:

Computation of capital gains for the AY 2019-20

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

INCOME FROM OTHER SOURCES

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

The following incomes are chargeable to tax:-

1. Dividend received from any entity other than domestic company. This is because dividend received from a domestic company has been made exempt in the hands of the receiver. Accordingly dividend received from a cooperative bank

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or dividend received from a foreign company will be taxable as income from other sources.

2. Any pension received by the legal heirs of an employee.
3. Any winnings from lotteries, crosswords, puzzles, races including horse races, card games or other games of any sort or gambling or betting of any form or nature.
4. Income from any plant, machinery or furniture let out on hire where it is not the business of the assessee to do so.
5. Income from securities by way of interest.
6. Any sum received by the assessee from his employees as contribution to any staff welfare scheme. However when the assessee makes the payment of such contribution within the time limit under the scheme of welfare, then the payment will be allowed as a deduction and only the balance amount will be taxable.
7. Income from subletting.
8. Interest on bank deposits
9. Income received under keyman insurance policy including bonus on such policy.
10. An individual or HUF receives in any previous year from any person or persons.

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

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

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

3. Any property other than immovable property :

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

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

Gift of Cash / Cheque / Draft:

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

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

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

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

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

Exempted Gifts:

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

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

6. Money / property received from any fund, foundation, university, other educational institution, hospital, medical institution, any trust, or institution referred to in the section 10(23C).
7. Money / property received from a charitable institute registered u/s 12AA.

11. Interest received on compensation or on enhanced compensation shall be deemed

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to be the income of the previous year in which it is received.

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

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

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

2. Interest on bank deposits and loans and securities.

3. Agricultural income from a place outside India.

4. Rent of plot of land

5. Mining rent and royalty.

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

7. Salary payable to a member of parliament.

8. Income from undisclosed sources.

9. Gratuity paid to a director who is not an employee of a company. 10. Any casual income exceeding Rs. 5,000.

11. Income from markets, ferries and fisheries etc.

12. Income from leasehold property

13. Remuneration received for writing articles in journals.

14. Salary of M.P, member of legislative assembly or council

15. Interest received on securities of cooperative society

16. Family pension received by the widow and heirs of deceased employees. However the following family pensions are exempt:

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

(iii) Family pension received by the widow or children or nominated person of a

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member of the armed forces (including para military force) of the union, where the death of such member occurred in the course of operational duties shall be exempt provided the prescribed conditions are satisfied.

17. Amount withdrawn from deposit in national Savings Scheme 1987 on which deduction u/s80 CCA has been allowed including interest thereon.

18. Directors commission for giving guarantee to bank.

19. Directors commission for underwriting shares of a new company.

20. Insurance commission not chargeable under the head business or profession

21. Gratuity received by a director who is not an employee of the company.

22. Tips received by a waiter or taxi driver not being given by his employer.

23. Tax paid by an Indian company on behalf of a foreigner who was sent to India by a foreign company with whom the collaborating company had entered into agreement was Income Of The Foreigner Taxable Under The Head Income From Other Sources.

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Dividend

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

Winnings from lotteries & betting, crossword puzzles, horse races and card games etc. sec. 115 BB. It also includes income through draw of lots, television game shows and similar other games. Taxable at a flat rate of 30% without claiming any allowance or expenditure. Even if income is less than Rs 2,00,000 for the financial year 2012–13, these incomes are fully taxable. Income from Units of UTI and Mutual Fund : Income from units of UTI and Mutual Fund is exempt from tax as per section 10(35).

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

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

TDS Rate

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

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

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winnings].

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

Interest on securities

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

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

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

Kinds of securities

There are four types of securities.

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

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

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

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

Bond washing transaction

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

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

Grossing up of Interest:

Interest is paid after TDS at following rates:

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

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Listed / Non listed securities: 10%

10

0 grossing up: =

Net amount received X--

100-- Rate

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

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

Expenses deductible from Interest income

The following expenses can be claimed as deductions from grossed up Interest income:

(a)Collection charges: e.g. commission or remuneration to a banker or any other agent/broker for the purpose of realizing the interest.

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

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

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

1. Interest on notified securities, bonds or certificates:

a. National Defence Gold Bonds, 1980

b. Special bearer bonds, 1991

c. Post office Cash certificates

d. National Plan Certificates

e. National Plan Savings certificates

f. Post Office National Savings Certificates

g. Post Office Savings Bank Account

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

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

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

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

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

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

6. Interest on Gold Deposit bonds

7. Interest received by a non-resident Indian from notified bonds (i.e.

NRI bonds). Standard deduction in the case of family pension [Sec. 57(iia)]

In the case of income in the nature of family pension, the amount deductible is Rs. 15,000 or 33

1/3 per cent of such income, whichever is less.

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

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KARPAGAM ACADEMY OF HIGHER EDUCATION

CLASS: III B.Com (BPS)

COURSE NAME: TAXATION

COURSE CODE: 17BPU502A

UNIT: III

BATCH-2017-2020

DEDUCTIONS AGAINST INCOME FROM OTHER SOURCE U/S 57

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

Illustration:1

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

Examination remuneration Rs: 7,000 Royalty from books and articles Rs: 25,000 Winnings from card games Rs: 6,700 Winnings from State lottery Rs: 30,000
Expenditure on purchase of lottery tickets Rs: 12,000.

Solution:

Computation of Income from Other Sources For the AY 2019-20

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

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Illustration :2

Compute income from other sources:

Dividend (Gross) Rs:9,600

Expenses incurred for its collection Rs: 500

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

Repairs of Plant and Machinery Rs: 4,000

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

Depreciation allowed for letting Rs:4,000

Solution:

Computation of Income from Other Sources For the AY 2019-20

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

Illustration:3

From the following particulars submitted by Sri. Mani Shankar Iyer, compute his income from other sources for the AY 2019-20

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

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

Solution:

Computation of Income from Other Sources For the AY 2019-20

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

Illustration:4

Compute income from other sources of Mr. Ajayakumar for the AY 2019-20 His investments are

5% govt. securities Rs: 70,000

7.5% Agra Municipal Bond Rs: 50,000

9% debentures of a company Rs:30,000

Solution:

Computation of Income from Other Sources For the AY 2019-20

Particulars	Rs:
Interest on Govt. Securities (70,000 x 5%)	3,500

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Interest on Agra Municipal Bond (5,000 x 7.5 %)	3750
Interest on debentures (30,000 x 9%)	2,700
Interest on Capital Investment Bond	Exempt
Income from Other Sources	9,950

Illustration:5

The following are the details relating to Mr. Siddharth for the P.Y. 2018-19. Compute income from other sources: Income from agriculture in Pakistan Rs: 5,000 Interest on post office savings bank Rs: 1,000 Dividend from foreign company Rs: 700 Dividend from Indian company Rs:1,000 Rent from sub-letting house Rs: 26,250 Expenses for sub-letting house Rs: 1,000 Winning from lottery (Net) Rs: 14,000

Solution:

Computation of Income from Other Sources For the AY 2019-20

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

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KARPAGAM ACADEMY OF HIGHER EDUCATION					
DEPARTMENT OF COMMERCE					
III B.COM (BPS)					
TAXATION (17BPU502A)					
UNIT 4					
Question	Option 1	Option 2	Option 3	Option 4	Answer
Customs duty is imposed an_____	customs act 1965	customs act 1962	customs act 1949	customs act 1955	customs act 1962
Safeguard domestic trade is imposed on _____ goods	export	interstate	import	local sales	import
First schedule of customs act 1975 _____	export tariff	control tariff	local tariff	import tariff	import tariff
second schedule of customs act 1975 is_____	Export tariff	interchange tariff	local tariff	multi tariff	export tariff
Basic customs duty is based on _____ of goods	actual value	basis value	standard value	preference value	basis value
Government is empowered _____ of customs act is prescribe notification	sec 10	sec 25	sec 35	sec 45	sec25
_____Goods could not suffer excise duty	Exported	local stated	Imported	local valuable	imported
_____ additional duties levied on imported goods	special additional duty	protective	anti dumping duty	additional duty	protective
Exporter sells the product to an exporting country at_____ price	high	very high	less	very less	less
_____ of customs act to safeguard the interest of domestic industry	sec 9A	sec8b	sec 18	sec 19	Sec 8B
_____ is levied on dumped articles	anti dumping duty	valorem duty	safeguard duty	protective duty	Anti-dumping duty
_____ means customs port and customs airport	customs area	customs station	customs goods	customs duty	Customs station
_____ goods kept in warehouse called warehouse goods	exort	import	interlocal	local	import
_____means all goods ,personal effects brought in commercial quantities	warehouse	bonafidebaggage	baggage	none of these	baggage

_____ of the customs act empowers the central govt from import and export	sec 9	sec 10	sec 11	sec 8	sec 11
_____ goods are Illegal import of highly notified by central govt	imported	exported	notified	identified	notified
The notified goods required within _____ days from the date	8	7	6	2	7
_____ of the customs act may the powers to board	sec 3	sec 4	sec 5	sec 7	sec 4
Large manufacturer from abroad export goods at _____ prices	very high	high	less	very less	very high
Foreign _____ or aircraft means any vessel or aircraft at the time of carriage	coming vessel	lodging vessel	going vessel	updating	going vessel
_____ goods means any goods brought into india from outside india	export	import	inter state	local	import
_____ means the import of goods in contravention of provisions	legal import	statutory import	Illegal import	local import	Illegal import
_____ means a place intimated in subsection	section	sub section	specified section	intimate d section	subsection
_____ government is satisfied expenditure public interest measures	state	central	local	none of these	central
After the expiry of seven days from specified date _____ to the subsection	exempted goods	marketable goods	specified goods	intimate d goods	specified goods
Transport of specified goods to be covered to be covered by	receipts	payments	invoice	vouchers	vouchers
Assessable value is determined by _____ of identical goods	computed	transaction value	deducted value	residual value	transaction value
Section 25 of the customs act _____ to issue special orders	state	central	tax authorities	public authorities	central
Customs act provides remission duty on goods lost on _____ consumption	home	industry	business	natural	home
_____ is not liable to pay abandoned goods	sellers	buyers	owners	wholesalers	owners
_____ is not possible and goods are physically lost	Abandonment	restoration	time point	destroyed	restoration

_____ of customs may permit an importer to enter general bond	commissi oner	executed	Deputy commissi oner	official govern ment	deputy commissi oner
_____ have been compiled in respect of goods	sec 30	sec 49	sec 38	sec 59	sec59
_____ intended to use 100% export oriented	consumab le goods	capital goods	customs goods	produci ng goods	capital goods
A _____ has been presented in such goods of export	shipping bill	clearance bill	export bill	payment bill	shipping bill
Rebate of duty is chargeable on _____ on goods	Producing	manufacturi ng	packing	purchasi ng	manufactu ring
All Industry rate is not cover _____ of the drawback	85%	88%	80%	90%	80%
_____ have been defined in subsection	relative goods	prohibited goods	customs goods	notified goods	prohibited goods
Conservation of _____ safeguarding payments	Excise duty	foreign exchange	customs goods	export goods	foreign exchnage
Central govt has issued notification to import of _____	sensitive goods	notified goods	regulative goods	restricti ng goods	sensitive goods
Notified goods means goods specified in the notification issued under section _____	IIA	.IIB	IIC	.IVC	.IIB
Goods shall be taken from one place to another only when they are accompanied by a _____	cash	transport voucher	.Bills	.docume nt paper	transport voucher
The statement containing particulars of notified goods duly signed must be delivered in _____	.duplicate	original	.account s	voucher	.duplicate
Valuation of goods under customs Act dealt under _____	.Section 10	section12	section14	.section 25	section14
The valuation rules,1988 based on GATT valuation code, provides	.Five methods of valuation	six methods of valuation	seven methods of valuation	eight methods of valuatio n	six methods of valuation
Assessable value under the customs Act,1962 excludes _____	.Landing charges	Insurance	cost of transport of the importati on	travellin g charges	cost of transport of the importatio n
The GATT valuation code came into effect from	1.1.81	1.2.81	1.3.81	12.81	1.1.81

India started implementing the GATT valuation code from	.18.8.1985	18.8.1988	18.8.1990	18.8.1991	18.8.1988
The central government has powers to prohibit importation and exportation of goods under section _____ of customs Act	10	0.13	12	11	11
Entry 83 to list (union List) of _____ schedule to constitution reads duties of customs including export duties.	sixth	seventh	fourth	fifth	seventh
Central Government can grant partial/full exemption from duty under section ____ of the customs Act.	26	0.22	0.23	0.25	0.25
Section 25(1) of the customs Act authorises the _____ to issue notification granting exemptions from duty.	state government	central government	.Municipal ity	Local authorit y	central governme nt
The exemptions granted under the customs Act are broadly classified as _____ & _____	.general , specific	ordinary ,Special	special , complime nt	compun d , speical	.general , specific
Penalty for attempt to export goods improperly on persons concerned would not exceed _____ times the value of goods.	.Three	.four	.five	Ten	special , complime nt
For effective shipment, the exporter or his agent should file a shipping bill in _____	duplicate	triplicate	quadrupli cate	orginal	duplicate
Shipping bills should be filed in the customs House within _____ days before the arrival of the loading vessel.	7 days	.14 days	.21 days	30 days	triplicate
Tea cannot be exported unless a licence is granted by	.central governme nt	state government	.Tea board	Coffee Board	.Tea board
A new tariff based on the _____ has been introduced for indigenously manufactured goods under the central excise Tariff Act, 1985	.HSBN	HSN	HHN	HMN	HSN
The british established the first board of revenue with its headquarters in _____	delhi	Mumbai	.chennai	.calcutta	.calcutta

GOODS AND SERVICE TAX

Introduction to goods & Services Tax (GST)

GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST is essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. GST is a destination based tax on consumption of goods and services meaning thereby the tax would accrue to the taxing authority which has jurisdiction over the place of consumption which is also termed as place of supply.

According to the World Bank (2015), over 160 countries have some form of value added tax (VAT), which is what the GST is. But the ambition of the Indian GST experiment is revealed by a comparison with the other large federal systems—European Union, Canada, Brazil, Indonesia, China and Australia--that have a VAT (the United States does not have a VAT).

As Table 1 highlights, most of them face serious challenges. They are either overly centralized, depriving the sub-federal levels of fiscal autonomy (Australia, Germany, and Austria); or where there is a dual structure, they are either administered independently creating too many differences in tax bases and rates that weaken compliance and make inter-state transactions difficult to tax (Brazil, Russia and Argentina); or administered with a modicum of coordination which minimizes these disadvantages (Canada and India today) but does not do away with them.

Journey of GST

GST is being introduced in the country after a 13 year long journey ince it was first discussed in the report of the Kelkar Task Force on indirect taxes. A brief chronology outlining the major milestones on the proposal for introduction of GST in India is as follows:

- a. In 2003, the Kelkar Task Force on indirect tax had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle.
- b. A proposal to introduce a National level Goods and Services Tax (GST) by April 1, 2010 was first mooted in the Budget Speech for the financial year 2006-07.
- c. Since the proposal involved reform/ restructuring of not only indirect taxes levied by the Centre but also the States, the responsibility of preparing a Design and Road Map for the implementation of GST was assigned to the Empowered Committee of State Finance Ministers (EC).
- d. Based on inputs from Govt of India and States, the EC released its First Discussion Paper on Goods and Services Tax in India in November, 2009.
- e. In order to take the GST related work further, a Joint Working Group consisting of officers from Central as well as State Government was constituted in September, 2009.
- f. In order to amend the Constitution to enable introduction of GST, the Constitution (115th Amendment) Bill was introduced in the Lok Sabha in March 2011. As per the prescribed procedure, the Bill was referred to the Standing Committee on Finance of the Parliament for examination and report.
- g. Meanwhile, in pursuance of the decision taken in a meeting between the Union Finance Minister and the Empowered Committee of State Finance Ministers on 8th November, 2012, a 'Committee on GST Design', consisting of the officials of the Government of India, State Governments and the Empowered Committee was constituted.
- h. This Committee did a detailed discussion on GST design including the Constitution (115th) Amendment Bill and submitted its report in January, 2013. Based on this Report, the EC recommended certain changes in the Constitution Amendment Bill in their meeting at Bhubaneswar in January 2013.

- i. The Empowered Committee in the Bhubaneswar meeting also decided to constitute three committees of officers to discuss and report on various aspects of GST as follows:-
 - a. Committee on Place of Supply Rules and Revenue. Neutral Rates;
 - b. Committee on dual control, threshold and exemptions:
 - c. Committee on IGST and GST on imports.
- j. The Parliamentary Standing Committee submitted its Report in August, 2013 to the Lok Sabha. The recommendations of the Empowered Committee and the recommendations of the Parliamentary Standing Committee were examined in the Ministry in consultation with the Legislative Department. Most of the recommendations made by the Empowered Committee and the Parliamentary Standing Committee were accepted and the draft Amendment Bill was suitably revised.
- k. The final draft Constitutional Amendment Bill incorporating the above stated changes were sent to the Empowered Committee for consideration in September 2013.
- l. The EC once again made certain recommendations on the Bill after its meeting in Shillong in November 2013. Certain recommendations of the Empowered Committee were incorporated in the draft Constitution (115th Amendment) Bill. The revised draft was sent for consideration of the Empowered Committee in March, 2014.
- m. The 115th Constitutional (Amendment) Bill, 2011, for the introduction of GST introduced in the Lok Sabha in March 2011 lapsed with the dissolution of the 15th Lok Sabha.
- n. In June 2014, the draft Constitution Amendment Bill was sent to the Empowered Committee after approval of the new Government.
- o. Based on a broad consensus reached with the Empowered Committee on the contours of the Bill, the Cabinet on 17.12.2014 approved the proposal for introduction of a Bill in the Parliament for amending the Constitution of India to facilitate the introduction of Goods

and Services Tax (GST) in the country. The Bill was introduced in the Lok Sabha on 19.12.2014, and was passed by the Lok Sabha on 06.05.2015. It was then referred to the Select Committee of Rajya Sabha, which submitted its report on 22.07.2015.

- p. The Constitutional amendment bill was then passed from Rajya Sabha on 8th Aug 2016 and notified from 15th Sep 2016.
- q. The Draft Model GST Law was introduced in June 2016 which was further revised in November 2016. This revised draft law became GST Bill when it was introduced in Lok Sabha with slight modifications and got passed from Lok Sabha on 29th March' 2017.
- r. Four bills got passed viz:- Central GST Bill' 2017, Integrated GST Bill' 2017, Union Territory GST Bill' 2017 and Compensation to states Bill' 2017.
- s. Five sets of Rules have been finalised by GST Council viz:-Registration, Payment, Return, Invoice and Refund.
- t. Four further sets of Rules have been introduced before GST Council which shall be .finalised soon. These are Valuation, Input Tax Credit, Composition and Transition.

Concept of Dual GST — An Indian GST Model

The Indian GST model would be a dual GST with the Centre and States simultaneously levying it on a common tax base. The GST to be levied by the Centre on intra-State supply of goods and / or services would be called the Central GST (CGST) and that to be levied by the States would be called the State GST (SGST). Similarly Integrated GST (IGST) will be levied and administered by Centre on every inter-state supply of goods and services.

Basically, there were three models available for adoption. First, the **Single (Central) GST model**, where the Centre levies and collects the GST for both Centre and the States, and then distributes the share of the individual States in accordance with its consumption pattern

determined on the basis of prior survey. It may be recalled that GST is a destination based consumption tax. This is prevalent in Australia, New Zealand, Germany etc.

The second option is to adopt the **Single (State) GST model**, where the situation is reverse of that in the Single (Central) GST model. Here, the individual States collect GST for both Centre and their respective States, and then pass on the Centre's share to the Centre. Very few countries have adopted this model. A Form of States GST is being implemented at the Quebec province of Canada.

The third option is the Dual GST model where both Centre and the States levy and collect their share of GST concurrently and simultaneously in their separate streams of **Central GST (CGST)** and **States GST (SGST)**. The GST with respect to interstate movement of goods and services is the most critical part of this model. After considering twelve models for this purpose, it has been decided to adopt the **Integrated GST (IGST)** model. In the IGST models, the IGST comprising CGST and SGST will be levied and collected by the Centre. The Centre will retain the CGST share and despatch the SGST shares to the respective destination States. The entire mechanism will be computerised.

Because of the absence of complications involved in determining the GST share of the destination States with respect to interstate movement of Goods and Services, the Central GST model would have been the easiest option. But given the federal structure of our Constitution and fiscal autonomy for the States enshrined in it, India could not have opted for this model. On the other hand, the Indian constitution gives supremacy to Centre over the States in three important areas i.e. Defence, External Affairs and Finance. Therefore, the Centre cannot be made to outsource the collection of centre's portion of GST to the States. The best option for India was to adopt the Dual GST model.

Initially, it was conceptualized that there would be a national level goods and services tax, however, with the release of First Discussion Paper by the Empowered Committee of the State Finance Ministers on 10.11.2009, it has been made clear that there would be a —Dual

GST in India, taxation power – both by the Centre and the State to levy the taxes on the Goods and Services. Almost 150 countries have introduced GST in some form. While countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. In China, GST applies only to goods and the provision of repairs, replacement and processing services. GST rates of some countries are given below. Country Australia France Canada Germany Japan Singapore Sweden New Zealand Rate of GST 10% 19.6% 5% 19% 5% 7% 25% 15% World over in almost 150 countries there is GST or VAT, which means tax on goods and services. Under the GST scheme, no distinction is made between goods and services for levying of tax. In other words, goods and services attract the same rate of tax. GST is a multi-tier tax where ultimate burden of tax fall on the consumer of goods/ services. It is called as value added tax because at every stage, tax is being paid on the value addition. Under the GST scheme, a person who was liable to pay tax on his output, whether for provision of service or sale of goods, is entitled to get input tax credit (ITC) on the tax paid on its inputs.

Goods and Services Tax (GST) is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017, following the passage of Constitution 122nd Amendment Bill. The GST is governed by a GST Council and its Chairman is the Finance Minister of India. Under GST, goods and services are taxed at the following rates, 0%, 5%, 12% ,18% and 28%. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold.

In addition a cess of 15% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products.

GST was initially proposed to replace a slew of indirect taxes with a unified tax and was therefore set to dramatically reshape the country's Education trillion dollar economy. The rate of GST in India is between double to four times that levied in other countries like Singapore.

MODELS OF GST

There are three prime models of GST:

- GST at Central (Union) Government Level only
- GST at State Government Level only
- GST at both, Union and State Government Levels

Indirect Taxation (2015-2018 batch) 4/16 Prepared by : Gowtham Raaj V , Department of Commerce , Karpagam Academy of Higher Education

BENEFITS OF GST

1. GST provide comprehensive and wider coverage of input credit setoff, you can use service tax credit for the payment of tax on sale of goods etc.
2. CST will be removed and need not pay. At present there is no input tax credit available for CST.
3. Many indirect taxes in state and central level included by GST, You need to pay a single GST instead of all.
4. Uniformity of tax rates across the states
5. Ensure better compliance due to aggregate tax rate reduces.
6. By reducing the tax burden the competitiveness of Indian products in international market is expected to increase and there by development of the nation.
7. Prices of goods are expected to reduce in the long run as the benefits of less tax burden would be passed on to the consumer.

FEATURES

The salient features of GST are asunder:

- (i) GST would be applicable on —supply|| of goods or services as against the present concept of tax on the manufacture of goods or on sale of goods or on provision of services.
- (ii) GST would be based on the principle of destination based consumption taxation as against the present principle of origin based taxation.
- (iii) It would be a dual GST with the Centre and the States simultaneously levying it on a common base. The GST to be levied by the Centre would be called Central GST (CGST) and that to be levied by the States [including Union territories with legislature] would be called State GST (SGST). Union territories without legislature would levy Union territory GST (UTGST).
- (iv) An Integrated GST (IGST) would be levied on inter-State supply (including stock transfers) of goods or services. This would be collected by the Centre so that the credit chain is not disrupted. Page 6 of 15
- (v) Import of goods would be treated as inter-State supplies and would be subject to IGST in addition to the applicable customs duties. Indirect Taxation (2015-2018 batch) 5/16 Prepared by : Gowtham Raaj V , Department of Commerce , Karpagam Academy of Higher Education
- (vi) Import of services would be treated as inter-State supplies and would be subject to IGST.
- (vii) CGST, SGST /UTGST & IGST would be levied at rates to be mutually agreed upon by the Centre and the States under the aegis of the GSTC.
- (viii) GST would replace the following taxes currently levied and collected by the Centre:
 - a) Central Excise Duty;
 - b) Duties of Excise (Medicinal and Toilet Preparations);
 - c) Additional Duties of Excise (Goods of Special Importance);
 - d) Additional Duties of Excise (Textiles and Textile Products);
 - e) Additional Duties of Customs (commonly known as CVD);
 - f) Special Additional Duty of Customs (SAD);
 - g) Service Tax;
 - h) Cesses and surcharges insofar as they relate to supply of goods or services.

(ix) State taxes that would be subsumed within the GST are:

- a) State VAT;
- b) Central Sales Tax;
- c) Purchase Tax;
- d) Luxury Tax;
- e) Entry Tax (All forms);
- f) Entertainment Tax (except those levied by the local bodies);
- g) Taxes on advertisements;
- h) Taxes on lotteries, betting and gambling;
- i) State cesses and surcharges insofar as they relate to supply of goods or services.

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WORKING MECHANISM OF GST

As GST is a multi-stage tax, it involves collection by registered vendors throughout the production and distribution chain before the goods or services reach end-consumers. Under the GST framework, each registered vendor charges GST on his sales, and reclaims credits for the tax paid on his purchases. The total amount of GST paid to the tax authority by all the vendors in the production and distribution chain is equal to the amount of tax finally borne by the consumer. Below is a hypothetical case showing how GST is charged through a production and distribution chain, using the example of the manufacture and sale of a suit, assuming a 5% GST rate is levied and each vendor is registered under the GST system.

Stage 1

Imagine a manufacturer of, say, shirts. He buys raw material or inputs — cloth, thread, buttons, tailoring equipment — worth Rs 100, a sum that includes a tax of Rs 10. With these raw materials, he manufactures a shirt. In the process of creating the shirt, the manufacturer adds value to the materials he started out with. Let us take this value added by him to be Rs 30. The

gross value of his good would, then, be Rs 100 + 30, or Rs 130. At a tax rate of 10%, the tax on output (this shirt) will then be Rs 13. But under GST, he can set off this tax (Rs 13) against the tax he has already paid on raw material/inputs (Rs 10). Therefore, the effective GST incidence on the manufacturer is only Rs 3 (13 – 10).

Stage 2

The next stage is that of the good passing from the manufacturer to the wholesaler. The wholesaler purchases it for Rs 130, and adds on value (which is basically his margin) of, say, Rs 20. The gross value of the good he sells would then be Rs 130 + 20 — or a total of Rs 150. A 10% tax on this amount will be Rs 15. But again, under GST, he can set off the tax on his output (Rs 15) against the tax on his purchased good from the manufacturer (Rs 13). Thus, the effective GST incidence on the wholesaler is only Rs 2 (15 – 13).

Stage 3

In the final stage, a retailer buys the shirt from the wholesaler. To his purchase price of Rs 150, he adds value, or margin, of, say, Rs 10. The gross value of what he sells, therefore, goes up to Rs 150 + 10, or Rs 160. The tax on this, at 10%, will be Rs 16. But by setting off this tax against the tax on his purchase from the wholesaler (Rs 15), the retailer brings down the effective GST incidence on himself to Rs 1 (16 – 15). Thus, the total GST on the entire value chain from the raw material/input suppliers (who can claim no tax credit since they haven't purchased anything themselves) through the manufacturer, wholesaler and retailer is, Rs 10 + 3 + 2 + 1, or Rs 16.

Illustration I: Suppose hypothetically that the rate of CGST is 10% and That of SGST is 10%. When a wholesale dealer of steel in Uttar Pradesh supplies steel bars and rods to a construction company which is also located within the same State for, say Rs. 100, the dealer would charge CGST of Rs. 10 and SGST of Rs. 10 in addition to the basic price of the goods. He would be required to deposit the CGST component into a Central Government account while the SGST

portion into the account of the concerned State Government Of course. he need not actually pay Rs. 20 (Rs.10 + Rs.10) in cash as he would be entitled to set-off this liability against the CGST or SGST paid on his purchases (say, inputs). But for paying CGST he would be allowed to use only the credit of CGST paid on his purchases while for SGST he can utilize the credit of SGST alone. In other words, COST credit cannot, in general, be used for payment of SGST. Nor can SGST credit be used for payment of CGST.

Illustration II: Suppose, again hypothetically, that the rate of CGST is 10% and that of SGST is 10%. When an advertising company located in Mumbai supplies advertising services to a company manufacturing soap also located within the State of Maharashtra for, let us say Rs. 100, the ad company would charge CGST of Rs. 10 as well as SGST of Rs. 10 to the basic value of the service. He would be required to deposit the CGST component into a Central Government account while the SGST portion into the account of the concerned State Government. Of course, he need not again actually pay Rs. 20 (Rs.104 – Rs.10) in cash as it would be entitled to set-off this liability against the CGST or SGST paid on his purchase (say, of inputs such as stationery, office equipment, services of an artist etc). But for paying CGST he would be allowed to use only the credit of CGST paid on its purchase while for SGST he can utilise the credit of SGST alone. In other words, CGST credit cannot, in general, be used for Payment of SGST. Nor can SGST credit be used for payment of CGST.

Benefits of GST

The benefits of GST can be summarized as under:

Category	Benefits
For Business and Industry	<p>Easy compliance: A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.</p> <ul style="list-style-type: none"> • Uniformity of tax rates and structures: GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business. • Removal of cascading: A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business. • Improved competitiveness: Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry. • Gain to manufacturers and exporters: The subsuming of

	<p>major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.</p>
<p>For Central and State Governments</p>	<p>Simple and easy to administer: Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.</p> <ul style="list-style-type: none"> • Better controls on leakage: GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders. • Higher revenue efficiency: GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.
<p>For the Consumer</p>	<p>Single and transparent tax proportionate to the value of goods and services: Due to multiple indirect taxes being</p>

	<p>levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.</p> <ul style="list-style-type: none">• Relief in overall tax burden: Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.
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Salient features of the Indian GST model

- (i). The GST shall have three components: one levied by the Centre on Intrastate transactions (hereinafter referred to as COST) and States on 'Intrastate transactions (hereinafter referred to as SGST) and other to be levied by Centre on Interstate transactions (hereinafter referred to as IGST). Rates for GST would be in between 18 to 22%, reflecting revenue considerations and acceptability. This dual GST model would be implemented through multiple statutes (one for CGST, one for IGST and SGST statute for every State and Union' Territory with legislation). However, the basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification etc. would be uniform across these statutes as far as practicable.
- (ii). The CGST, SGST or IGST would be applicable to all transactions of goods and services made for a consideration or non-consideration as specified by law except the exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits.
- (iii). The Central GST and State GST are to be paid to the accounts of the Centre and the States separately. It would have to be ensured that account-heads for all services and goods would have indication whether it relates to Central GST or State GST (with identification of the State to whom the tax is to be credited).
- (iv). Since the CGST and SGST are to be treated separately, Input Tax Credit for CGST could be utilized only against the payment of CGST and/or IGST. Input Tax Credit for SGST could be utilized only against the payment of SGST and/or IGST whereas Input Tax Credit for IGST could be utilized against the payment of IGST and/or CGST and/or SGST. A taxpayer or exporter would have to maintain separate details in books of account for utilization or refund of credit. Further, the rules for taking and utilization of credit for the Central GST and the State GST would be aligned.

- (v). Cross utilization of ITC between the Central GST and the State GST would not be allowed.
- (vi). Ideally, the problem related to credit accumulation on account of refund of GST should be avoided by both the Centre and the States except in the cases such as exports, purchase of capital goods, input tax at higher rate than output tax etc. where, again refund/adjustment should be completed in a time bound manner.
- (vii). To the extent feasible, uniform procedure for collection of both Central GST and State GST would be prescribed in the respective legislation for Central GST and State GST.
- (viii). The administration of the CGST and 1GST to the Centre and for State GST to the States would be given. This would imply that the Centre and the States would have concurrent jurisdiction for the entire value chain and for all taxpayers on the basis of thresholds for goods and services prescribed for the States and the Centre.
- (ix). The present threshold prescribed in different State VAT Acts below which VAT is not applicable varies from State to State. A uniform State GST threshold across States is desirable and, therefore, it is considered that a threshold of gross annual turnover of Rs.20 lakh both for goods and services for all the States (Excluding North-Eastern Region and Special Category States wherein the threshold of Rs. 10 lakh is prescribed as per the meeting of GST Council dated 23rd Sep 2016). Keeping in view the interest of small traders and small scale industries and to avoid dual control, assessed with a turnover of less than Rs 1.5 crore annually will be assessed by state tax authorities and those above that through the new cross-empowerment model. Under this model, tax administrators will use a formula to decide which assessed they will audit or register.
- (x). The States are also of the view that Composition/ Compounding Scheme for the purpose of GST should have an upper ceiling on gross annual turnover and a floor tax rate with respect to gross annual turnover. In particular, there would be a compounding cut-off at Rs. 50 lakh of gross annual turnover and a floor rate of 1% or above across the States.

The scheme would also allow option for GST registration for dealers with turnover below the compounding cut-off.

- (xi). The taxpayer would need to submit periodical returns, in common format as far as possible, to both the Central GST authority and to the concerned State GST authorities.
- (xii). Each taxpayer would be allotted a PAN-linked taxpayer identification number. This would bring the GST PAN-linked system in line with the prevailing PAN-based system for Income tax, facilitating data exchange and taxpayer compliance.
- (xiii). Keeping in mind the need of tax payer's convenience, functions such as assessment, enforcement, scrutiny and audit would be undertaken by the authority which is collecting the tax, with information sharing between the Centre and the States.

GST Rate

It is said that the GST rate will be fixed on the basis of RNR i.e. Revenue Neutral Rate. In that case, the issue arises that how will there be growth in revenue and growth in GDP after introduction of GST.

In this regard it is mentioned that whenever a new Tax regime is introduced, it is so planned that the new effective tax rate is more or less same as that of the previous regime - so that the new tax regime is revenue neutral. Hence is the need for finding the RNR. More often than not however, the total revenue collection under the new tax regime turns out to be more than in the old tax regime for various reasons including administrative efficiency, enhanced tax base, structural reforms etc. That's the reason why it is expected that there will be growth in revenue in the GST regime.

As for the growth in terms of GDP, the introduction of GST will entail much less effective duty that a taxpayer would pay compared to what he is paying now on account of Central Excise, Service Tax, and State VAT etc, all taken together. Besides, the reduction of multiplicity of tax and multiple points of collection will reduce the transaction cost and make

‘doing business’ much easier. Consequently, a taxpayer would have more money in his hands for further investment in infrastructure, industry etc. This will lead to more employment. All these factors would lead to growth in industry and business. Consequently, there is bound to be growth in GDP after introduction of GST.

The GST Council shall make recommendations to the Union and States on the rates of GST.

As per the recommendations of the GST Council, 6 set of rates has been approved. These are 0%, 5%, 12%, 18%, 28% & 28% + Cess. As per the revised Model GST law introduced in Nov’ 2016, the rates of GST cannot exceed 28%. However, as per the GST Bill passed in Lok Sabha on 29th March’ 2017, the maximum rate on luxury goods can be 40%.

The GST Council, headed by finance minister Arun Jaitley and comprising representatives of all states, has agreed to keep the upper band of the rate in the law at 20%. -However, for the moment, the above introduced rates will not be changed.

The GST Council has decided to keep the upper cap higher at 20% so that in future in case of need to hike tax rate, there is no need to approach Parliament for a nod and the GST Council can raise it. This means the central GST and state GST can be up to 20% each, leaving the scope for a maximum levy at 40 per cent. The officials said *“The 4-tier rate structure that has been decided will hold for now By keeping the upper cap at 20%, we are just keeping an enabling provision which the Council can exercise at a later date after deliberation”*.

The final schedule of rates on goods and services are much awaited. As per the news, the schedule of rates and exemptions shall be discussed in the GST Council meeting to be held on 18th & 19th May' 2017.

Revenue Secretary Hasmukh Adhia assured that tax rates under GST would not see any major fluctuation.

“The fundamental principle is that the present incidence will continue. Nobody needs to worry that their tax rate will go up too much or hope that their tax rate will go down too much. There is no need for anxiety. The standard tax rate for services will be 18 per cent under GST. The only exceptions will be those services such as transportation that currently enjoy abatement. The abatement will not remain. But the services will be fitted in the tax slab under GST based on the present incidence post abatement.”

Taxes to be subsumed under GST

The GST would replace the following taxes:

(A) Taxes currently levied and collected by the Centre:

- a. Central Excise duty
- b. Duties of Excise (Medicinal and Toilet Preparations)
- c. Additional Duties of Excise (Goods of Special Importance)
- d. Additional Duties of Excise (Textiles and Textile Products)
- e. Additional Duties of Customs (commonly known as CVD) (0 Special Additional Duty of Customs (SAD))
- f. Service Tax
- g. Central Surcharges and Cesses so far as they relate to supply of goods and services

(B) Taxes currently levied and collected by the State:

- a. State VAT
- b. Central Sales Tax
- c. Luxury Tax

- d. Entry Tax (all forms)
- e. Entertainment and Amusement Tax (except when levied by the local bodies)
- f. Taxes on advertisements
- g. Purchase Tax
- h. Taxes on lotteries, betting and gambling
- i. State Surcharges and Cesses so far as they relate to supply of goods and services

The GST Council shall make recommendations to the Union and States on the taxes, cesses and surcharges levied by the Centre, the States and the local bodies which may be subsumed in the GST.

Constitutional Framework of GST

The GST Constitutional (122nd Amendment) Bill, 2014 became the GST Constitutional (101st Amendment) Act, 2016 when the president assented the provisions of bill on 8th Sept, 2016.

GST Constitutional (101st Amendment) Act, 2016 contains the provisions which are necessary for the implementation of GST Regime. The present amendments would subsume a number of indirect taxes presently being levied by Central and State Governments into GST thereby doing away the cascading of taxes and providing a common national market for Goods and Services. The aim to bring about these amendments in the Constitution is to confer simultaneous power on Parliament and State legislatures to make laws for levying GST simultaneously on every transaction of supply and Goods and Services.

The amendment Act contains 20 amendments. As per Sub Section (2) of Section 1, the constitutional amendments are to be enforced with effect from such date as the Central Government may, by notification in the Official Gazette, appoint. The central government, in

exercise of this power has appointed the 16th day of September, 2016 as the date on which the provisions of Sections 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 13, 14, 15, 16, 17, 18, 19 and 20 of the said Constitutional amendment Act, shall come into force. This notification has been issued to carry out the provisions of Constitutional amendments. Prior to this notification, the presidential order dated 15th September 2016, has also confirmed the constitution of GST Council.

Thus, all the amendments of Constitution (One Hundred and First Amendment) Act, 2016 is now active.

Major Changes introduced in GST Bill passed by Lok Sabha on 29th March 2017

1. **Non-Applicability of GST Law in the State of Jammu and Kashmir:** Earlier the GST Law was proposed to be applicable to J&K as well. However, in the Bill, the applicability of GST Law is extended to whole of India except the state of J&K.
2. **Change in the Scope of Taxable Event i.e. Supply:** Earlier the supply of goods or services between related persons, when made in the course or furtherance of business was treated as Supply even when there is no consideration. Employer and Employee were covered in the definition of related person. Thus any supply of Goods or services by employer to his employees even if that supply is free of cost would have been covered under the scope of GST. Now the bill provides that such gifts not exceeding Rs. 50,000 by an employer to an employee shall not be treated as supply for the purpose of GST.
3. **Removal of uncertainty relating to chargeability of GST on Supply of Immovable Property:** Earlier the "Goods" were defined as every kind of movable property other than money and securities but includes actionable claim. Further the "Services" were defined as anything other than goods. Thus there was an apprehension that Government may levy GST on supply of immovable Property such as Land or building apart from levy of Stamp duty on such transactions. Now in the bill introduced in the parliament, the government has removed that uncertainty by providing in Schedule III that, "Sale of land

and, sale of building except the sale of under construction building will neither be treated as a supply of goods not a supply of services. Thus GST can't be levied in those supplies.

4. **Non Chargeability of GST on Actionable Claims:** As "Actionable claim" were included in the definition of "Goods", there may be chargeability of GST on supply of Actionable Claim under earlier law. In the Schedule III of newly introduced bill, Actionable Claim, other than lottery, betting and gambling will neither be treated as a supply of goods not a supply of services. Thus GST can't be levied in that case.
5. **Fixing the Upper cap of GST rate at 20% in case of CGST Law, and 40% in case of IGST Law:** Earlier the upper cap fixed was 14% and 25% respectively in both the laws. With a view to keep some flexibility to increase the rates in future, the upper cap has been fixed at 20% and 40% respectively under CGST and IGST Law. However the applicable slab rate will be same as approved by council i.e. 5%, 12%, 18% and 28%.
6. **Payment of GST by recipient under Reverse Charge in case of supply of taxable goods or services or both by a unregistered supplier to a registered person.** In line with the purchase tax on purchase of goods from an unregistered dealer prevailing in many of the states, the GST Bill has introduced the same. Liability to pay GST in such cases will be on the recipient of such goods or services.
7. **Reduction in Composition rates, a welcome move for MSME sector:** Earlier it was proposed to levy 1% composition rate for trader and 2.5% for manufacturer. Further composition scheme was not allowed for a supplier of services. Now in the bill, some reduction in composition rates has been made which is a welcome move for the MSME sector. 1% of composition rate Will be applicable in case of a manufacturer instead of earlier 2.5%. Further 0.50% of composition rate will be applicable in case of a trader instead of earlier 1%. Further the composition scheme will now be allowed to Restaurant Sector with a composition rate of 2.5%.

8. **Requirement to seek permission from proper officer for composition scheme is dispensed with:** Now a registered person, whose aggregate turnover in the preceding financial year did not exceed 50 lacs, may opt to pay under composition scheme.
9. **Change in the provision for determining the liability to pay tax in case of Services (Time of Supply of Services):** Earlier, the time of supply of services was the earlier of date of issue of Invoice, or the last date on which the invoice should have been issued or date of receipt of payment by the supplier. Now in the bill, as introduced in the parliament, the provisions of service tax for determining liability to pay service tax has been incorporated in the GST bill. Thus the time of supply of services shall be earlier of the following dates:
- If the invoice is issued within the period prescribed, the date of issue of invoices or the date of receipt of payment, whichever is earlier;
 - If the invoice is not issued within the period prescribed, the date of provision of services, or the date of receipt of payment, whichever is earlier;
 - If The date on which the recipient shows the receipt of services in his books of accounts, in a case where aforesaid clause (a) or (b) does not apply.
10. **Change in Actual Payment Condition for Non-reversal of Credits:** Earlier where a recipient fails to pay to the supplier of services, the amount towards the value of supply along with taxes thereon within a period of 3 months from the date of issue of invoices by the supplier, an amount equal to ITC availed were required to be paid along with interest thereon. Thus the aforesaid provision was restricted only in case of Services. Further there was no provision made in the law for re-allowing the credit reversed earlier due to application of aforesaid provisions. Now in the bill, the aforesaid provision is also extended to supply of Goods. Further the time period for payment is extended to 180 days from earlier 3 months. Further provision has also been made for re-availing the credit reversed earlier at the time of actual payment.

11. Credit of Rent-a-cab, life insurance, and health insurance allowed, if used for making an outward taxable supply of same category. Earlier the credit of rent-a-cab, life insurance, and health insurance were fully denied except where the government notifies the services which are obligatory for an employer to provide to its employees under any law for the time being in force. The aforesaid provision of denial of credit would have multifold consequences. For example, a life insurance company, in case re-insurance of life insurance, will not be eligible to take credit of GST paid on re-insurance amount. With a view to avoid the genuine hardships, the credit of aforesaid services will be allowed if used for making an outward taxable supply of same category or as a part or taxable composite or mixed supply

Minimal Interface

- i. The physical interface between the tax payer and the tax authorities would be minimal under GST. Certain important provisions in this regard are:
- ii. Registration will be granted on line and shall be deemed to have been granted if no deficiency is communicated to the applicant within working days as may be prescribed.
- iii. Taxable person shall himself assess the taxes payable (self-assessment) and credit it to the account of the Government.
- iv. Payment of tax shall be made electronically through internet banking. Smaller taxpayers shall be allowed to use the systems generated challan and pay tax at the bank counter.
- v. The tax payer shall furnish the details of sales and purchases electronically without any physical interface with the tax authorities.
- vi. Tax payers shall file, electronically, monthly returns of sales and purchases, ITC availed, tax payable, tax paid and other prescribed particulars. Composition tax payers shall file, electronically, quarterly returns. Omission/incorrect particulars can be self-rectified before the filing of annual return.

- vii. Matching, reversal and reclaim of input tax credit shall be done electronically on the GSTN portal without any tax payer contact. [This would prevent, inter 'cilia, input tax credit being taken on the basis of fake invoices or twice on the same invoice.]
- viii. Tax payers shall be allowed to keep and maintain accounts and other records in electronic form.

Input tax credit

The provisions of input tax credit have been prone to litigation. The GST law provides an elaborate mechanism for availment and utilization of ITC and seeks to impart clarity so as to minimize disputes. The important provisions of the law are:

- (i) Tax payer is allowed to take credit of taxes paid on inputs (input tax credit), as self-assessed, in his return.
- (ii) Taxpayer can take credit of taxes paid on all goods and services, other than a few in the negative list, and utilize the same for payment of output tax.
- (iii) Credit of taxes paid on inputs shall be allowed where the inputs are used for business purposes or making taxable supplies.
- (iv) Full input tax credit shall be allowed on capital goods on its receipt as against the current Central Government practice of staggering the credit in two equal instalments.
- (v) Unutilized input tax credit can be carried forward.
- (vi) The facility of distribution of input tax credit amongst group companies has been provided for.

Refund

Refund provisions have been simplified and made more taxpayer friendly. Some of the important provisions of the GST Bill are:

- (i) Time limit for claiming refund has been increased from one year to two years.
- (ii) Refund claim along with documentary evidence is to be filed online without any physical interface and the tax refund will be directly credited to the nominated bank account of the applicant.
- (iii) Refund shall be granted within 60 days from the date of receipt of application. Interest is payable if refund is not sanctioned within the stipulated period of 60 days.
- (iv) If the refund claim is less than Rs. 5 lakhs, there is no need for the claimant to furnish any documentary evidence that he has not passed on the incidence of tax to any other person. Only a self-certification to this effect would suffice.
- (v) Refund of input tax credit shall be allowed in case of exports or where the credit accumulation is on account of inverted duty structure (i.e. where the tax rate on output is higher than that on inputs).
- (vi) In case of refund claim on account of exports, 90% of the claim shall be paid immediately on a provisional basis without verification of documentary evidence.

COMPOSITION SCHEME

To help small businesses avoid the hassles of collecting GST, claiming Input Tax credit, etc, the Model GST law has proposed a simpler levy. This levy is called Composition Levy. Also, the scheme is optional and not mandatory. This facility is available u/s 10 of the GST Bill 2017. Some of the features of composition levy are explained below:

- In order to opt for composition scheme the total aggregate turnover of the taxable person should not exceed 1NR 50 lakhs.
- The definition of "aggregate turnover" as per section 2(6) of GST law: "aggregate turnover" means the aggregate value of all taxable supplies (excluding the value of

inward supplies on which tax is payable by a person on reverse charge basis), exempt supplies, exports of goods or services or both and inter-State supplies of persons having the same Permanent Account Number, to be computed on all India basis but excludes central tax, State tax, Union territory tax, integrated tax and cess:

- Instead of collecting GST taxpayer will pay a certain % of levy. This levy or tax will be not less than 1% in case of a manufacturer, 2.5% in case of Restaurants and 0.5% in any other case of the turnover in a state during the year.
- **Composition levy is not applicable to the taxable person:-**
 - a. Who is engaged in the supply of services other than in case of Restaurants; or
 - b. Who makes any supply of goods which are not leviable to tax under this Act; or
 - c. Who makes any inter-State outward supplies of goods; or
 - d. Who makes any supply of goods through an electronic commerce operator who is required to collect tax at source under section 56; or
 - e. Who is a manufacturer of such goods as may be notified on the recommendation of the Council:
- Composition levy is linked to an assessee's PAN. In case an assessee has opted for the scheme for a business with a particular Pan, the scheme shall apply to all the businesses with the same PAN.
- In order to identify the total number of registrations of a particular organization the PAN will be considered as common identifier to calculate total number of registrations taken by such organization in India under GST and aggregate turnover reported by all the GSTINs having same PAN will be considered to calculate the limit of IN R 50 lakhs.

- The requirement of the provision of draft law clearly states that in case any of the premise (s) having same PAN has/have not opted for composition scheme, then the benefits of the composition scheme can't be availed by other premises.
- No GST shall be collected by an assessee opting for the scheme from the recipient of its supplies.
- The composite taxpayer shall not be allowed to take any credit on the inward supplies received by them on which they have paid taxes.
- In case the taxpayer is doing any inter-state supplies of goods and/or services then no permission for opting of composition shall be granted.
- Under GST regime all the taxpayers have to take registration w.r.t all states from where they are supplying goods and/or services. So, this will result in taking multiple registrations.

Thus, it can be concluded that in the following cases composition levy cannot be availed:

1. Aggregate turnover of all premises (GSTINs) with same PAN exceeds the prescribed limit of IN R 50 lakhs.
2. Any of the premises of the Organization having the same PAN is registered as a Normal taxpayer.
3. In case taxpayer is doing any inter-state supplies of goods and/or services.

Meaning and scope of the term —Supply

Section 7 of the Central GST Bill' 2017 specifies the meaning and scope of supply in an inclusive manner. As per this section, the following elements are required to be satisfied, in order to constitute a 'supply' :-

- (i) Supply of goods and / or services;
- (ii) Supply is for a consideration; (Supply specified in 'Schedule 1' is also covered even if made without consideration)
- (iii) Supply is made in the course or furtherance of business;
- (iv) Supply is made in the taxable territory;
- (v) Supply is a taxable supply; and
- (vi) Supply is made by a taxable person.

POSSIBLE QUESTIONS

PART - B (2 Marks)

1. What is GST?
2. What is CGST, and SGST?
3. What do you know about UTGST and IGST?
4. GST is destination based tax system. What does it mean?
5. What are the goods not covered under GST?
6. How the concept of supply is important under GST?
7. What is dual GST?
8. What is GSTN?
9. What is the threshold limit specified for registered under GST?
10. Who can avail composition scheme?
11. What is the mode of payment of taxes?
12. What is assessment?
13. What is taxable event under GST?
14. What is composition scheme?
15. What is mixed supply?

PART - C (6 Marks)

1. Explain the history and evaluation of GST in India.
2. What are the constitutional provisions relevant for GST?
3. Explain the benefits of GST.
4. What is rate structure ? How many rates are specified un GST?
5. What are the services of GSTN?
6. Explain the taxes subsumed in GST.
7. Explain the different type of assessments under GST.

8. Discuss the scope of supply under GST.
9. What is manufacture under GST law?
10. What is the responsibility of persons opting for composition scheme?

KARPAGAM ACADEMY OF HIGHER EDUCATION

DEPARTMENT OF COMMERCE

III B.COM (BPS)

TAXATION (17BPU502A)

Unit 5

Question	Option 1	Option 2	Option 3	Option 4	Answer
The GST Act was passed In the year _____	2016	2017	2018	2019	2017
The GST to be levied by the center on intra-state supply of goods and / or services would be called _____	Central GST	State GST	Integrated GST	Single GST	State GST
The GST to be levied by the center on inter-state supply of goods and / or services would be called _____	Central GST	State GST	Integrated GST	Single GST	Integrated GST
Expansion of SGST _____	Simplified Goods and Service Tax	State Goods and Service Tax	Standard Goods and Service Tax	Single Goods and Service Tax	State Goods and Service Tax
Expansion of CGST _____	Central Goods and Service Tax	Common Goods and Service Tax	Contract Goods and Service Tax	Computed Goods and Service Tax	Central Goods and Service Tax
Expansion of IGST _____	Intra Goods and Service Tax	Inter Goods and Service Tax	Integrated Goods and Service Tax	Internal Goods and Service Tax	Integrated Goods and Service Tax
_____ GST model where both center and the state levy and	Dual	Demo	Distinguish ed	Developmen t	Dual

collect their share of concurrently and simultaneously from CGST and SGST.					
Dual GST model where both center and the state levy and collect their share of concurrently and simultaneously from _____ and _____.	CGST & SGST	IGST & SGCT	IGST & CGST	VAT & GST	CGST & SGST
_____ is the tax on goods and services with comprehensive and continues set-off benefit to the retailers level	Goods and service tax	Value added tax	Excise Duty	Service tax	Goods and service tax
The _____ _ would need to submit periodical returns, in common format as suggested by Central authority.	Tax payers	Entities	Revenue officer	State Government	Tax payers
The permissible number of business verticals in a State in GST will be:	25	30	35	40	
A Bill of Supply has to be issued for which of the following -	Supply of Exempted Services Only	Supply of Exempted Goods and Services	Supply of Exempted Goods Only	Supply of Exempted trading Only	Supply of Exempted Goods and Services
If the value of an exempted supply is `100, a Bill of Supply,	Has to be issued	Need not be issued unless recipient	Need not be issued even if recipient	None of the above	Has to be issued

		asks for	asks for		
A supply of Goods,	Cannot be made without moving the same	Can be made without moving the same	Can be made only if the same person is buying and selling the goods in different capacities by way of legal fiction	None of the Above	Cannot be made without moving the same
If, Goods are supplied on sale or return basis,	Under seamless credit concept of GST, Invoice has to be issued by the supplier while sending the goods; Another Invoice has to be issued by the recipient while rejecting the goods.	Invoice has to be issued by the supplier while sending the goods but the recipient can take credit only when the goods are accepted by him.	Invoice has to be issued when the recipient accepts the goods or six months from the date of supply whichever is earlier	Invoice has to be issued when the recipient accepts the goods or six months from the date of supply whichever is later	Invoice has to be issued when the recipient accepts the goods or six months from the date of supply whichever is earlier
The period within which the invoice should be issued from the date of supply of service, is	30 days	1 month	Immediately on provision of service	15 days	30 days
For supply of services, invoice should be prepared in,	Original + 1 copy	Original + 2 copies	Original + 3 copies	Original + 4 copies	Original + 1 copy

For supply of Goods, invoice should be prepared in:	Original + 1 copy	Original + 2 copies	Original + 3 copies	Original + 4 copies	Original + 2 copies
Invoice reference number is	The invoice number as printed on the invoice	Generated from the portal of GSTN	Both a and b	Service tax	Generated from the portal of GSTN
Invoice reference number is valid for	45 days	1 month	30 days	60 days	30 days
What are the supplies to which the reverse charge mechanism could be applied?	Inward Supply of Goods/Services	Outward Supply of Goods/Services	Both the above	None of the above	Inward Supply of Goods/Services
Which of the following taxes leviable on Imports?	CGST	SGST	IGST	Customs duty and IGST under Section 3 of Customs Tariff Act, 1975	Customs duty and IGST under Section 3 of Customs Tariff Act, 1975
What is the threshold limit of turnover in the previous year for opting to pay tax under the composition scheme?	Rs. 20 lacs	Rs. 10 lacs	Not exceeding Rs.50 lacs	None of the above	Not exceeding Rs.50 lacs
What are the taxes levied on an intra-State Supply?	CGST	SGST *	CGST and SGST	IGST	CGST and SGST
What is the maximum rate prescribed under CGST?	12%	28%	20%	18%	20%
Who will notify the rate of tax to be levied under CGST?	Central Government suo moto	State Government suo moto	GST Council suo moto	Central Government as per the recommendations of the GST	Central Government as per the recommendations of the GST Council

				Council	
Which of the following taxes will be levied on Imports?	CGST	SGST	IGST	Exempt	IGST
Is there any maximum rate prescribed under UTGST?	14%	28%	20%	30%	20%
What is the threshold limit of turnover in the preceding financial year for opting to pay tax under composition scheme?	Rs.20 lacs	Rs.10 lacs	Rs.50 lacs	None of the above	Rs.50 lacs
What is the time of supply of vouchers when the supply with respect to the voucher is identifiable?	Date of issue of voucher	Date of redemption of voucher	Earlier of &	& whichever is later	Date of issue of voucher
What is the time of supply of vouchers when the supply with respect to the voucher is not identifiable?	Date of issue of voucher	Date of redemption of voucher	Earlier of &	& whichever is later	Date of redemption of voucher
The value of supply of goods and services shall be the	Transaction value	MRP	Market Value	None of above	Transaction value
When can the transaction value be rejected for computation of value of supply	When the buyer and seller are related and price is not the sole consideration	When the buyer and seller are related or price is not the sole consideration	It can never be rejected	When the goods are sold at very low margins	When the buyer and seller are related or price is not the sole consideration
What deductions are allowed from	Discounts offered to	Packing Charges,	Amount paid by	Freight charges	Discounts offered to customers,

the transaction value	customers, subject to conditions	subject to conditions	customer on behalf of the supplier, subject to conditions	incurred by the supplier for CIF terms of supply, subject to conditions	subject to conditions
Input tax credit on capital goods and Inputs can be availed in one installment or in multiple installments?	In thirty six installments	In twelve installments	In one installment	In six installments	In one installment
The tax paying documents in section 16(2) is	Bill of entry, Invoice raised on RCM supplies, etc.	Acknowledged copy of tax paid to department	Supply invoice by the recipient	none of the above	Bill of entry, Invoice raised on RCM supplies, etc.
The time limit to pay the value of supply with taxes to avail the input tax credit?	Three months	Six Months	One hundred and eighty days	Till the date of filing of Annual Return	One hundred and eighty days
Inspections, Search and seizure operations under GST are to be authorised by a CGST/SGST Officer not below the rank of _____	Dy Commissioner	Asst Commissioner	Joint Commissioner	Commissioner	Joint Commissioner
Inspections can be conducted at the business places of, _____	Taxable persons	Transporter of goods	Owner or Operator of Godowns/ Warehouse	All of the above	All of the above
The person in charge of the conveyance carrying any consignment of	₹ 50,000	₹ 1,00,000	₹ 10,000	₹ 100 lakhs	₹ 50,000

goods exceeding the value of _____, shall carry prescribed documents (EWaybill)					
Input tax credit as per the VAT law will be carried forward as:	CGST	SGST	IGST	CGST or SGST at the option of the supplier	SGST
To avail credit of tax on inputs held in stock by a dealer who was exempted from payment of tax as per earlier law, the said inputs should be used or intended to be used for making,	Taxable supplies under GST	Exempt supplies	Either taxable or exempt supplies	Both taxable and exempt supplies	Taxable supplies under GST
For credit to be allowable, invoices should not be issued earlier than;	Three months before the appointed day	Six months before the appointed day	Nine months before the appointed day	Twelve months before the appointed day	Twelve months before the appointed day
What will happen to the rest of credit carried forward in respect of a regular dealer switching over to composition stream under GST, after adjusting to the inputs held in stock?;	Carry forward the rest of the credit	Credit kept in abeyance till the taxable opts for normal scheme once again	Credit lapses	Electronic credit ledger will freeze with the credit available	Credit lapses
GST is applicable on__	Inputs and/or capital goods sent to job-worker (Satisfying	The job-worker charges and additional material added by	Both of the above	None of the above	The job-worker charges and additional material added by the job-worker on the inputs sent by the principal

	conditions u/s 143)	the job-worker on the inputs sent by the principal			
What is the time limit for issue of an order for recovery in case of fraud, misstatement or suppression?	30 months	18 months	5 years	3 years	5 years
What is the time limit for issue of order for recovery in cases other than fraud, misstatement or suppression?	30 months	18 months	5 years	3 years	3 years
Is it obligatory on the part of the Department to take on record the assessee's representation?	Yes	No	At the discretion of the proper officer	If requested by Noticee	Yes
What is the validity of challan in Form GST PMT-4?	1 day	5 days	15 days	Perpetual validity	15 days
I failed to pay tax and/or file returns on time. I should pay interest on -	Gross tax payable	Gross tax payable and input credit claimed	Net tax payable	No interest payable, if reasonable cause is shown	Gross tax payable
From which date interest is liable in case of excess input tax credit claimed?	From the last date of the month in which credit is claimed	From the due date for filing GSTR-2 of the month in which credit is claimed	From the due date for filing GSTR-3 of the month in which credit is claimed	From the date of utilization of credit.	From the due date for filing GSTR-3 of the month in which credit is claimed
The value of supply of goods and services shall be the	Transaction value	MRP	Market Value	None of above	Transaction value

When can the transaction value be rejected for computation of value of supply	When the buyer and seller are related and price is not the sole consideration	When the buyer and seller are related or price is not the sole consideration	It can never be rejected	When the goods are sold at very low margins	When the buyer and seller are related or price is not the sole consideration
What deductions are allowed from the transaction value	Discounts offered to customers, subject to conditions	Packing Charges, subject to conditions	Amount paid by customer on behalf of the supplier, subject to conditions	Freight charges incurred by the supplier for CIF terms of supply, subject to	Discounts offered to customers, subject to conditions
Any amount of tax collected shall be deposited to the credit of the Central or State Government:	Only when the supplies are taxable	Regardless of whether the supplies in respect of which such amount was collected are taxable or not	Only when the supplies are not taxable	None of the above	Regardless of whether the supplies in respect of which such amount was collected are taxable or not
Is there any time limit for issue of notice under section 69 in cases where tax is collected but not paid?	No time limit	1 year	3 years	5 years	No time limit
Within how many years from the date of issue of notice should the proper officer issue an order?	1 year	2 years	3 years	4 years	1 year
Whether the person who has borne the incidence of amount can apply	Yes	No	At the discretion of the proper officer	None of the above	Yes

for refund of surplus left after adjustment towards tax collected but not paid under section 69?					
What happens if a taxable person has paid CGST/SGST in SGST Act) on a transaction considered by him to be an intra-State supply but which is subsequently held to be an inter-State supply?	Pay tax and seek refund	Adjust against future liability	Take re-credit	File a suit for recovery	Pay tax and seek refund
Dual GST model where both center and the state levy and collect their share of concurrently and simultaneously from _____ and _____.	CGST & SGST	IGST & SGCT	IGST & CGST	VAT & GST	CGST & SGST

CUSTOMS DUTY

The Custom duty derived its value from the word custom under which whenever a merchant entered a Kingdom with his merchandise, he had to give some gift to the king. Subsequently, this custom formalized into the levy of custom duty or tax on goods imported into and exported from the country was organized through various laws during the British period. After Independence the Sea Customs Act 1878, the Land Customs Act, 1924 and other allied enactments were repealed by a consolidating and amending legislation entitled the Customs Act, 1962. Similarly the Indian Customs Act, 1934 was repealed by the Customs Tariff Act, 1975(CTA).

Custom Duty is imposed under the Indian Customs Act formulated in 1962 by the Constitution of India under the Article 265, which states that -no tax shall be levied or collected except by authority of law. So, the Indian Custom Act was introduced that allow the Central Government to collect the taxes under the name of Custom Duty. Custom Duties are usually levied with ad valorem rates and their base is determined by the domestic value 'the imported goods calculated at the official exchange rate. Similarly, export duties are imposed on export values expressed in domestic currency. Export duties are levied occasionally to clear up excess profitability in international price of goods in respect of which domestic prices may be low at given time. But the concept of import duty is wide and almost universal, except for a few goods like food grains, fertilizer, life - saving drugs and equipment etc.

The Indian Customs Duties are major source of revenue for the Union Government and constitute around 30% of its tax revenues. Together with Central Excise duties, the contribution amount to nearly three-fourth of total tax revenue of the Union Government.

Custom duty not only raises money for the Central Government but also helps the government to prevent the illegal imports and illegal exports of goods from India. The Central government has emergency powers to increase import or export duties whenever necessary after a notification in the session of Parliament.

CUSTOMS LAW

There are two Acts, which form part of Customs Law in India, namely, the Customs Act 1962 and Customs Tariff Act, 1975:

1. The Customs Act, 1962

The Customs Act, 1962 is the basic Act for levy and collection of customs duty in India. It contains various provisions relating to imports and exports of goods and merchandise as well as baggage of persons arriving in India. The main purpose of Customs Act, 1962 is the prevention of illegal imports and exports of goods. The Act extends to the whole of India. It was extended to Sikkim w.e.f. 1st October 1979.

2. The Customs Tariff Act, 1975

The Customs Duty is levied on goods imported or exported from India at the rates specified under the Customs Tariff Act, 1975. The Act contains two schedules - Schedule 1 gives classification and rate of duties for imports, while schedule 2 gives classification and rates of duties for exports. In the present Act, the Tariff Schedule was replaced in 1986. The new Schedule is based on Harmonised System of Nomenclature (HSN), the internationally accepted Harmonised Commodity Description and Coding System.

DEFINITIONS

- 1. “Adjudicating authority”** means any authority competent to pass any order or decision under this Act, but does not include the Board, [Commissioner (Appeals)] or Appellate Tribunal;
- 2. “Aircraft”** has the same meaning as in the Aircraft Act, 1934 (22 of 1934)
- 3. “Appellate Tribunal”** means the Customs, Excise and Gold (Control) Appellate Tribunal constituted under section 129.1
- 4. “Assessment”** includes provisional assessment, reassessment and any order of assessment in which the duty assessed is nil;
- 5. “Baggage”** means all goods, whether personal effects or brought in commercial quantities, imported by any passenger or member of the crew that are liable to customs duty. It includes unaccompanied baggage dispatched from a foreign country within the prescribed period after arrival of the owner of goods in India.
- 6. “Board”** means the [Central Board of Excise and Customs constituted under the Central Boards of Revenue Act, 1963 (54 of 1963)];
- 7. “Coastal Goods”** means goods, other than imported goods, transported in a vessel from one port in India to another;

8. **“Commissioner (Appeals)”** means a person appointed to be a Commissioner of Customs (Appeals) under sub-section (1) of section 4;
9. **“Commissioner of Customs”**, except for the purposes of Chapter XV, includes an Additional Commissioner of Customs;]
10. **“Conveyance”** includes a vessel, an aircraft and a vehicle
11. **“Customs Airport”** means any airport appointed under clause (a) of section 7 to be a Customs airport
12. **“Customs Area”** means the area of a customs station and includes any area in which imported goods or exported goods are ordinarily kept before clearance by Customs Authorities
13. **“Customs Port”** means any port appointed under clause (a) of section 7 to be a customs port; [and includes a place appointed under clause (aa) of that section to be an inland container depot]
14. **“Customs Station”** means any customs port, customs airport or land customs station
15. **“Dutiable Goods”** means any goods which are chargeable to duty and on which duty has not been paid
16. **“Duty”** means a duty of customs leviable under this Act
17. **“Entry”** in relation to goods means an entry made in a bill of entry, shipping bill or bill of export and includes in the case of goods imported or to be exported by post, the entry referred to in section 82 or the entry made under the regulations made under section 84
18. **“Examination”**, in relation to any goods, includes measurement and weighment thereof
19. **“Export”** with its grammatical variations and cognate expressions, means taking out of India to a place outside India
20. **“Export Goods”** means any goods which are to be taken out of India to a place outside India
21. **“Exporter”**, in relation to any goods at any time between their entry for export and the time when they are exported, includes any owner or any person holding himself out to be

the exporter

22. **“Foreign-going vessel or aircraft”** means any vessel or aircraft for the time being engaged in the carriage of goods or passengers between any port or airport in India and any port or airport outside India, whether touching any intermediate port or airport in India or not, and includes-

- Any naval vessel of a foreign government taking part in any naval exercises
- Any vessel engaged in fishing or any other operations outside the territorial waters of India and
- Any vessel or aircraft proceeding to a place outside India for any purpose whatsoever;

23. **“Goods”** includes -

- (a) Vessels, aircrafts and vehicles;
- (b) Stores;
- (c) Baggage;
- (d) Currency and negotiable instruments; and
- (e) Any other kind of movable property;

24. **“Import**, with its grammatical variations and cognate expressions, means bringing into India from a place outside India

25. **–Import manifest” or “import report** means the manifest or report required to be delivered under section 30

26. **“Imported goods** means any goods brought into India from a place outside India but does not include goods which have been cleared for home consumption

27. **“Importer”**, in relation to any goods at any time between their importation and the time when they are cleared for home consumption, includes any owner or any person holding himself out to be the importer

28. **“Indian customs waters** means the [waters extending into the sea up to the limit of contiguous zone of India under section 5 of the Territorial Waters, Continental Shelf, Exclusive Economic Zone and other Maritime Zones Act, 1976 (80 of 1976)) and includes any bay, gulf, harbour, creek, or tidal river

29. **“Land customs station** means any place appointed under clause (b) of section 7 to be a land customs station
30. **“Market price”**, in relation to any goods, means the wholesale price of the goods in the ordinary course of trade in India
31. **“Prohibited goods”** means any goods the import or export of which is subject to any prohibition under this Act or any other law for the time being in force but does not include any such goods in respect of which the conditions subject to which the goods are permitted to be imported or exported have been complied with.
32. **“Proper officer”**, in relation to any functions to be performed under this Act, means the officer of customs who is assigned those functions by the Board or the [Commissioner of Customs;]
33. **“Stores”** means goods for use in a vessel or aircraft and includes fuel and spare parts and other articles of equipment, whether or not for immediate fitting
34. **“Smuggling”**, in relation to any goods, means any act or omission which will render such goods liable to confiscation under section 111 or section 113
35. **“Tariff value**, in relation to any goods, means the tariff value fixed in respect. thereof under sub-section (2) of section 14
36. **–Value”**, in relation to any goods, means the value thereof determined in accordance with the provisions of sub-section (1) of section 14
37. **–Vehicle”** means conveyance of any kind used on land and includes a railway vehicle
38. **–Warehouse** means a public warehouse appointed under section 57 or a private warehouse licensed under section 58
39. **–Warehoused goods** means goods deposited in a warehouse

FEATURES OF CUSTOM DUTIES

The following are the features and objectives of customs duties,

1. Regulating the amount of import in India in order to protect the domestic market.
2. Protecting Indian Industry from undue competition
3. Prohibiting certain imports of goods for achieving the policy objectives of the Government.
4. Regulating imports

5. Coordinating legal provisions with other laws dealing with foreign exchange such as Foreign Trade Act, Foreign Exchange Regulation Act, Conservation of Foreign Exchange and Prevention of Smuggling Act, etc.

All import goods are classified into categories known as called headings and Sub headings for the purpose of levy of duty. For each sub-heading, a specific rate of duty has been prescribed in the Customs Tariff Act, 1975.

THE MAJOR OBJECTIVES OF IMPOSING EXPORT DUTIES

The following are the major objectives of levying especially export duties,

1. Export duties for revenue purposes
2. Export duties for anti-inflationary condition
3. Export duties to stabilize price of essential commodities
4. Export duties to protect home industries
5. Export duties as countervailing measure
6. Export duties to control export of raw materials.

TYPES OF CUSTOMS TARRIF

Regardless of whether a tariff is bound or applied on preferential versus non-discriminatory basis, the tariff can take several forms.

1. The most common is an **ad valorem tariff**, which means that the customs duty is calculated as a percentage of the value of the product. Many countries' tariff schedules also include a variety of non ad valorem tariffs.

2. **Specific tariffs** are computed on the physical quantity of the good being imported, e.g., Australia's 2005 schedule includes a tariff of \$1.22/kg on certain types of cheeses and the United States charges \$0.68 per live goat. The physical quantity may be expressed in ways that are difficult to determine without laboratory equipment. The European Union charges duties on certain dairy products based on the weight of lactic matter in the product, and the United States charges a tariff on raw cane sugar that varies with the sucrose content of sugar: -1.4606 cents/kg less 0.020668 cents/kg for each degree under 100 degrees (and fractions of a degree in proportion) but not less than 0.943854 cents/kg.¶

3. **Mixed tariffs** are expressed as either a specific or an ad valorem rate, depending on which generates the most (or sometimes least) revenue. For example, Indian duties on certain rayon fabrics are either 15 percent ad valorem or Rs. 87 per square meter, whichever is higher.

4. **Compound tariffs** include both ad valorem and a specific component. For example, Pakistan charges Rs. 0.88 per liter of some petroleum products plus 25 percent ad valorem.

5. **Tariff rate quotas** are made up of a low tariff rate on an initial increment of imports (the within-quota quantity) and a very high tariff rate on imports entering above that initial amount. Trade economists typically argue that these non ad valorem tariffs are less transparent and more distorting, i.e., that they drive a bigger wedge between domestic and international prices. In addition, their economic impact changes as world prices change.

The share of tariff lines with non ad valorem rates varies across countries. WITS Advanced Query can compute the share of non-ad valorem tariff lines when it profiles a country's tariff schedule.

DIFFERENCE BETWEEN SALES TAX AND CUSTOMS DUTY

The following are the differences between excise duty and customs duty

Sales tax	Customs duty
1. Sales tax is on the sale and not on the goods	Customs duty is levied on goods
2. Sales tax is imposed on intra sale	Customs duty is imposed on imports and exports
3. It is collected by state government	It is imposed by central government
4. Sales tax may differ from state to state. Because there is separate sales tax act for each state	Since there is only one customs act, customs duty is charges uniformly throughout the country
5. Revenue from sales is for the state government	Revenue from customs duty is for the central government
6. It is regulated by state sales Sales Tax Act	It is regulated by customs duty Act 1962.

Territorial waters

Territorial waters extends to a distance of 12 nautical miles into sea from the nearest point of the appropriate baseline, the Continental Shelf extends beyond the limit of the territorial waters to the outer edge of the continental margin or to a distance of 200 nautical miles from the baseline. Similarly, Exclusive Economic Zone is an area beyond and adjacent to the territorial waters, and the limit of such zone is 200 nautical miles from the baseline. Accordingly, it may be inferred that the jurisdiction of GST law would extend to 200 nautical miles into sea.

TYPE OF CUSTOMS DUTIES

While Customs Duties include both import and export duties, but as export duties contributed only nominal revenue, due to emphasis on raising competitiveness of exports, import duties alone constituted major part of the revenue from Customs Duties. The import duties are imposed under The Customs Act, 1962 and Customs Tariff Act, 1975. The structure of Customs Duties includes the following,

1. Basic Customs Duty

All goods imported into India are chargeable to a duty under Customs Act, 1962. The rates of this duty, popularly known as basic customs duty, are indicated in the First Schedule of the Customs Tariff Act, 1975 as amended from time to time under Finance Acts. The duty may be fixed on ad-valorem basis or specific rate basis. The duty may be a percentage of the value of the goods or at a specific rate. The Central Government has the power to reduce or exempt any good from these duties

2. Auxiliary Duty of Customs

This duty is levied under the Finance Act and is leviable on all goods imported into the country at the rate of 50 per cent of their value. However this statutory rate has been reduced in the case of certain types of goods into different slab rates based on the basic duty chargeable on them. Additional (Countervailing) Duty of Customs This countervailing duty is leviable as additional duty on goods imported into the country and the rate structure of this duty is equal to the excise duty on like articles produced in India. The base of this additional duty is c.i.f. value of imports plus the duty levied earlier. If the rate of this duty is on ad-valorem basis, the value for this purpose will be the total of the value of the imported article and the customs duty on it (both basic and auxiliary).Export Duties

Under Customs Act, 1962, goods exported from India are chargeable to export duty. The items on which export duty is chargeable and the rate at which the duty is levied are given in the customs tariff act, 1975 as amended from time to time under Finance Acts. However, the Government has emergency powers to change the duty rates and levy fresh export duty depending on the circumstances.

3. Cesses

Cesses are leviable on some specified articles of exports like coffee, coir, lac, mica, tobacco (unmanufactured), marine products cashew kernels, black pepper, cardamom, iron ore, oil cakes and meals, animal feed and turmeric. These cesses are collected as parts of Customs Duties and are then passed on to the agencies in charge of the administration of the concerned commodities.

4. Education cess on customs duty

An education cess has been imposed on imported goods w.e.f. 9-7-2004. The cess will be 2% of the aggregate duty of customs excluding safeguard duty, countervailing duty, Anti

Dumping Duty.

5. Protective Duties

Tariff Commission' has been established under Tariff Commission Act, 1951. If the Tariff Commission recommends and Central Government is satisfied that immediate action is necessary to protect interests of Indian industry, protective customs duty at the rate recommended may be imposed under section 6 of Customs Tariff Act. The protective duty will be valid till the date prescribed in the notification.

6. Countervailing duty on subsidized goods

If a country pays any subsidy (directly or indirectly) to its exporters for exporting goods to India, Central Government can impose Countervailing duty up to the amount of such subsidy under section 9 of Customs Tariff Act.

7. Anti Dumping Duty on dumped articles

Often, large manufacturer from abroad may export goods at very low prices compared to prices in his domestic market. Such dumping may be with intention to cripple domestic industry or to dispose of their excess stock. This is called 'dumping'. In order to avoid such dumping, Central Government can impose, under section 9A of Customs Tariff Act, anti-dumping duty upto margin of dumping on such articles, if the goods are being sold at less than its normal value. Levy of such anti-dumping duty is permissible as per WTO (world trade organisation) agreement. Anti dumping action can be taken only when there is an Indian industry producing 'like articles'.

8. Safeguard duty

Central Government is empowered to impose 'safeguard duty' on specified imported goods if Central Government is satisfied that the goods are being imported in large quantities and under such conditions that they are causing or threatening to cause serious injury to domestic industry. Such duty is permissible under WTO agreement. Safeguard duty is a step in providing a need-based protection to domestic industry for a limited period, with ultimate objective of restoring free and fair competition

9. National Calamity Contingent Duty

A National Calamity Contingent Duty (NCCD) of customs has been imposed vide section

129 of Finance Act, 2001. This duty is imposed on pan masala, chewing tobacco and cigarettes. It varies from 10% to 45%. - - NCCD of customs of 1% was imposed on PFY, motor cars, multi utility vehicles and two wheelers and NCCD of Rs 50 per ton was imposed on domestic crude oil, vide section 134 of Finance Act, 2003.

DIFFERENCES BETWEEN SAFEGUARD DUTY AND ANTI DUMPING DUTY

The following are the differences between safeguard and anti- dumping duty,

Safeguard duty	Anti-dumping duty
<p>1. Legal authority The safeguard duty on imported goods is leviable under section 8 b of the customs tariff act 1975.</p> <p>2. Purpose Safeguard duty is levied on order to ensure that goods imported increased quantity do not cause or threaten to cause serious injury to domestic industry.</p> <p>3. Nature Safeguard duty relates to quantum of imports</p> <p>4. Duration Safeguard duty is effective for 4 years Bur in appropriate cases can be extended to a period not exceeding 10 years.</p>	<p>1975 to levy anti dumping duty.</p> <p>Anti dumping duty is levied on the dumped articles in order to protect the domestic market.</p> <p>Anti- dumping duty is concerned with valuation of imported goods.</p> <p>Anti dumping duty is effective up to 5 years and can be extended in certain cases for a further period of 5 years.</p>

The government has been given the powers under sec 9 A of the customs tariff Act

METHODS OF DETERMINING VALUE

Customs Valuation rules 1988 have provided 6 methods of valuation of imported goods.

They are

I. TRANSACTION VALUE OR SAME GOODS BASED METHOD

Under this method, assessable value is determined on the basis of transaction value of imported goods.

Transaction value is the price actually paid / payable for the goods when sold for export to India (Invoice price) after adjusting cost of services.

II. IDENTICAL GOODS BASED METHOD :

In this method, assessable value is determined on the basis of transaction value of identical goods.

III. SIMILAR GOODS BASED METHOD :

Under this method, assessable value is calculated on the basis of transaction value of similar goods.

IV. DEDUCTIVE VALUE:

Here, assessable value is calculated by reducing post – incorporation cost and expenses from selling price available in India.

V. COMPUTED VALUE METHOD:

Cost of production of imported goods	xxx
Add: Profit and General Expenses (Usually made in the country of exportation) xxx	
Add: Cost of Transport, Landing & Insurance	xxx
	—
Assessable Value	xxx
	—

VI. RESIDUAL METHOD

It is called -Residual method / Best Judgement method. Under this method, assessable value is determined on the basis of valuation rules of 1988 & Section 14 (1) of Customs Act and data available India.

EXEMPTION FROM CUSTOMS DUTY

1. By general notification and
2. By special order

1) EXEMPTION BY GENERAL NOTIFICATION

Section 25(1) of Customs Act 1962 authorises Central Government to issue notifications granting exemptions from Duty.

General notification granting exemption is published in official Gazette.

Exemption notification issued u/s 25 should be laid before parliament.

The exemption may be unconditional or subject to conditions.

When the exemption is subject to conditions, the conditions be specified in the notification and they may be required to be fulfilled before or after clearance.

The notification can be issued only in public interest.

Goods Exempted by Notification :

For Export

- Coffee
- Black Pepper
- Iron ore
- Chromite ore
- Ground nut
- Tea
- Cardamon etc.,

For Import

- Goods imported for research, training or educational purposes
- Goods imported for exhibitions, expeditions etc.
- Import of machines for repairing or reconditioning purpose
- Import of specified medicines and drugs by Govt. hospitals

2) EXEMPTION BY SPECIAL ORDER

Section 25 (2) of the Customs Act authorises the Central Government to issue special order to grant exemption from payment of duty.

Special order is issued separately for each case and communicated to the beneficiary directly by Government.

It can be done only in public interest

Exemption by special order is always 100 %

Exemption orders u/s 25 (2) can be issued in favour of individual imports also.

Goods exempted by special order :

- (a) Goods of strategic nature
- (b) Goods of secret nature
- (c) Goods for charitable purpose

SPECIFIC AND ADVALOREM TAXES

According to the assessment, taxes on commodities may be classified as under:

- (i) Specific Tax and
- (ii) Ad Valorem Tax.

(a) Specific Tax

Taxes which are based on specific qualities or attributes of goods are called specific taxes. This tax is imposed on the commodity according to its weight, size or volume e.g. specific excise duty may be levied on the cloth in the length units and tax on the sugar is based according to the units of weight. The tax on television picture tube is based on the size.

Advantages of Specific Tax

Specific tax is quite easy to calculate and administer. The collection of such type of tax is quite convenient. It has a disadvantage because it puts more burden on poor section than the rich as marginal utility of money for rich people is lower than that of poor people.

Disadvantages of Specific Tax

- i) Specific tax is regressive in nature. It falls heavily on the cheaper varieties of a product which the lower income group consumes.
- (ii) Specific tax is less equitable as compared to ad valorem tax

(b) Ad Valorem Tax

As the tax is imposed on a commodity according to its value, it is called ad valorem tax. This kind of tax is received after assessing the value of the taxable possession of a person.

Several imported articles are taxed in terms of value and they are nothing to do with the size, length and weight of the commodity. For example, an export or import duty is levied at the rate of 5 paise per rupee or 5 per cent of the value of the goods.

Advantages of Ad Valorem Tax

- (i) The main advantages of ad valorem tax is that it imposes greater burden on the rich section of the society.
- (ii) Ad valorem tax is more equitable as it is imposed on the value of goods and thus the canon of ability to pay is fulfilled.
- (iii) Ad valorem tax is difficult to administer and collect as it is imposed on the value of goods which is usually disputed.
- (iv) Ad valorem tax increases inflationary pressures when there is rise in price level.
- (v) Ad valorem taxes equitable in incidence as they are based on the value of article so that canon a ability to pay is fulfilled.

Demerits of Ad Valorem

The ad valorem tax is quite difficult to administer as it is difficult to assess the value of the commodity though it can be specified easily. So, there is a wide scope of tax evasion as people may show small value of a particular commodity only for the sake of saving the tax amount.

Both specific and ad valorem taxes are difficult to differentiate. Therefore compromise has to be made between specific and ad valorem taxes. For this, commodities may be graded according to their quality and the different rates of specific duties may be imposed on them. Even then, specific taxes are relatively considered regressive in nature and burden of it falls more heavily on the section of the society than on the rich Therefore, ad valorem duties are **PREFERRED** to specific duties. In India, Indirect Taxation Enquiry Committee favoured ad valorem duties in lieu of specific duties for ensuring stability and elasticity in the tax System.

DIFFERENCES BETWEEN ADVALOREM DUTY AND SPECIFIC DUTY

The following are the differences between advalorem and specific duty,

Advalorem duty	Specific duty
<p>1. Basis of levy</p> <p>Advalorem duty is levied on a certain percentage on the value of commodity to be taxed.</p> <p>2. Administration of duty</p> <p>It is very difficult to administer. Thus the duty is levied on the value of commodity. But in practice, its very difficult to estimate the value of thousands of commodities imported from a large number of countries</p> <p>3. Predictions of quantum of revenue</p> <p>Under advalorem duty the government cannot correctly predict the quantum of revenue yield.</p> <p>4. Chance of tax evasion</p> <p>Under advalorem duty there is great chance of tax evasion. The value state in the bills may not be correct.</p> <p>5. Tax burden</p> <p>Advalorem duty keeps the burden of</p>	<p>Specific duty is levied as of the weight, length etc of the commodity to be taxed.</p> <p>It is easier to administer and collect. Once it is possible to identify the goods it easy to levy and collect tax.</p> <p>Under specific duty the government can easily predict the quantum of revenue yield.</p> <p>Under specific duty unit of measurement of commodities ie weight, length, bulk ., can be ascertained at any time. Hence there is less chance of tax evasion.</p>

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SEMESTER - III

UNIT: II – CUSTOMS LAW

tax steady ie during the times of boom the tax liability trends to rise in time of recession the liability also goes down

6. Revenue yield

Advolerum duty brings higher revenue during the period of raising prices. Because when the price tends increase the revenues yields also increases.

Specific duty does not keep the tax burden steady.

Under specific duty revenue yield is of static in nature.

Remission On Duty On Lost Goods, Destroyed Goods (Or) Abandoned Goods

Customs Act provides remission of duty on goods lost, destroyed before clearance for home consumption. Importer should establish loss / destruction by natural causes (Act of Govt; not of man)

Sec. 23 covers losses occurring after clearance order but before actual clearance.

In case duty has already been paid on goods lost / destroyed refund can be obtained after getting remission order. No duty will be levied on goods abandoned by the importer on account of heavy duty.

1. Physical availability:

- Lost / destroyed goods are not physically available.
- Abandoned goods are physically available.

2. Quantity Lost:

- Any quantity

3. Duty liability

- Duty is leviable. But AC / DC may grant remission for lost / destroyed goods.
- Owner not liable to pay duty for abandoned goods.

4. Nature of Benefit:

- Benefit is given by Statute, but discretion is available to AC /DC.

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5. Burden of proof:

- Loss / destruction due to natural causes, should be proved by importer.

6. Restoration:

- Restoration is not possible, since goods are physically lost / destroyed.

7. Abandonment:

- Sec. 23 covers situations of abandonment / surrender also.

8. Time point:

- Lost / destroyed any time before clearance for home consumption (either directly or from warehouse)

9. Warehoused goods:

- Applicable to warehoused goods also.

WAREHOUSING

The following are the rules regarding warehousing as per Act.

Appointing Of Public Warehouses – Sec.57

At any warehousing station, the Assistant Commissioner of Customs or Deputy Commissioner of Customs may appoint public warehouses wherein dutiable goods may be deposited.

Licensing Of Private Warehouses – Sec.58

(1) At any warehousing station, the Assistant Commissioner of Customs or Deputy Commissioner of Customs may license private warehouses wherein dutiable goods imported by or on behalf of the licensee, or any other imported goods in respect of which facilities for deposit in a public warehouse are not available, may be deposited.

(2) The Assistant Commissioner of Customs or Deputy Commissioner of Customs may cancel a licence granted under sub-section (1) –

(a) by giving one month's notice in writing to the licensee; or

(b) If the licensee has contravened any provision of this Act or the rules or regulations or committed breach of any of the conditions of the licence :

(3) Pending an enquiry whether a licence granted under sub-section (1) should be cancelled under clause (b) of sub-section (2), the Assistant Commissioner of Customs or Deputy Commissioner of Customs may suspend the licence.

Where the whole of the goods or any part thereof are transferred to another person, the proper officer may accept a fresh bond from the transferee in a sum equal to twice the amount of duty assessed on the goods transferred and thereupon the bond executed by the transferor shall be enforceable only for a sum mentioned therein less the amount for which a fresh bond is accepted from the transferee.

PERMISSION FOR DEPOSIT OF GOODS IN A WAREHOUSE – Sec.60

When the provisions of section 59 have been complied with in respect of any goods, the proper officer may make an order permitting the deposit of the goods in a warehouse.

PERIOD FOR WHICH GOODS MAY REMAIN WAREHOUSED — Sec.61

(1) Any warehoused goods may be left in the warehouse in which they are deposited or in any warehouse to which they may be removed, -

- In the case of capital goods intended for use in any hundred per cent export oriented undertaking, till the expiry of five years;
- In the case of any other goods, till the expiry of one year, After the date on which the proper officer has made an order under section 60 permitting the deposit of the goods in a warehouse:

(2) Where any warehoused goods remain in a warehouse beyond the period specified in that sub-section by reason of extension of the aforesaid period or otherwise, interest at such rate as is specified in section 47 shall be payable, on the amount of duty payable at the time of clearance of the goods in accordance with the provisions of section 15 on the warehoused goods, for the period from the expiry of the said warehousing period till the date of payment of duty on the warehoused goods;

CONTROL OVER WAREHOUSED GOODS. – Sec.62

- (1) All warehoused goods shall be subject to the control of the proper officer.
- (2) No person shall enter a warehouse or remove any goods there from without the permission of the proper officer.
- (3) The proper officer may cause any warehouse to be locked with the lock of the Customs Department and no person shall remove or break such lock.
- (4) The proper officer shall have access to every part of a warehouse and power to examine the goods therein.

PAYMENT OF RENT AND WAREHOUSE CHARGES. – Sec.63

(1) The owner of any warehoused goods shall pay to the warehouse-keeper rent and warehouse charges at the rates fixed under any law for the time being in force or where no rates are so fixed, at such rates as may be fixed by the Commissioner of Customs.

(2) If any rent or warehouse charges are not paid within ten days from the date when they became due, the warehouse-keeper may, after notice to the owner of the warehoused goods and with the permission of the proper officer cause to be sold (any transfer of the warehoused goods notwithstanding) such sufficient portion of the goods as the warehouse-keeper may select.

OWNER'S RIGHT TO DEAL WITH WAREHOUSED GOODS. – Sec. 64

With the sanction of the proper officer and on payment of the prescribed fees, the owner of any goods may either before or after warehousing the same -

- (a) Inspect the goods;
- (b) Separate damaged or deteriorated goods from the rest;
- (c) Sort the goods or change their containers for the purpose of preservation, sale, export or disposal of the goods;
- (d) Deal with the goods and their containers in such manner as may be necessary to prevent loss or deterioration or damage to the goods;
- (e) Show the goods for sale; or
- (f) Take samples of goods without entry for home consumption, and if the proper officer so permits, without payment of duty on such samples.

MANUFACTURE AND OTHER OPERATIONS IN RELATION TO GOODS IN A WAREHOUSE – Sec.65

(1) With the sanction of the Assistant Commissioner of Customs or Deputy Commissioner of Customs and subject to such conditions and on payment of such fees as may be prescribed, the owner of any warehoused goods may carry on any manufacturing process or other operations in the warehouse in relation to such goods.

(2) Where in the course of any operations permissible in relation to any warehoused goods under sub-section (1), there is any waste or refuse, the following provisions shall apply : –

(a) If the whole or any part of the goods resulting from such operations are exported, import duty shall be remitted on the quantity of the warehoused goods contained in so much of the waste or refuse as has arisen from the operations carried on in relation to the goods exported.

(b) If the whole or any part of the goods resulting from such operations are cleared from the warehouse for home consumption, import duty shall be charged on the quantity of the warehoused goods contained in so much of the waste or refuse as has arisen from the operations carried on in relation to the goods cleared for home consumption.

POWER TO EXEMPT IMPORTED MATERIALS USED IN THE MANUFACTURE OF GOODS IN WAREHOUSE. – Sec 66

If any imported materials are used in accordance with the provisions of section 65 for the manufacture of any goods and the rate of duty leviable on the imported materials exceeds the rate of duty leviable on such goods, the Central Government, if satisfied that in the interests of the establishment or development of any domestic industry it is necessary so to do, may, by notification in the Official Gazette, exempt the imported materials from the whole or part of the excess rate of duty.

REMOVAL OF GOODS FROM ONE WAREHOUSE TO ANOTHER – Sec. 67

The owner of any warehoused goods may, with the permission of the proper officer, remove them from one warehouse to another, subject to such conditions as may be prescribed for the due arrival of the warehoused goods at the warehouse to which removal is permitted.

CLEARANCE OF WAREHOUSED GOODS FOR HOME CONSUMPTION – Sec. 68

The importer of any warehoused goods may clear them for home consumption, if –

- (a) A bill of entry for home consumption in respect of such goods has been presented in the prescribed form;
- (b) The import duty leviable on such goods and all penalties, rent, interest and other charges payable in respect of such goods have been paid; and
- (c) An order for clearance of such goods for home consumption has been made by the proper officer.

CLEARANCE OF WAREHOUSED GOODS FOR EXPORTATION – Sec. 69

(1) Any warehoused goods may be exported to a place outside India without payment of import duty if –

- a shipping bill or a bill of export has been presented in respect of such goods in the prescribed form;
- The export duty, penalties, rent, interest and other charges payable in respect of such goods have been paid; and
- An order for clearance of such goods for exportation has been made by the proper officer.

(2) Warehoused goods of any specified description are likely to be smuggled back into India, it may, by notification in the Official Gazette, direct that such goods shall not be exported to any place outside India without payment of duty or may be allowed to be so exported subject to such restrictions and conditions as may be specified in the notification.

GOODS NOT TO BE TAKEN OUT OF WAREHOUSE EXCEPT AS PROVIDED BY THIS ACT. – Sec. 71:

No warehoused goods shall be taken out of a warehouse except on clearance for home consumption or re-exportation, or for removal to another warehouse, or as otherwise provided by this Act.

GOODS IMPROPERLY REMOVED FROM WAREHOUSE, ETC. – Sec. 72

(1) In any of the following cases, that is to say, -

- Where any warehoused goods are removed from a warehouse in contravention of section 71;
- Where any warehoused goods have not been removed from a warehouse at the expiration of the period during which such goods are permitted under section 61 to remain in a warehouse;
- Where any warehoused goods have been taken under section 64 as samples without payment of duty;
- Where any goods in respect of which a bond has been executed under section 59 and which have not been cleared for home consumption or exportation are not duly accounted for to the satisfaction of the proper officer, the proper officer may demand, and the owner of such goods shall forthwith pay, the full amount of duty chargeable on account of such goods together with all penalties, rent, interest and other charges payable in respect of such goods

(2) If any owner fails to pay any amount demanded under sub-section (1), the proper officer may, without prejudice to any other remedy, cause to be detained and sold, after notice to the owner (any transfer of the goods notwithstanding) such sufficient portion of his goods, if any, in the warehouse, as the said officer may select.

CANCELLATION AND RETURN OF WAREHOUSING BOND. – Sec. 73

When the whole of the goods covered by any bond executed under section 59 have been cleared for home consumption or exported or are otherwise duly accounted for, and when all amounts due on account of such goods have been paid, the proper officer shall cancel the bond as discharged in full, and shall on demand deliver it, so cancelled, to the person who has executed or is entitled to receive it.

CUSTOMS DUTY DRAW BACK

Drawback Defined. In terms of rule 2 (a), "drawback" in relation to any goods exported out of India, means the refund of duty paid on importation of such goods in terms of Sec. 74 of the Customs Act.

Section 74 of the Customs Act 1962 as amended vide Customs (Amendment) Act; 1985 allows Drawback on re-export of duty paid goods. It reads as under:

(1) When any goods capable of being easily identified which have been Imported Into India and upon which any duty has been paid on importation,

(i) are entered for export and the proper officer makes an order permitting clearance and loading of the goods for exportation under section 51: or

(ii) are to be exported as baggage and the owner of such baggage for the purpose of clearing it makes a declaration of its contents to the proper officer under section 77 (which declaration shall be deemed to be an entry for export for the purposes of this section) and such officer makes an order permitting clearance of the goods for exportation or

(iii) are entered for export by post under section 82 and the proper officer makes an order permitting clearance of the goods for exportation.

Ninety-eight per cent of such duty shall except otherwise here in after provided be repaid as drawback, if-

(a) The goods are identified to the satisfaction of the Assistant Commissioner of Customs as the goods which Imported and

(b) The goods are entered for export within two years from the date of payment of duty on the importation thereof, Provided that in any particular case the aforesaid period be extended by the Board by such further period as it may deem fit.

(2) Notwithstanding anything contained in sub-section (1). the rate of drawback in the case of goods which have been used after the importation thereof shall be such as the Central Government, having regard to the duration of use, depreciation in value and other relevant circumstances may, by notification in the Official Gazette, fix.

(3) The Board may make regulations for the purpose of carrying out the provisions of this section and, in particular, such regulations may –

- (a) provide for the manner in which the identity of goods imported in different consignments which are ordinarily stored together in bulk, may be established ;
- (b) specify the goods which shall be deemed to be not capable of being easily identified.

(4) For the purposes of this section-

- (a) goods shall be deemed to have been entered for export on the date with reference to which the rate of duty is calculated under section 16;
- (b) in the case of goods assessed to duty provisionally under section 18, the date of payment of the provisional duty shall be deemed to be date of payment of duty.

Distinction Between Sec. 74 and 75 of Customs Act, 1962

There is a distinction between Sec. 74 and Sec. 75 of the CA 1962. Sec. 74 of Customs Act comes into operation when articles are imported and thereafter re-exported, such articles being easily identifiable; and Sec. 75 comes into operation when "imported materials are used in the manufacture of goods which are re-exported." 1995 Rules

Conditions

Accordingly, for claiming drawback on re-export of duty paid goods, the following conditions need to be fulfilled:

(1) the goods are identified to the satisfaction of the customs as the goods which were imported, as per Sec. 74 (1)

(2) the goods are entered for export within two years from the date of payment of duty on the importation thereof, unless the said period is extended by the Central Board of Excise & Customs, as per Sec. 74(1)

(3) The claim for drawback should not exceed the prevailing market price or value (PMV) of the goods exported as per Sec. 76. Hence, the market value should not be less than the drawback claim or, i.e., drawback is not admissible if its claim amount is higher than the market value of the goods exported.

Amount of Drawback

98% of the duty will be re-paid as drawback, on the fulfillment of the necessary conditions.

No Drawback.

When any of the goods specified below have been used after their importation into India, drawback of duty paid thereon shall not be allowed, when they are exported out of India.

(i) Wearing apparel

(ii) Tea chests

(iii) Exposed cinematograph films passed by the Board of Film Censors in India

(iv) Unexposed photographic films, paper and plates, and X-ray films

Personal Goods.

In respect of a motor car or goods (other than those above) imported by a person for his personal use, drawback shall be calculated by reducing the import duty paid in respect of such motor car or goods by 4%, 3%, 2% and 2% for use for each quarter or part thereof during the

period of first year, second year, third year and fourth year respectively. Moreover, if the period exceeds more than 2 years, drawback shall be allowed only if the said period is got extended. Besides, the motorcar or goods should not have been used for more than four years.

Exhibits

Goods imported on payment of duty for the purpose of exhibition and demonstration can be regarded as "used" depending upon whether these are worked upon/operated or not in the course of exhibition. Each case will be decided on merits for grant of drawback on their re-export under Sec. 74 of the Customs Act.

Drawback Claim Procedure on Re-export of Imported Goods

1. Postal Exports

- Drawback Parcels
- The outer packing carrying the address of the consignee shall also carry in bold letters the words: "DRAWBACK EXPORT".

Claim Form & Documents

Along with the parcel/packet, file a claim in the prescribed form at Annexure 17, to the post office. The form is to be filled in quadruplicate and submit along with:

- (i) copy of Bill of Entry or any other document against which goods were cleared on importation.
- (ii) evidence of having paid import duty
- (iii) calculation sheet showing the amount of drawback claimed.

Date of Receipt

An intimation showing date of receipt of claim application shall be given by the proper officer of Customs to the exporter.

Deficiency Memo

In case the drawback claim is not complete in all respect, the exporter shall be intimated through a deficiency memo in the form prescribed, within 15 days of its receipt from postal authorities.. The exporter is required to comply with the requirements specified in the deficiency memo, within 30 days of its receipt. In that case the date of issue of an acknowledgment of reply to deficiency memo shall be considered as date of receipts of drawback claim for the purpose of payments of interest on delayed settlement/payment of drawback under Sec. 75A of the Customs Act.

2. Non-Postal Export

a. Shipment

Shipping Bill/Bill of Export

The procedure for export (rather re-export) of imported goods by sea, air or land (surface) but other than post is same as for normal exports explained partly in Chapters 2 and 4. Accordingly, the exporter is to file Drawback Shipping Bill/Bill of Export in triplicate.

Declarations/Statements

Give the following declarations/statements on SB/Bill of Export.

- (i) State the description, quantity and such other particulars as are necessary for deciding whether the goods are entitled to drawback on their re-export.
- (ii) Make a Declaration that –
 - (a) the export is being made under a claim for drawback under section 74 of the Customs Act;
 - (b) that the duties of customs were paid on the goods imported;
 - (c) that the goods imported were not taken into use after importation

Documents

Enclose the following documents along with the SB/Bill of Export.

- (i) Bill of Entry or Any other prescribed document against which goods were cleared on importation.
- (ii) Import invoice
- (iii) Documentary evidence of having paid the import duty
- (iv) Export invoice
- (v) Packing List
- (vi) RBI's permission to Re-export the goods, where necessary.

Post-shipment Stage

Claim of Drawback

Rule 5 of the Drawback Rule on Re-export of Imported Goods, 1995 lays down the procedure to claim drawback.

Claim Form

The claim should be made in prescribed form at Annexure 8 to the concerned Customs House Drawback Cell/Deptt.) within 3 months from the date of "Let Export Order" given by the customs on the SB/Bill of Export. It can be filed within a further period of 3 months on sufficient cause for late filing, being shown and accepted by the Asstt. Commissioner of Customs.

Documents

The claim application should be sent with the following documents

- (i) Triplicate copy of the Shipping Bill bearing examination report recorded by the proper officer

of the customs at the time of export

- (ii) Copy of Bill of Entry or any other prescribed document against which goods were cleared on importation.
- (iii) Import invoice.
- (iv) Evidence of payment of duty paid at the time of importation of the goods.
- (v) Permission from Reserve Bank of India for re-exports of goods, wherever necessary.
- (vi) Export invoice and packing list.
- (vii) Copy of Bill of lading or AirWay bill.
- (viii) Any other documents as may be specified in the deficiency memo.

Payment

The drawback and interest, if any, shall be paid to the exporter or his agent specially authorised by him to receive the said amount of drawback and interest.

Interest

15% interest per annum will be payable on delayed payment of drawback i.e. if it is not paid within three months from the date of filing of the claim or receipt of the compliance of the deficiency memo issued, if any.

Repayment

Where an amount of drawback and interest, if any, has been paid erroneously or the amount so paid is in excess of what the exporter is entitled to the claimant shall be liable to repay/refund the said excess amount within three months from the date of demand.

DUTY DRAWBACK

Duty Drawback is the rebate of duty chargeable on imported material or excisable material used in the manufacturing of goods in and is exported. The exporter may claim

drawback or refund of excise and customs duties being paid by his suppliers. The final exporter can claim the drawback on material used for the manufacture of export products. In case of re-import of goods the drawback can be claimed.

The following are Drawbacks:

- Customs paid on imported inputs plus excise duty paid on indigenous imports.
- Duty paid on packing material.

Drawback is not allowed on inputs obtained without payment of customs or excise duty. In part payment of customs and excise duty, rebate or refund can be claimed only on the paid part.

In case of re-export of goods, it should be done within 2 years from the date of payment of duty when they were imported. 98% of the duty is allowable as drawback, only after inspection. If the goods imported are used before its re-export, the drawback will be allowed as at reduced percent.

BRAND RATE OF DUTY DRAWBACK

Brand rate of duty drawback is applicable in either of the following circumstances:

- When individual rate fixed in respect of goods on which all industry rate is not applicable, or
- All industry rate does not cover 80% of the drawback amount due

The brand rate of duty drawback is fixed by the Central Government after necessary verification of the manufacturing processes and the documents provided giving details of input output ratio, duty paid on inputs, etc. No drawback is allowed on VAT, CST

POWER TO PROHIBIT IMPORTATION OR EXPORTATION OF GOODS-

1. If the Central Government is satisfied that it is necessary so to do for any of the purposes specified in sub-section (2), it may, by notification in the Official Gazette, prohibit either absolutely or subject to such conditions (to be fulfilled before or after clearance) as may be specified in the notification, the import or export of goods of any specified description.

2. The purposes referred to in sub-section (1) are the following

- (a) The maintenance of the security of India;
- (b) The maintenance of public order and standards of decency or morality;
- (c) The prevention of smuggling;
- (d) The prevention of shortage of goods of any description;
- (e) The conservation of foreign exchange and the safeguarding of balance of payments;
- (f) The prevention of injury to the economy of the country by the uncontrolled import or export of gold or silver;
- (g) The prevention of surplus of any agricultural product or the product of fisheries,-
- (h) The maintenance of standards for the classification, grading or marketing of goods in international trade;
- (i) The establishment of any industry;
- (j) The prevention of serious injury to domestic production of goods of any description;
- (k) The protection of human, animal or plant life or health;
- (l) The protection of national treasures of artistic, historic or archaeological value;
- (m) The conservation of exhaustible natural resources;
- (n) The protection of patents, trademarks and copyrights;
- (o) The prevention of deceptive practices;
- (p) The carrying on of foreign trade in any goods by the State, or by a Corporation owned or controlled by the State to the exclusion, complete or partial, of citizens of India.
- (q) The fulfilment of obligations under the Charter of the United Nations for the maintenance of International peace and security;

- (r) The implementation of any treaty, agreement or convention with any country;
- (s) The compliance of imported goods with any laws which are applicable to similar goods produced or manufactured in India;
- (t) The prevention of dissemination of documents containing any matter which is likely to prejudicially affect friendly relations with any foreign State or is derogatory to national prestige;
- (u) The prevention of the contravention of any law for the time being in force; and
- (v) Any other purpose conducive to the interests of the public.

ASSESSMENT OF DUTY:

The term assessment means qualification of the amount of duty payable.

As per section 2 (2) Assessment includes provisional assessment re-assessment and any order of assessment in which the duty assessed is nil.

Types of assessment

1. First appraisalment
2. Second appraisalment

STEPS IN ASSESSMENT

In the context of customs duty the process of assessment involves the following stages:

- a. Determination of the quantity and total value of the goods
- b. Determination of the proper tariff classification of the goods
- c. Determination of the appropriate rate of duty and
- d. Determination whether the goods are to be cleared for home consumption or to be deposited in the warehouse.

DEMURRAGE CHARGES

Demurrage is chargeable on all goods left in the CHPT's transit sheds or Yards beyond the expiry of the free days. After demurrage begins to accrue no allowance is made for Customs notified holidays or port's non working days. 'Day' for purposes of this Chapter shall be reckoned with as from 6 a.m to 6 a.m.

SCALE 1- FREE DAYS (IMPORTS)

(1) Dangerous / Explosive goods:- The demurrage will accrue from the day following the complete discharge of the dangerous / explosive cargo.

(2) Sweepings collected from the CHPT's premises:- Ten days excluding Customs notified holidays and port's non working days are allowed free for sweepings of a particular commodity of a particular vessel, collected from the port's premises after the last date of clearance of the original commodity of that vessel which has caused the sweepings.

(3) Goods landed in excess, or under 'Nil' mark, etc.: -

(a) Goods landed in excess of the manifested quantity are free for six days calculated from the date following the issue of vessel's out turn, by the CHPT excluding customs notified holidays and port non-working days.

(b) Goods under 'Nil' mark or with marks differing from the manifest which are adjusted against the manifested quantity on amended delivery orders issued by the Steamer Agents are free upto six working days in the case of coastal cargo and seven working days in the case of foreign cargo excluding customs notified holidays and port nonworking days after the date of complete discharge of a vessel's cargo.

(4) Abandoned goods: Abandoned and uncleared/unclaimed goods sold by the CHPT in public auction:- In respect of abandoned and uncleared/unclaimed goods listed for public auction by the CHPT, the demurrage leviable shall be limited to six months from the date of its accrual, or to

the date of receipt of intimation of abandonment in the Harbour Office, in writing, whichever is earlier.

(5) Salvaged goods:- The free period of two working days in the case of coastal and three working days in the case of foreign cargo will count from the day following the notification of salvage by the Receiver of Wrecks in the Tamil Nadu Government Gazette, or from the day following the date on which the advice of the salvage of goods is sent, by the Receiver of Wrecks to the Steamer Agent concerned, or the consignee of the goods or their Clearing Agent, whichever is earlier.

(6) Direct Delivery of cargo: Whenever packages are directly delivered on to the parties vehicle and not moved out of port premises within 24 hours from the time of directly loading on to the parties vehicle, demurrage charges shall be collected for such packages after expiry of 24 hours from the time of directly loading on to the parties vehicle at the rates specified in Scale 6 below in this Chapter

(7). Goods sold in Auction: Goods sold in auction shall be allowed three free days excluding Customs notified holidays and port's non working days from the date of confirmation of sale and thereafter the successful bidder shall be charged at daily rates as per Scale 4 of this Chapter upto and including the date of clearance by the successful bidder.

(8) Cargo other than mentioned above:

(a) Seven working days in the case of coastal cargo and seven working days in the case of foreign cargo excluding customs notified holidays and port nonworking days are free after complete discharge of a vessel's cargo, or the date when the last package was put over side.

(b) Different Free days shall also be declared in respect of coastal cargo or foreign cargo as the case may be ex. one vessel in the same voyage at different berthings.

(c) Whenever discharge of Import cargo is suspended or stopped for more than 48 hours for any reason not attributable to CHPT, free days shall also be declared for the cargo already handled. Free days for the balance cargo shall be declared after discharge.

(d) Sweepings collected on Board the vessel:- The number of free days excluding Customs notified holidays and port's non working days as applicable to (a) above.

(e) Survey goods:

(9) The following free periods are allowed in addition to the free periods applicable as per description of goods:

a) For periods of detention during which goods are detained by the Commissioner of Customs for the purpose of special examination involving analytical or technical tests other than the ordinary process of appraisal and certified by the Commissioner of Customs to be not attributable to any fault or negligence on the part of the Importers and

(b) Where goods are detained by the Commissioner of Customs on account of Import Control formalities and certified by the Commissioner of Customs to be not attributable to any fault or negligence on the part of the Importer, for such period of detention under 9 (a) and (b), the demurrage charges shall be recovered as under:

- First 45 days : Free
- 46 days to 60 days : 25% of actual demurrage charges
- 61 days to 90 days 50% of actual demurrage charges
- Beyond 90 days : 100% of actual demurrage charges

Actual demurrage charges at full rate shall be worked out as per Scale of Rates at the appropriate slab as applicable after 45 days and the concessional rate mentioned above shall be applied thereon on the full demurrage charges leviable.

SCALE 2 – FREE DAYS (EXPORTS)

(1) **Export cargo for a vessel** other than containerised Export Cargo and other than cars meant for Export through RORO Vessel shall be allowed.

(2). **Goods** not shipped and removed outside:-

(3). **Salvaged Goods**:- Three days excluding customs notified holidays and port non-working days will count as free, from the day following the notification of salvage by the Receiver of Wrecks in the Tamil Nadu Government Gazette.

(4). **Goods detained by Customs**:- For periods of detention - during which the goods are detained by the Commissioner of Customs for the purpose of analytical test or technical tests, other than the ordinary process of appraisal and certified by the Commissioner of Customs to be not attributable to any fault or negligence on the part of the Exporter, for such periods of detention, the demurrage charges shall be recovered as under:

- First 45 days : Free
- 46 days to 60 days : 25% of actual demurrage charges
- 61 days to 90 days : 50% of actual demurrage charges
- Beyond 90 days : 100% of actual demurrage charges

Actual demurrage charges at full rates shall be worked out as per Scale of Rates at the appropriate slab as applicable after 45 days and the concessional rate mentioned above shall be applied thereon the full demurrage charges leviable.

The first 45 days shall be reckoned with as follows;

- (i) first 45 days after expiry of free days if cargo detained by the Customs before expiry of free days; and,

- (ii) first 45 days from the date of detention if cargo is detained by the Customs after accrual of demurrage charges. The detention certificate for availing the above concession shall be submitted within a period of six months from the date of clearance of goods.

SCALE 3 - CONFISCATED GOODS

(1) For the goods confiscated by Customs, the normal dues accrued on the goods from the date of expiry of the free days upto the date of confiscation (or) for the first four months from the date of expiry of free days whichever is earlier shall be recovered from the Customs as pre-confiscation charges on the goods.

(2) Post-confiscation charges shall also be recovered on the confiscated goods from the Customs as Storage charges from the date of confiscation upto the date of removal of goods to Custom Warehouse on daily rate basis as per rates given in Scale 4 below. In addition to the Storage charges, removal charges @ Rs.20/- per package weighing upto half-a-tonne and Rs.230/- per tonne or part thereof for packages weighing more than half-a-tonne shall also be recovered.

(3). The CHPT dues accrued on the confiscated goods upto the date of confiscation shall also be limited to the extent of amount available from the Customs from the proceeds of sale of confiscated goods and the balance dues may be treated as remitted.

SCALE 4 - DUE ON GOODS CONFISCATED BY CUSTOMS / GOODS SOLD IN AUCTION

Item No. Description of packages Charge payable per day or part thereof 1. Bags, Bales, Cases, Crates, Casks, kegs, drums, jars, Machinery unpacked and articles not enumerated Rs.30 per tonne or part thereof 2. Carriages and motor cars Rs.150.00 each

SCALE 5 - FREE DAYS (TRANSHIPMENT GOODS)

Transshipment goods shall be allowed a free period of fifteen days (excluding Customs notified holidays and port's non working days) from the date following the date of expiry of free days admissible as import cargo as per classification under Scale _1' of this Chapter.

EXPORT PROMOTION SCHEMES

1. THE EXPORT PROMOTION SCHEMES CAN BE CATEGORIZED AS,-

- (i) Duty exemption scheme which permit duty free import of inputs required for export production viz. Advance Authorization and Duty Free import Authorizations (DFIA);
- (ii) Duty remission scheme which enable post-export replenishment of / remission of duty paid on inputs viz. Duty Entitlement Pass Book Scheme;
- (iii) Reward schemes which entitle exporters to duty credit scrips subject to various specific conditions like Served from India Scheme (SFIS), Vishesh Krishi Gram Udyog Yojana (VKGUY), Focus Market Scheme (FMS), Focus Product Scheme (FPS) and Status Holder Incentive Scheme.
- (iv) Export Promotion Capital Goods (EPCG) Scheme which permits an exporter to import Capital Goods at concessional / Nil duty against an export obligation to be fulfilled in specified time.

2. ADVANCE AUTHORISATION SCHEME:

The Advance Authorisations are issued to allow duty free import of inputs, which are physically incorporated in the export products and services.

3. DUTY FREE IMPORT AUTHORISATION (DFIA):

The Duty Free Import Authorizations (DFIA) scheme introduced in 2006 is similar to Advance Authorisation scheme in most aspects **except** with a minimum value addition requirement of 20%. Once export obligation is completed, transferability of authorisation/

material imported against the authorisation is permitted. However, once the transferability has been endorsed, the inputs can be imported/domestically sourced only on payment of Additional Customs duty/Central Excise duty.

4. REWARD SCHEME – SERVED FROM INDIA SCHEME:

Served From India Scheme (SFIS) incentivizes exports of specified goods/exports to certain countries. The objective of SFIS is to -accelerate growth in export of services so as to create a powerful and unique ‘Served From India’ brand, instantly recognized and respected world over.

5. REWARD SCHEME – VISHESH KRISHI AND GRAM UDUOG YOJANA (VKGUY) OR SPECIAL AGRICULTURE AND VILLAGE INDUSTRY SCHEME:

The objective of VKGUY is to promote exports of specified agricultural products, and Gram Udyog products, forest based products.

6. REWARD SCHEME - FOCUS MARKET SCHEME (FMS):

The objective of this scheme is to offset high freight cost and other externalities to select international markets with a view to enhance India’s export competitiveness in these countries.

In terms of Notification No. 93/2009-Cus., dated 11-9-2009 the following categories of export products/sectors are ineligible for Duty Credit Scrip, under FMS:

- (a) Supplies made to SEZ units;
- (b) Service exports;
- (c) Diamonds and other precious, semi precious stones, gold, silver, platinum and other precious metals in any form, including plain and studded jewellery;
- (d) Ores and concentrates, of all types and in all forms;
- (e) Cereals, of all types;
- (f) Sugar, of all types and in all forms;
- (g) Crude/petroleum oil and crude/petroleum based products covered under ITC HS codes 2709 to 2715, of all types and in all forms; and
- (h) Milk and milk products covered

7. REWARD SCHEME - FOCUS PRODUCT SCHEME (FPS):

The objective of this scheme is to incentivise export of specified products notified in Appendix 37D of HBP Vol.1 to all countries (including SEZ units). The exporters are entitled for Duty Credit Scrip @ 2% of FOB value of exports in free foreign exchange.

8. REWARD SCHEME - MARKET LINKED FOCUS PRODUCTS SCRIP (MLFPS)

The export of products/sectors of high export intensity/employment potential (which are not covered under present Focus Product Scheme List) are incentivized at 2% of FOB value of exports in free foreign exchange under Focus Product Scheme when exported to the Linked Markets (countries), which are not covered in the present FMS list.

9. REWARD SCHEME - STATUS HOLDERS INCENTIVE SCRIP (SHIS):

The Status Holders of specified sectors are provided with an extra scrip called the SHIS @ 1% of the of FOB value of exports of these sectors made during 2009-10, 2010-11 and 2011-12 **and 2012-13**. The objective of the scheme is to promote investment in upgradation of technology of some specified sectors.

10. EXPIRED/ABOLISHED EXPORT PROMOTION SCHEMES WHOSE SCRIPS / CERTIFICATES ARE STILL IN USE :

There are some Export Promotion Schemes that have expired and no longer in vogue, but imports against scrips issued to beneficiaries of these schemes are continuing and hence their monitoring becomes important:

i) Duty Free Credit Entitlement (DFCE) Scheme

This scheme for status holders was announced on 31-3-2003 whereby the status holders having incremental growth of more than 25% in FOB value of exports subject to a minimum export turnover of Rs.25 crores, were entitled to duty credit at 10% of the incremental growth in exports. The duty credit scrip / the goods imported against it are governed by the Actual User condition.

ii) Target Plus Scheme (TPS)

This scheme was introduced for the Star Export Houses w.e.f. 1-9-2004 whereby the exporters were entitled to rewards in the form of duty free credit based on incremental export performance. Initially, the entitlement was 5% to 15% of the incremental growth in exports, but

later w.e.f. 1- 4-2005, it was reduced to 5%. The duty credit scrip/the goods imported against it are governed by the actual user condition and can be used for import of any inputs, capital goods including spares, office equipment, professional equipment and office furniture.

iii) Duty Free Replenishment Certificate (DFRC) scheme

This scheme permitted duty free import (exemption from only Basic Customs duty) of inputs which were used in the manufacture of export product on post-export basis as replenishment. The DFRC authorisations were issued with a minimum value addition of 25% and only in respect of export products covered under the SION notified by DGFT.

(iv). Duty Entitlement Pass Book (DEPB) scheme:

This was an export promotion scheme that envisages grant of DEPB Credit Entitlement to an exporter at the time of export at an advalorem rate notified by DGFT, in relation to FOB value of the export product.

11. SPECIAL PROVISIONS:

The following exports categories /sectors are ineligible for Duty Credit Scrip entitlement under VKGUY, FMS, FPS (including MLFPS) and Status Holders Incentive Scrip schemes:

- (a) EOUs / EHTPs / BTPs who are availing direct tax benefits / exemption;
- (b) Export of imported goods covered under Para 2.35 of FTP;
- (c) Exports through transshipment, meaning thereby that exports originating in third country but transshipped through India;
- (d) Deemed Exports;
- (e) Exports made by SEZ units or SEZ products exported through DTA units; and
- (f) Items, which are restricted or prohibited for export under Schedule-2 of Export Policy in ITC (HS).

12. EXPORT PROMOTION CAPITAL GOODS (EPCG) SCHEME:

Under EPCG scheme, import of capital goods which are required for the manufacture

of resultant export product specified in the EPCG Authorization is permitted at nil/ concessional rate of Customs duty. This Scheme enables upgradation of technology of the indigenous industry. For this purpose EPCG Authorizations are issued by RA (Regional Authority) of DGFT on the basis of nexus certificate issued by an independent chartered engineer.

13. GENERAL PROVISIONS OF EXPORT PROMOTION SCHEMES:

Imports and exports under the Export Promotion schemes are restricted to limited ports, airports, ICDs and LCSs, as specified in the respective Customs duty exemption notifications. However, the Commissioners of Customs are empowered to permit export/import under these schemes from any other place which has not been notified, on case to case basis by making suitable arrangements at such places.

SPECIAL ECONOMIC ZONE (SEZ)

Government of India has enacted the Special Economic Zone (SEZ) Act, with an objective of providing an internationally competitive and hassle free environment for exports. A SEZ is defined as a "specifically demarked duty-free enclave and shall deemed to be foreign territory (out of Customs jurisdiction) for the purpose of trade operations and duties and tariffs". The SEZ Act, 2005, supported by SEZ Rules, came into effect on 10th February, 2006. It provides drastic simplification of procedures and a single window clearance policy on matters relating to central and state governments. The scheme is ideal for bigger Industries and has a significant impact on future Exports and employment

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and state governments. The scheme is ideal for bigger Industries and has a significant impact on future Exports and employment

SALIENT FEATURES OF SEZ SCHEME ARE AS UNDER:

- Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units.
- 100% Income Tax exemption on export profits available to SEZ units for 5 years, 50% for next 5 years and 50% of ploughed back profits for 5 years thereafter.
- Exemption from Central seal Tax.
- Exemption from Service Tax.
- Single window clearance for Central and State level approval.

BENEFITS OF EXPORT PROMOTION SCHEME

The following are the benefits of export promotion scheme,

- Customs Duty Exemption in full on imports.
- Central Excise Duty Exemption in full on indigenous procurement.
- Central Sales Tax Reimbursement on indigenous purchase against from C.
- All relevant equipment / goods including second hand equipment can be imported (except prohibited items).
- Equipment can also be imported on loan basis/lease.
- 100% FDI is permitted through automatic route.
- Sales in the DTA up to 50% of the FOB value of exports permissible.
- Use of computer imported for training permissible subject to certain conditions.
- Depreciation on computers at accelerated rates up to 100% over 5 years is permissible.

In India, the imports and exports are regulated by the [Foreign Trade \(Development and Regulation\) Act, 1992](#), which empowers the federal government to make provisions for development and regulation of foreign trade. The current provisions relating to exports and imports in India are available under the [Foreign Trade Policy, 2015-20](#).

Import procedures

Typically, the procedure for import and export activities involves ensuring licensing and compliance before the shipping of goods, arranging for transport and [warehousing](#) after the unloading of goods, and getting [customs clearance](#) as well as paying taxes before the release of goods.

Below, we outline the steps involved in importing of goods.

1. Obtain IEC

Prior to importing from India, every business must first obtain an Import Export Code (IEC) number from the regional joint DGFT. The IEC is a pan-based registration of traders with lifetime validity and is required for clearing customs, sending shipments, as well as for sending or receiving money in foreign currency.

The process to obtain the IEC registration takes about 10-15 days.

2. Ensure legal compliance under different trade laws

Once an IEC is allotted, businesses may import goods that are compliant with Section 11 of the *Customs Act (1962)*, *Foreign Trade (Development & Regulation) Act (1992)*, and the *Foreign Trade Policy, 2015-20*.

However, certain items – restricted, canalized, or prohibited, as declared and notified by the government – require additional permission and licenses from the DGFT and the federal government.

3. Procure import licenses

To determine whether a license is needed to import a particular commercial product or service, an importer must first classify the item by identifying its Indian Trading Clarification based on a Harmonized System of Coding or ITC (HS) classification.

ITC (HS) is India's chief method of classifying items for trade and import-export operations. The ITC-HS code, issued by the DGFT, is an 8-digit alphanumeric code representing a certain class or category of goods, which allows the importer to follow regulations concerned with

those goods.

An import license may be either a general license or specific license. Under a general license, goods can be imported from any country, whereas a specific or individual license authorizes import only from specific countries.

Import licenses are used in import clearance, renewable, and typically valid for 24 months for capital goods or 18 months for raw materials components, consumables, and spare parts.

4. File Bill of Entry and other documents to complete customs clearing formalities

After obtaining import licenses, importers are required to furnish import declaration in the prescribed Bill of Entry along with permanent account number (PAN) based Business Identification Number (BIN), as per Section 46 of the Customs Act (1962).

A Bill of Entry gives information on the exact nature, precise quantity, and value of goods that have landed or entered inwards in the country.

If the goods are cleared through the Electronic Data Interchange (EDI) system, no formal Bill of Entry is filed as it is generated in the computer system. However, the importer must file a cargo declaration after prescribing particulars required for processing of the entry for customs clearance.

If the Bill of Entry is filed without using the EDI system, the importer is required to submit supporting documents that include certificate of origin, certificate of inspection, bill of exchange, commercial invoice cum packing list, among others.

Once the goods are shipped, the customs officials examine and assess the information furnished in the bill of entry and match it with the imported items. If there are no irregularities, the officials issue a 'pass out order' that allows the imported goods to be released from the customs.

5. Determine import duty rate for clearance of goods

India levies basic customs duty on imported goods, as specified in the first schedule of the *Customs tariff Act, 1975*, along with goods-specific duties such as anti-dumping duty, safeguard duty, and social welfare surcharge.

In addition to these, the government levies an integrated goods and services tax (IGST) under

the new GST system. The IGST rates depend on the classification of imported goods as specified in Schedules notified under Section 5 of the IGST Act (2017).

Export procedures

Just as for imports, a company planning to engage in export activities is required to obtain an IEC number from the regional joint DGFT. After obtaining the IEC, the exporter needs to ensure that all the legal compliances are met under different trade laws.

Further, the exporter must check if an export license is required, and accordingly apply for the license to the DGFT.

An exporter is also required to register with the Indian Chamber of Commerce (ICC), which issues the Non-Preferential Certificates of Origin certifying that the exported goods are originated in India.

Import and export documents

Businesses are required to submit a set of documents for carrying out export and import activities in India.

These include commercial documents – the ones exchanged between the buyer and seller, and regulatory documents that deal with various regulatory authorities such as the customs, excise, licensing authorities, as well as the export promotion bodies that help avail export import benefits.

The *Foreign Trade Policy, 2015-2020* mandates the following commercial documents for carrying out importing and exporting activities:

- Bill of lading or airway bill;
- Commercial invoice cum packing list;
- Shipping bill or bill of export, or bill of entry (for imports).

Additional documents like certificate of origin and inspection certificate may be required as per the case.

The important regulatory documents include:

- GST return forms (GSTR 1 and GSTR 2);

- GSTR refund form;
- Exchange Control Declaration;
- Bank Realization Certificate; and
- Registration cum Membership Certificate (RCMC).

The RCMC helps exporters and importers avail benefit or concession under the *Foreign Trade Policy*

EXPORT PROCEDURES AND DOCUMENTATION

STEP1: Enquiry :

- The starting point for any Export Transaction is an enquiry.
- An enquiry for product should, inter alia, specify the following details or provide the following data
- Size details - Std. or oversize or undersize
- Drawing, if available
- Sample, if possible
- Quantity required
- Delivery schedule
- Is the price required on FOB or C& F or CIF basis
- Mode of Dispatch - Sea, air or Sea/air
- Mode of Packing
- Terms of Payment that would be acceptable to the Buyer - If the buyer proposes to open any Letter of Credit, any specific requirement to be complied with by the Exporter
- Is there any requirement of Pre-shipment inspection and if so, by which agency
- Any Certificate of Origin required - If so, from what agency

STEP 2: - Proforma generation :

After studying the enquiry in detail, the exporter - be it Manufacturer Exporter or Merchant Exporter - will provide a Proforma Invoice to the Buyer.

Once the goods are ready duly packed in Export worthy cases/cartons (depending upon the mode of despatch), the Invoice is prepared by the Exporter.

If the number of packages is more than one, a packing list is a must.

There are different procedures for removing Export consignments to the Port, following the AR4 procedure, but it would be advisable to get the consignment sealed by the Central Excise authorities at the factory premises itself, so that open inspection by Customs authorities at the Port can be avoided.

STEP 3: Order placement :

If the offer is acceptable to the Buyer in terms of price, delivery and payment terms, the Buyer will then place an order on the Exporter, giving as much data as possible in terms of specifications, Part No. Quantity etc. (No standard format is required for such a purchase order)

STEP 4: Order acceptance :

It is advisable that the Exporter immediately acknowledges receipt of the order, giving a schedule for the delivery committed.

STEP 5: Goods readiness & documentation :

Even If the goods to be exported are excisable, no excise duty need be charged at the time of Export, as export goods are exempt from Central Excise, but the AR4 procedure is to be followed for claiming such an exemption.

STEP 6: Goods removal from works :

If export consignments are removed from the factory of manufacture, following the AR4 procedure, claiming exemption of excise duty, there is an obligation cast on the exporter to provide proof of export to the Central Excise authorities

STEP 7: Documents for C & F agent :

The Exporter is expected to provide the following documents to the Clearing & Forwarding Agents, who are entrusted with the task of shipping the consignments, either by air or by sea.

Invoice

Packing List

Declaration in Form SDF (to meet the requirements as per FERA) in duplicate.

AR4 - first and the second copy

Any other declarations, as required by Customs

On account of the introduction of Electronic Data Interchange (EDI) system for processing shipping bills electronically at most of the locations - both for air or sea consignments - the C&F Agents are required to file with Customs the shipping documents, through a particular format, which will vary depending on the nature of the shipment. Broad categories of export shipments are:

Under claim of Drawback of duty

Without claim of Drawback

Export by a 100% EOU

Under DEPB Scheme

STEP 8: Customs Clearance :

After assessment of the shipping bill and examination of the cargo by Customs (where required), the export consignments are permitted by Customs for ultimate Export. This is what the concerned Customs officials call the 'LET EXPORT' endorsement on the shipping bill.

STEP 9: Document Forwarding :

After completing the shipment formalities, the C & F Agents are expected to forward to the Exporter the following documents:

- Customs signed Export Invoice & Packing List
- Duplicate of Form SDF
- Exchange control copy of the Shipping Bill, processed electronically

The negotiating Bank will scrutinize the shipping documents and forward them to the Banker of the importer, to enable him clear the consignment.

AR4 (original duplicate) duly endorsed by Customs for having effected the export

Bill of Lading or Airway bill, as the case may be.

STEP 10: Bills negotiation :

- With these authenticated shipping documents, the Exporter will have to negotiate the relevant export bill through authorized dealers of Reserve Bank, viz., Banks.
- Under the Generalized System of Preference, imports from developing countries enjoy certain duty concessions, for which the exporters in the developing countries are expected to furnish the GSP Certificate of Origin to the Bankers, along with other shipping documents.
- Broadly, payment terms can be:
- DP Terms
- DA Terms

Letter of Credit, payable at sight or payable at... days

Step11: Bank to bank documents forwarding :

It is expected of such authorized dealers of Reserve Bank to ensure receipt of export proceeds, which factor has to be intimated to the Reserve Bank by means of periodical Returns

STEP 12: Customs obligation discharge

As indicated above, Exporters are also expected to provide proof of export to the Central Excise authorities, on the basis of the Customs endorsements made on the reverse of AR4s and get their obligation, on this score, discharged.

STEP 13: Receipt of Bank certificate

Authorized dealers will issue Bank Certificates to the exporter, once the payment is received and only with the issuance of the Bank Certificate, the export transaction becomes complete.

It is mandatory on the part of the Exporters to negotiate the shipping documents only through authorized dealers of Reserve Bank, as only through such a system Reserve Bank can ensure receipt of export proceeds for goods shipped out of this country.

Exporters should seriously consider having the freight forwarder handle the formidable amount of documentation that exporting requires; freight forwarders are specialists in this process. The following documents are commonly used in exporting; which of them are actually used in each case depends on the requirements of both our government and the government of the importing country.

1. Commercial invoice
2. Bill of lading
3. Consular invoice
4. Certificate of origin
5. Inspection certification
6. Dock receipt and warehouse receipt
7. Destination control statement
8. Insurance certificate
9. Export license
10. Export packing list

Baggage

It is the luggage of the passenger travelling by air or sea from one country to another. It also means all dutiable goods imported by a passenger or a member of crew in his/her baggage. Baggage **INCLUDES** unaccompanied baggage (except where they are specifically excluded) but **DOES NOT** include motor vehicles

Unaccompanied Baggage

It is the baggage which is not carried by the passenger at the time of her/his travel but sent before or after arrival. Time limit if the baggage is received before arrival: up to 2 months before arrival, or within such period (not exceeding 1 year) as allowed by Asst/Dy Commissioner of Customs (due to unavoidable circumstances). Time limit if the baggage is received after arrival: 1 month of her/his arrival or such other period as may be allowed by Asst/Dy Commissioner of Customs

Provisions regarding unaccompanied baggage.

- Provisions of these Rules are also extended to unaccompanied baggage except where they have been specifically excluded.
- The unaccompanied baggage had been in the possession abroad of the passenger and is dispatched within one month of his arrival in India or within such further period as the Assistant Commissioner of Customs or Deputy Commissioner of Customs may allow.
- The unaccompanied baggage may land in India upto 2 months before the arrival of the passenger or within such period, not exceeding one year, as the Assistant Commissioner of Customs or Deputy Commissioner of Customs may allow, for reasons to be recorded, if he is satisfied that the passenger was prevented from arriving in India within the period of two months due to circumstances beyond his control such as sudden illness of the passenger or a member of his family, or natural calamities or disturbed conditions or disruption of the transport or travel arrangements in the country or countries concerned or any other reasons, which necessitated a change in the travel schedule of the passenger.

Green & Red Channels

Green channel means if a person does not have any dutiable goods, he can go through it without undergoing any check, along with baggage. Hence no duty is applicable. Red channel means if a person is carrying dutiable goods, he should pass through it and submit declaration under section 77 mentioning the contents of the baggage to the proper officer for clearance and his baggage can be inspected by customs authorities.

Passenger **baggage** attracts no **GST**

As per **GST** Law, there is no **GST** payable on Passenger **baggage**. So the rate of **GST** payable on Passenger **baggage** is nil rate. The Council has broadly approved the **GST** rates for goods at nil rate, 5%, 12%, 18% and 28% to be levied on certain goods. Commonly used Goods and Services at 5%, Standard Goods and Services fall under 1st slab at 12%, Standard Goods and Services fall under 2nd Slab at 18% and Special category of Goods and Services including luxury - 28%. The most essential goods and services attract nil rate of **GST** under Exempted Categories. Luxury goods and services and certain specific goods and services attract additional cess than 28% **GST**.

Is **IGST** Levied on Passenger Baggage?

Passenger Baggage is not subject to **IGST** and Compensation Cess. That is, full exemption is provided from **IGST** on passenger baggage. However, Basic Custom Duty at the rate of 35% is charged. Further, education cess is also applicable on a value over and above the duty free allowances provided under Baggage Rules, 2016.

Determination of rate of duty & tariff valuation when dutiable goods are carried a. Rate of duty & tariff valuation, if any, applicable to baggage shall be the rate & valuation in force on the date on which declaration is made u/s 77 b. Rate of duty on baggage is 35% + 2% EC + 1% SHEC = 36.05% c. No additional customs duty u/s 3(1) or special CVD u/s 3(5)

Exemption: 1 laptop computer imported into India by a passenger of age of 18 years or above (other than member of crew) is exempted from whole of basic customs duty Temporary detention of baggage – sec 80 The proper officer may detain baggage which contains any article which is dutiable or import of which is prohibited and in respect of which a true declaration has been made u/s 77. He may also do so, at the request of the passenger for returning to the passenger either - At the time the passenger is leaving India or - Through any other passenger authorized by the passenger & leaving India or - As a cargo consigned in passenger's name Bona fide baggage exempted from duty – sec 79

The proper officer may pass free of duty a. Any article in the baggage of passenger or member of crew in respect of which he is satisfied that it has been in his/her use for such minimum period as may be specified b. Any article in the baggage of passenger in respect of which the officer is satisfied that it is for the use of passenger or his family or is a bona fide gift/souvenir, provided the value does not exceed the limit specified in the rules

An Abstract of Baggage Rules The provisions of baggage rules can be broadly classified into the following:

1. Provisions relating to persons coming into India
2. Provisions relating to goods brought into India

POSSIBLE QUESTIONS

PART - B (2 Marks)

1. What is customs duty?
2. Define imported goods
3. What is duty drawback?
4. What is customs area under the customs Act?
5. Define Baggage.
6. What are export goods?
7. What are the types of customs duty?
8. Write a note on safe guard duty.
9. Define Goods under customs Act
10. Define export goods
11. List the types of export promotion scheme given by Central government.
12. What are the components of bills of entry?
13. What is import duty?
14. Who are the officers of customs under customs Act?
15. List the prohibited export goods.
16. List any four export promotion schemes as per Act.
17. Write note on duty draw back.
18. What are the functions of customs officers?
19. Give the meaning of
 - a. warehousing and b. demurrage

PART - C (6 Marks)

1. Narrate the components of customs laws.
2. Explain the purpose of prohibition on imports or export of goods.

3. Discuss the provisions relating to assessment of customs duty.
4. Explain the provisions relating to warehouse of goods as per Customs Act.
5. Describe the procedure of clearance of goods for home consumption
6. Explain the nature of offences under customs Act
7. Explain the types of customs duty.
8. Describe the exemption from customs duty as per Customs Act.
9. Explain the concept of ‘_value’ for purposes of levy of customs duty.
10. Discuss the export promotion schemes under customs Act
11. Explain the functions and powers of customs authorities as per Act.
12. Enumerate the provisions regarding computation of duty as per Customs Act.